

Digital Equipment Corporation 1975 Annual Report



CORPORATE PROFILE

Digital Equipment Corporation designs, manufactures, sells and services computers, peripheral and associated computer accessory equipment, and other items and systems using digital techniques. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research and computation, communications, education, data analysis, industrial control systems, time-sharing systems, business data processing systems, medical systems, instrumentation and simulation.

FINANCIAL HIGHLIGHTS

1974	1975	
\$421,884,000	\$533,774,000	Total operating revenues
\$ 44,400,000	\$ 46,000,000	Net income
\$3.80	\$3.85	Net income per common share
\$339,645,000	\$394,385,000	Total stockholders' equity
\$28.47	\$32.81	Stockholders' equity per share

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders will be held at 11:00 A.M., Tuesday, October 28, 1975 in the Dorothy Quincy Suite, John Hancock Building, 180 Berkeley Street, Boston, Massachusetts. Stockholders of record on September 12, 1975 will be entitled to vote at this meeting.

Cover: To assure the reliability of LA36 DECwriter II teleprinters, each unit must pass 1,200 separate tests before being shipped. They are shown here during a 24-hour "burn in" in the high-volume LA36 production area at Digital's plant in Westfield, Massachusetts.



President's Letter

To Our Shareholders:

We are pleased to report that in spite of the serious recession, the net operating revenue increased 27 percent over 1974 to \$534,000,000. Our net income was \$3.85 per share, versus \$3.80 per share a year ago.

Before the year started, as we were confirming plans for the year, expectations for our business were that it would continue to grow and our customers had assured us that demand for our computers would continue to be strong.

During the first quarter, the recession hit us hard. Capital expenditures plummeted and we experienced an unexpected drop in order rate and a number of cancellations. We immediately replanned the year for less growth.

Although we were overstaffed for the rate of business at that time, we did not terminate employees but instead curtailed expenditures and waited for the sales volume to grow. This strategy worked out very well. By the fourth quarter, our volume had reached the point where the profit level was good. We ended the year with a very strong organization and a powerful line of new products.

We maintained our investment in new products during the year. Our engineering organization, which was reorganized the year earlier, produced a consistency and completeness of product line which is already noticed by our customers.

We have been conservative and careful in this year of recession, but we have confidence in the future and have continued our plans for plant expansion. This year we completed our addition to the Westminster systems assembly plant which will multiply our capability for putting systems together. We also made final commitments for a plant in Phoenix, Arizona and an expansion that will double the size of our plant in Galway. We are also planning for a new plant in New Hampshire.

We are as enthusiastic as ever about the potential for our industry and our company.



Kenneth H. Olsen
President

September 9, 1975

A large PDP-11/70 system undergoes final assembly and testing on the production line at Digital's plant in Westminster, Massachusetts, before being shipped to the customer. The powerful 11/70 features fast information throughput, large memory capacity and multi-function operating systems, making it particularly useful in communications networks.

Digital Products

Digital Equipment Corporation designs, builds and sells computer products which range from logic modules (including microprocessors) to large main-frame, time-sharing systems. During the year, Digital's Research and Engineering organization introduced more new products than in any other year of the company's history. Some of them are discussed here.

DECNET COMPUTER NETWORKING CAPABILITY

A major development with long-term significance was DECnet, a set of easy-to-use software components which permit the interconnection of PDP-8's, PDP-11's, PDP-15's and DECsystem-10's to build fully integrated networks of computers.

Over the last ten years, the growing popularity of minicomputers has seen the installation of computer systems in many parts of a single organization. The location of these systems has been distributed and the uses diverse, creating a common need for a way to permit these systems to communicate among themselves, transmitting data and programs from one computer to another.

Digital has always been able to connect computers together, but now, with DECnet, the company also offers the software tools to allow users to interconnect all Digital products with standard and consistent links.

LOW-COST COMPUTER TERMINALS

The demand for computer terminals for interactive computing and remote data entry is expanding rapidly, and Digital's importance as a supplier to

this market increased significantly during the year with the introduction of new terminals:

- The LA36 DECwriter II, offering reliable, low-cost hard-copy printing at 30 characters per second, is being produced in high volume at Digital's plant in Westfield, Massachusetts. It sells for \$2,175.
- The newest video display terminal, the VT50, provides high-speed video output and keyboard input to computers at a cost of \$1,250.

Both terminal products are being sold to the end-user and components markets and to original equipment manufacturers (OEMs) who incorporate them into their own products for resale.

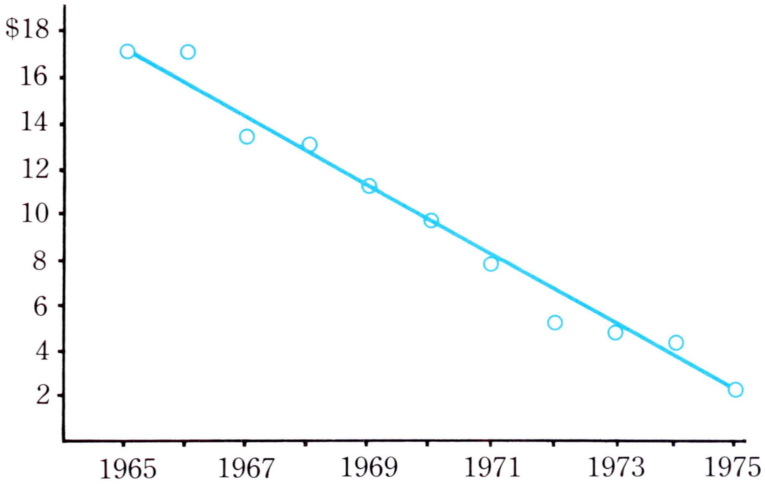
PDP-11 FAMILY EXPANDED

Deliveries of the LSI-11 at the low end and the PDP-11/70 at the high end expanded the price spectrum of the PDP-11 family to cover unit prices ranging from \$600 to more than \$200,000. The LSI-11's memory varies from four thousand words to 32 thousand words, and the 11/70 memory is available up to 1,024 thousand words. New, compatible operating systems software is available across this range of computers, and DECnet permits interconnection of these machines.

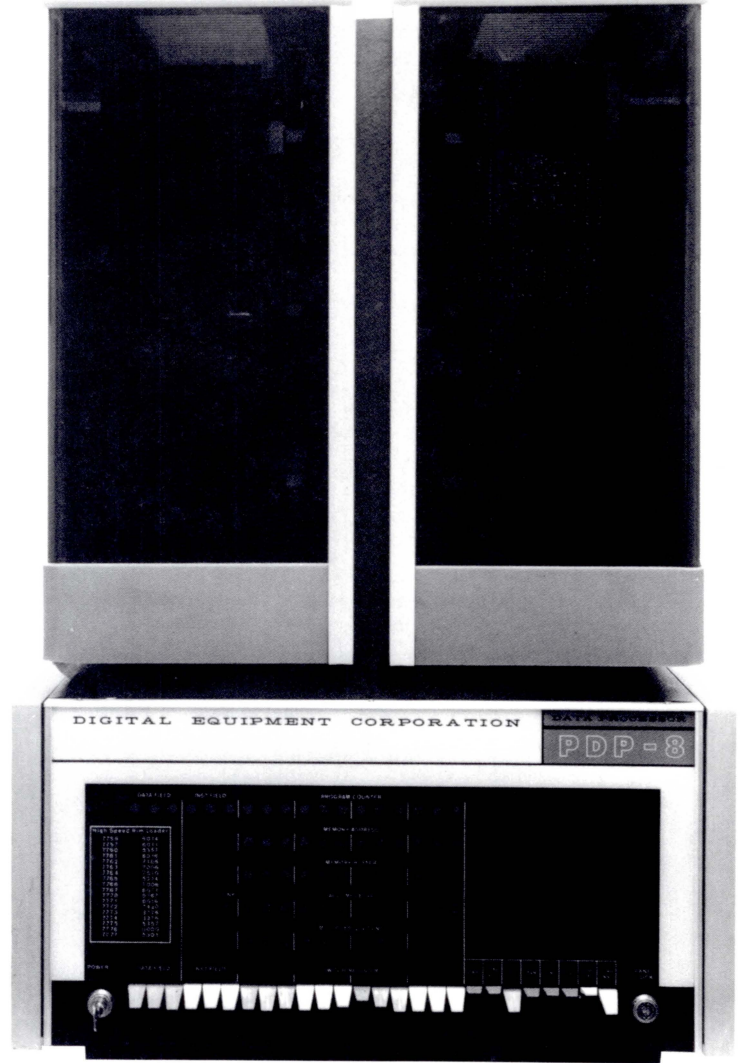
A significant implementation of Digital's DECnet capability for computer networking was made by Abbott Laboratories, a leading developer and manufacturer of pharmaceuticals. At the firm's Chicago headquarters, DECnet ties together several PDP-11 minicomputers located throughout Abbott's research centers to control instruments used in experiments. The PDP-11's also serve as data concentrators for the large DECsystem-10 shown here and allow teams of scientists to enter or receive data on experiments. This information is centralized in the DECsystem-10 and is available through the PDP-11's to the entire research organization.



AVERAGE YEARLY PRICE PDP-8, WITH 4K MEMORY
(Dollars in thousands)



Historically, Digital has delivered proven technology in its minicomputers at continuously lower costs to the user. One example is the PDP-8, whose original version in 1965 cost approximately \$18,000 with four thousand words of memory. Through the economies of high-volume production and such developments as solid-state technology, its current equivalent, the PDP-8/A, starts at less than \$2,000. The chart depicts the historical decline in the prices of Digital PDP-8's.



LSI-11 MICROCOMPUTER SYSTEM

Digital entered a new segment of the small computer market with the LSI-11 microcomputer, which appears to be the industry's first microcomputer system to be mass-produced. The LSI-11 is the lowest priced member of the PDP-11 minicomputer family, with a unit price less than \$650 in quantities of 100. It delivers full minicomputer performance, yet the entire computer is packaged on a single 8 X 10-inch board. A cabinet version called PDP-11/03 is also available for customers who require a packaged system.

POWERFUL PDP-11/70 SYSTEM

Digital extended the high-end of the PDP-11 family upward, as well. The PDP-11/70 is the most powerful minicomputer system Digital has ever offered. Prices range between \$54,000 and \$240,000 for systems which deliver computing power and speed usually available only in larger, more expensive main-frame systems.

A fast, floating-point processor is due in the fall of 1975 which makes the PDP-11/70 the fastest FORTRAN computer available on the market in its class.

NEW PDP-11/70 OPERATING SYSTEM

In addition to existing software for its PDP-11's, Digital also developed a new multi-function, multi-language software operating system for the 11/70. Called IAS (for Interactive Application System), it supports up to 16 interactive users and permits simultaneous use of several program languages. Time-sharing, batch and real-time programs can also proceed concurrently. The IAS operating system was developed jointly by Digital's Software Development groups in Reading, England and Maynard, Massachusetts.

LOW-COST ADDITIONS TO PDP-8 FAMILY

The PDP-8/A100 (with semiconductor memory) and the PDP-8/A400 (with core memory) are the newest and lowest-priced members of Digital's popular PDP-8 family. They are sold with or without cabinets to both the end-user and OEM markets.

MODERNIZED PDP-15 SYSTEMS

Digital introduced two modernized versions of the 18-bit PDP-15 which combine it with the PDP-11. The new machines, named the XVM series, have the features of a modern 16-bit computer and are used

extensively in computer-aided design applications, where the graphics capabilities of the PDP-15 make it useful to architects and others who perform interactive design functions.

NEW DECSYSTEM-10'S DOUBLE PROCESSING SPEED

The DECsystem-10 is Digital's top-of-the-line, large-scale system for interactive time-sharing, batch, remote-batch and real-time processing. Prices range upward from \$300,000. There are currently more than 400 systems installed worldwide in a variety of educational, scientific, commercial and industrial applications.

During Fiscal 1975, Digital added two significant large-scale computers to this family of large-scale computers. The DECsystem-1080 and 1090 feature the new KL10 processor and offer twice the processing power and throughput of previous systems at approximately the same price and will support up to 100 simultaneous users.



Generated tones are "heard" by this man who has been deaf since infancy. By touching the keyboard in his lap, he prompts a Digital PDP-8/F minicomputer to send signals at selected frequencies to electrodes implanted in his inner ear. This experiment is part of ongoing research by University of Utah scientists to provide a sense of sound for persons with inner ear damage.

Digital's Markets

Digital sells its products throughout many diverse markets worldwide which were affected differently by prevailing economic conditions.

Strong demand for small computers—PDP-8's and PDP-11's—came from end users in laboratory, biomedical, data communications, telecommunications, commercial and graphics arts markets. However, demand weakened in those segments where capital spending was more severely impacted, and particularly in the industrial market.



Quoizel Corporation, Plainview, New York, supplier of lighting fixtures, is among thousands of large and small firms using DEC DATASYSTEMS for their business data processing needs. Quoizel's DEC DATASYSTEM 340 handles accounts payable, accounts receivable, and inventory control information.

Orders from the original equipment manufacturers were flat for Fiscal 1975 as many OEMs moved from an inventory to a current basis. Marketing efforts added a substantial number of new OEM customers for Digital, which will increase the base for growth in the future.

Shipments of DECsystem-10's were up modestly for the year, with the greatest demand coming from the education and scientific markets.

Growing acceptance of Digital products has made the PDP-11 the most widely used minicomputer for data communications applications, and Digital has installed more computers in telephone company central offices than any other manufacturer.

Sales to commercial customers increased significantly with DEC DATASYSTEMS of all sizes, including the PDP-8 based DATASYSTEM 350 and the powerful PDP-11/70-based DATASYSTEM 570, being used by large and small firms to handle a full range of business data processing applications.

Significant new products broadened the market among educators, and the company entered a new market during the year among engineering and consulting firms, which showed strong demand for the larger PDP-11/45 and 11/70 systems to handle their requirements for heavy computation, multiple tasks and high throughput. The addition of graphics options provided the interactive design capabilities needed by many customers in this market.

Digital's role as a strong supplier to the laboratory and biomedical markets continued strong in Fiscal 1975 and the company strengthened its position as a leading supplier of computers to the graphic arts industry. Significant new orders came from large and small newspapers and from commercial and in-plant printers.



Left: A sophisticated system called Genigraphics incorporates a Digital PDP-11/35 to control the design and production of photographic slides for visual presentations. A keyboard console allows the operator to summon various graphic elements which are stored in the computer. The size, shape, color, and position of these elements can be altered until the desired results are achieved on a small video screen. They are then transformed into a finished slide by the press of a button. The Genigraphics system was developed by General Electric Company, Syracuse, New York.

Below: Digital minicomputers—PDP-11/40's and 11/45's—line the walls of the New York Telephone Company's Minicomputer Operations and Support Center in Manhattan, performing maintenance monitoring, automated testing, message distribution, frame record management and programming.

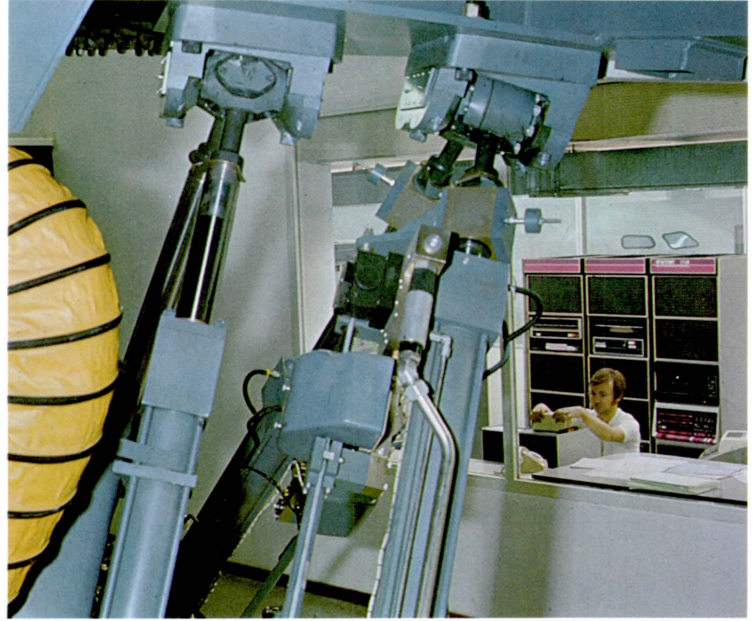




Above: The new XVM versions of Digital's 18-bit PDP-15 are used extensively in computer-aided design applications; graphics features add to its interactive design capabilities.

Upper right: A Digital PDP-11/45 system controls this huge Boeing 727 Flight Simulator used to train pilots at the Lufthansa Airlines base in Frankfurt, Germany.

At right: Students at Curtis Junior High School in Sudbury, Massachusetts work with a PDP-8 as part of their mathematics curriculum. The school also has a Computer Club for students wishing to learn more about computers and their uses.



Applications Tools

In addition to products mentioned earlier in this report, Digital also introduced a number of software/hardware systems during the year which serve as tools in specific applications areas. They include:

NEW DESK-SIZED HARDWARE SYSTEMS

- CLASSIC (for CLASSroom Interactive Computer) is an instructional system designed for the education market, priced at \$7,900.
- DEC DATASYSTEM 310 is provided for business data processing at a cost of \$12,000. As a stand-alone system it can serve the total needs of a small firm (with annual sales of less than \$10 million); in larger companies, multiple 310's are used as remote systems tied to larger computers.
- DIGITAL CMS-1 (for Computational Minicomputer System) is used in interactive, real-time engineering applications, priced at \$12,000.

Each of these low-cost packaged systems is built around the PDP-8/A and incorporates a video display terminal, hard-copy printer, flexible disk storage and a communications link which allows it to be connected to other computers.

NEW SUBSYSTEMS, SOFTWARE AND LANGUAGES

- A new subsystem for industrial users, called ICR, reduces the costs of in-plant wiring when interfacing industrial equipment to PDP-11 computers.
- New software tools include the Digital Power Demand Control System which lowers the cost of electric power to large industrial users by allowing them to lower peak power demands without affecting productivity.
- A new operating system, RSX-11S, is a fast, low-cost addition to Digital's family of RSX operating systems. It simplifies the implementation of real-time programs on smaller PDP-11's.
- A new language, COBOL-11, is the industry's first minicomputer version of this widely used data processing language. It simplifies the writing of standard business programs and expands the number of applications suitable to the PDP-11.

Customer Support



Above: Innovations such as the one-on-one audio visual course have greatly increased Digital's efficiency in educating customers and employees alike.

Facing page: Before being shipped to customers, Digital products undergo extensive testing at every phase of production to ensure maximum reliability in use, as with this PDP-11 processor being checked out by a technician at Digital's Westminister, Massachusetts plant.

Digital Equipment Corporation maintains a large worldwide field organization which provides high levels of customer support.

SALES PERSONNEL

The number of trained sales engineers increased significantly, following a hiring and training program in calendar 1974. There are now more than 925 sales personnel worldwide, located in 109 sales offices throughout North and South America, Europe, Australia, the Middle East and the Far East. Digital sales representatives are given specialized training for assignment to specific market areas. Following their initial training, sales engineers are continuously updated on new products as well as market and technological developments.

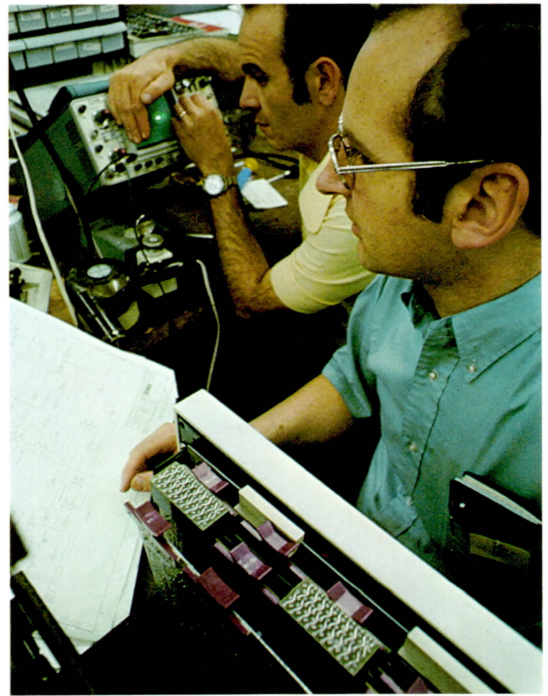
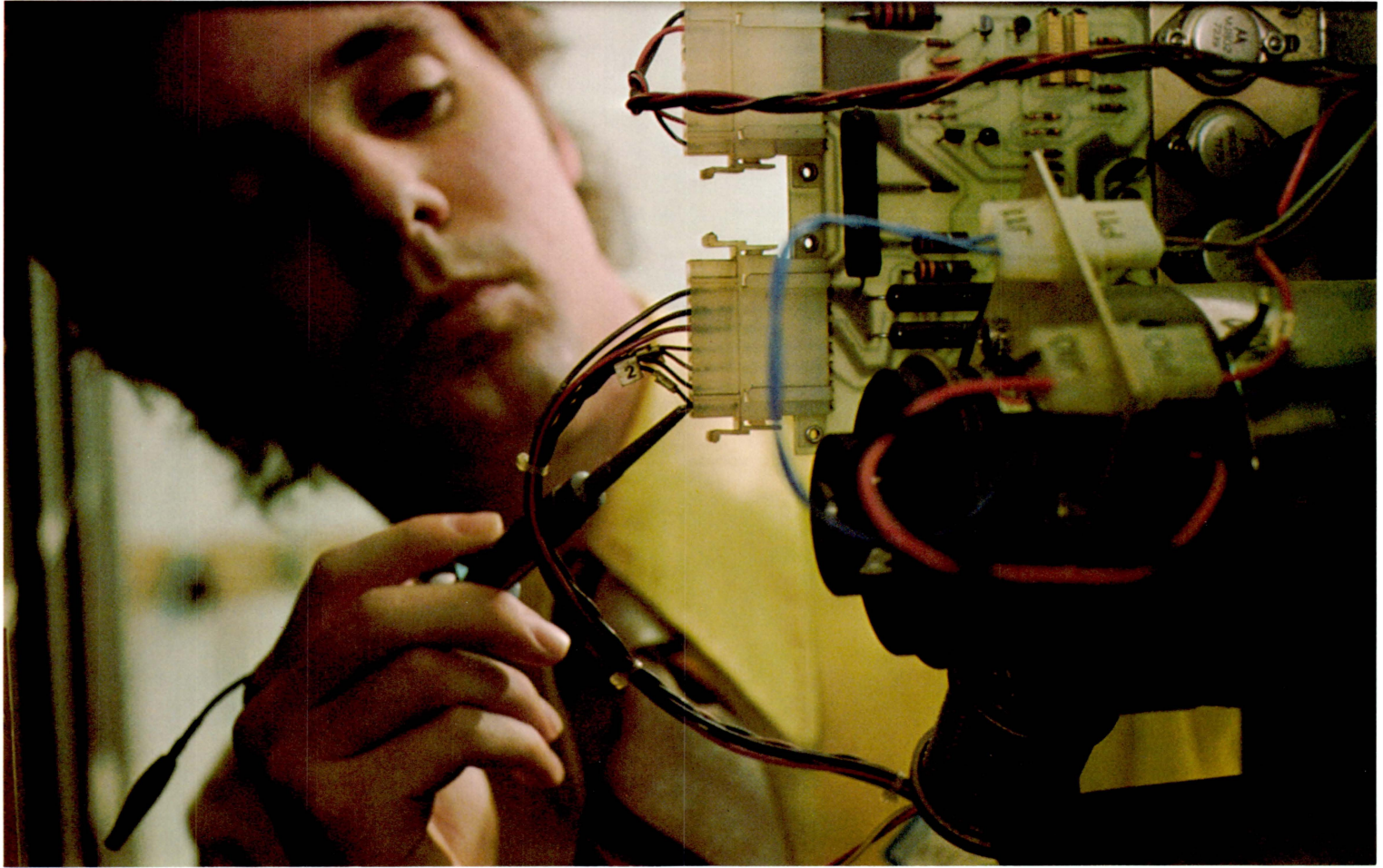
SOFTWARE SUPPORT

The sales engineers are supported by Digital's fast-growing Software Services organization. There are now over 550 skilled software specialists in the field, backed by expert staffs and support groups at headquarters. In addition to working with the sales force to help provide technical advice to customers selecting our products, their specialists provide the service required in the installation and support of our software systems. They also provide consulting service to our customers for a fee. This service is of rapidly increasing value to our expanding customer base.

FIELD SERVICE

The Field Service organization, which installs and maintains Digital computer systems, now numbers over 2,800 service engineers in the field, supported by an additional staff of 400 in Maynard. Digital installations now number more than 50,000. The increase of new, low-priced systems, has led to the development of more cost-effective ways to service these products. Efficiency in maintaining equipment in the field was increased through optimized stocking of spare parts to provide prompt repair service.





SPECIALIZED PROBLEM-SOLVING

Customers with highly specialized needs are serviced by Digital's Computer Special Systems organization which maintains eight regional facilities worldwide. Skilled teams of scientists and engineers provide specialized problem-solving in the design of hardware and applications and operating systems software. They also provide project management support after customized systems have been installed. These services are particularly valuable to OEM customers who use Digital's computer know-how to augment their own expertise in specialized products and processes.

EDUCATIONAL SERVICES

Digital operates 16 regional training centers throughout the world to provide educational services to employees and customers alike. More than 100 classrooms were in constant use during the year, with almost 200 instructors delivering more than 25,000 student weeks of training. Of these, more than 11,000 student weeks of instruction were given in Europe.

ACCOUNT MANAGEMENT

To coordinate all of these services and to organize all of Digital's resources and knowledge for the benefit of customers, each customer and prospect has an assigned sales representative, known as an account manager. We continue to refine our field organization to better serve our customers and provide a clear channel of information about Digital's products and service.



Digital has more than 19,000 employees worldwide and every one of them is in the computer business. Digital's vast field organization delivers high levels of maintenance, software support and training services to customers worldwide. Strategically located spare parts depots permit prompt repair service. Whether working individually or in teams, collective efforts of Digital people represent the company's most important resource.

Digital's Resources

Digital's manufacturing organization now numbers almost 10,000 employees and occupies more than 3 million square feet of floor space in 14 plants throughout the world. Automation of production and quality assurance procedures was expanded during the year using Digital computers, and an automated warehouse in Westminister, Massachusetts became operational.

The factory in Galway, Ireland supplied more than half the Digital computers sold in Europe during the year, and plans were finalized for expansion which will double the capacity at Galway to supply the growing European requirements.

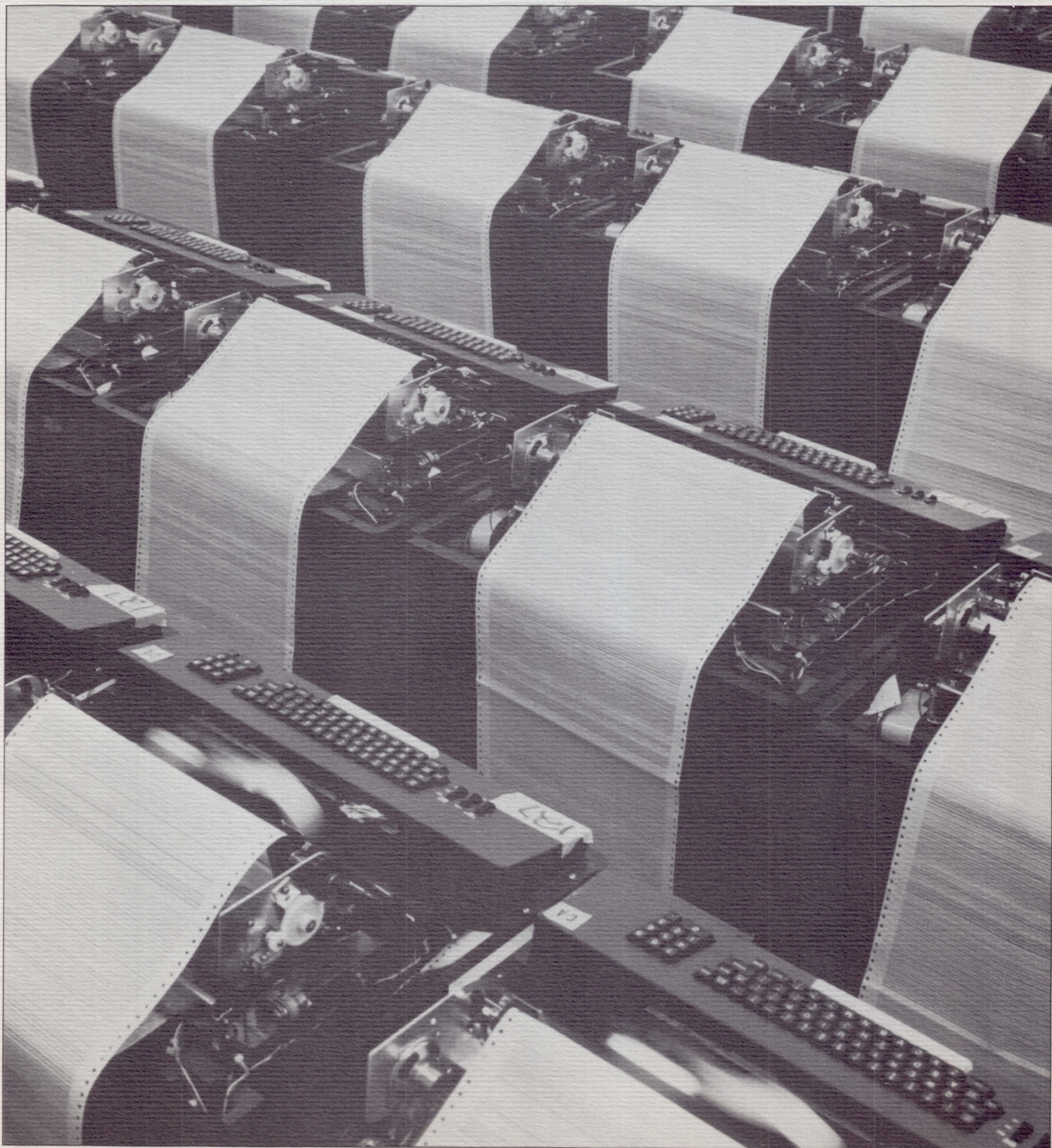
Digital now has 19,000 employees worldwide and every one of them is in the computer business. During Fiscal 1975, the quality and effectiveness of the entire organization were enhanced through increased emphasis on employee development, supervisory training and education programs. More than 700 employees are enrolled in courses and degree programs offered at our Maynard headquarters by Boston University, and opportunities for continuing education are provided in cooperation with several schools, among them Harvard, MIT, Carnegie Mellon, and Stanford.

These programs represent a major effort by the company to provide upward mobility for our non-managerial employees at all levels and further development of our technical and administrative managers.

Digital pursued an aggressive affirmative action program during the year which achieved considerable progress in attracting minority and female employees. Efforts will continue toward meaningful programs that will provide added opportunities for them to learn and grow within the company.

The company is proud of the opportunities for professional and personal enlargement it is able to offer employees at all levels and is grateful for their continued support.

Digital Equipment Corporation Financial Statements



FIVE YEAR FINANCIAL SUMMARY

1971	1972	1973	1974	1975	
OPERATIONS					
(Amounts in thousands except per share data)					
\$146,849	\$166,262	\$229,051	\$360,756	\$433,185	REVENUES
	21,291	36,418	61,128	100,589	Equipment sales
146,849	187,553	265,469	421,884	533,774	Service and other revenues ¹
					TOTAL OPERATING REVENUES
					COSTS AND EXPENSES
76,366	98,199	142,616	227,646	292,905	Cost of equipment sales, service and other revenues
16,668	20,137	24,933	36,599	48,520	Research and engineering expenses
35,479	43,601	59,774	89,800	117,592	Selling, general and administrative expenses ²
(164)	(184)	(454)	(1,061)	1,157	Interest (income) expense, net ³
128,349	161,753	226,869	352,984	460,174	TOTAL COSTS AND EXPENSES
18,500	25,800	38,600	68,900	73,600	INCOME BEFORE INCOME TAXES ²
7,900	10,500	15,100	24,500	27,600	INCOME TAXES ²
\$ 10,600	\$ 15,300	\$ 23,500	\$ 44,400	\$ 46,000	NET INCOME
\$1.06	\$1.49	\$2.16	\$3.80	\$3.85	NET INCOME PER COMMON SHARE
10,044	10,282	10,874	11,688	11,959	Weighted average number of common shares outstanding during each year ⁴

¹ Service and other revenues for fiscal 1971 were included in Equipment sales.

² State income taxes of \$500,000, \$700,000, \$1,400,000, and \$2,700,000, classified as Selling, general and administrative expenses in fiscal 1971-1974, respectively, have been reclassified and reported as Income Taxes in the above Summary of Operations. See Note F of Notes to Consolidated Financial Statements.

³ Includes interest expense of \$1,062,000, \$546,000, \$718,000, \$2,066,000 and \$4,765,000, in fiscal years 1971-1975, respectively.

⁴ See Note G of Notes to Consolidated Financial Statements.

FINANCIAL POSITION

(Dollars in thousands except per share data)

\$ 44,441	\$ 62,117	\$102,743	\$137,402	\$174,824	Inventories
49,912	68,367	107,239	144,578	164,966	Accounts receivable, net of allowances
86,577	87,156	152,724	238,620	333,202	Working capital
37,012	58,935	83,942	127,394	167,563	Property, plant and equipment, at cost
150,142	192,416	287,397	440,270	565,069	Total assets
—	—	—	10,575	85,215	Long-term debt
125,854	144,807	223,546	339,645	394,385	Stockholders' equity
12.29	14.00	20.18	28.47	32.81	Stockholders' equity per share

1971 1972 1973 1974 1975

GENERAL INFORMATION AND RATIOS

(Dollars in thousands)

4.6:1	2.8:1	3.4:1	3.8:1	5.2:1	Current ratio
\$ 18,393	\$ 27,714	\$ 31,810	\$ 50,085	\$ 45,876	Additions to property, plant and equipment
\$ 2,941	\$ 5,053	\$ 8,032	\$ 12,374	\$ 16,896	Depreciation
					Income before income taxes as a percentage of total operating revenues
12.6%	13.8%	14.5%	16.3%	13.8%	
10.5%	11.3%	12.8%	15.8%	12.5%	Net income as a percentage of average stockholders' equity
8.0%	8.9%	9.8%	12.2%	9.2%	Net income as a percentage of average total assets
6,200	7,800	13,000	17,600	19,000	Employees at year-end
\$ 23.7	\$ 24.0	\$ 20.4	\$ 24.0	\$ 28.1	Revenues per employee
10,239	10,343	11,079	11,932	12,022	Common shares outstanding (in thousands)
7,420	15,430	14,226	14,393	15,033	Shareholders at year-end

FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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

in the income statements for the three fiscal years ended June 28, 1975 and the percentage increases in those items for such years.

Income and Expense Items as a Percentage of Total Operating Revenues			Income Statement Item	Percentage Increases		
1973	1974	1975		1972 to 1973	1973 to 1974	1974 to 1975
86.3%	85.5%	81.2%	Equipment sales	38%	58%	20%
13.7%	14.5%	18.8%	Service and other revenues	71%	68%	65%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	Total operating revenues	42%	59%	27%
53.7%	54.0%	54.9%	Cost of sales, service and other revenues	45%	60%	29%
9.4%	8.7%	9.1%	Research and engineering expenses	24%	47%	33%
22.5%	21.3%	22.0%	Selling, general and administrative expenses ¹	37%	50%	31%
(.1)%	(.3)%	.2%	Interest (income) expense, net	(147)%	(134)%	209%
<u>85.5%</u>	<u>83.7%</u>	<u>86.2%</u>	Total costs and expenses ¹	40%	56%	30%
14.5%	16.3%	13.8%	Income before income taxes ¹	50%	78%	7%
5.7%	5.8%	5.2%	Income taxes ¹	44%	62%	13%
<u>8.8%</u>	<u>10.5%</u>	<u>8.6%</u>	Net income	54%	89%	4%

¹ See Note (2) to Five Year Summary of Operations on preceding page.

REVENUES

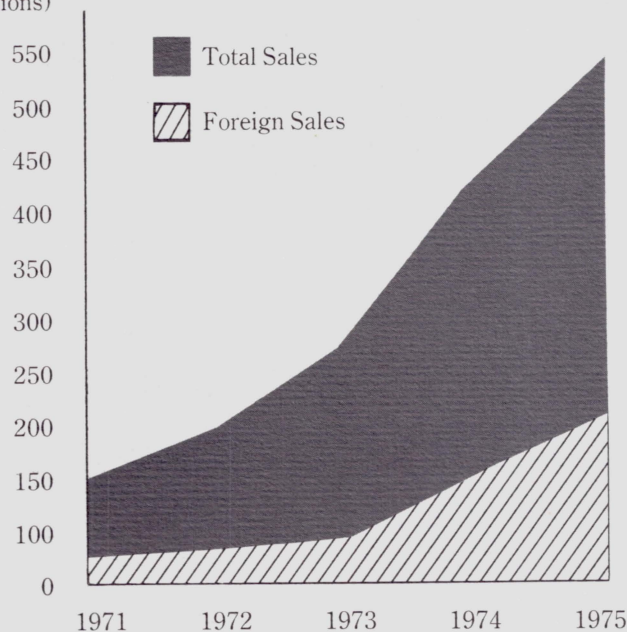
Fiscal 1975 total operating revenues amounted to \$533.8 million, 27 percent ahead of the \$421.9 million reported in fiscal 1974. This increase in revenues resulted from higher unit shipments of computers and related equipment and significantly greater service revenues. Equipment sales of \$433.2 million, which rose 20 percent, grew at a slower rate than in the previous fiscal years as the result of recessionary factors which influenced sales in certain of our markets. A year ago, a 58 percent gain was recorded on equipment sales of \$360.8 million.

Service and other revenues, which include customer services such as training, software support, equipment maintenance services and equipment rentals, were \$100.6 million, up 65 percent over the \$61.1 million reported last year. They accounted for 18.8 percent of total operating revenues compared to 14.5 percent a year ago. The increase is primarily attributable to the larger number of installed systems.

Operating revenues from customers outside the United States were \$207.8 million and accounted for 39 percent of total operating revenues, an increase of 26 percent over last year's \$165.5 million, which was also 39 percent of fiscal 1974 total operating revenues. European subsidiaries account for the principal portion of the Company's sales abroad. Sales operations conducted in Canada, the Far East, Central and South America are also included in these results.

SALES

\$(in millions)



EXPENSES

The operating expense levels in the early part of the past fiscal year anticipated sales greater than the final year-end results. A reassessment of the sales outlook during the first half of the past fiscal year resulted in the implementation of constrained employment and spending programs which were more in line with revised expectations. The Company, although expanding its sales and service organizations and maintaining its long-term commitment to research and engineering, as a result of the measures taken achieved a 13.8 percent pre-tax profit margin compared with a 16.3 percent pre-tax margin in fiscal 1974.

Research and engineering expenses of \$48.5 million were up 33 percent over a year ago and represented 9.1 percent of total operating revenues, which is slightly higher than the 8.7 percent level recorded in fiscal 1974. Expenditures for research and engineering projects including software development are expensed as incurred, which has been the Company's practice since its inception.

Selling, general and administrative expenses were \$117.6 million or 22.0 percent of total operating revenues as compared with \$89.8 million or 21.3 percent a year ago.

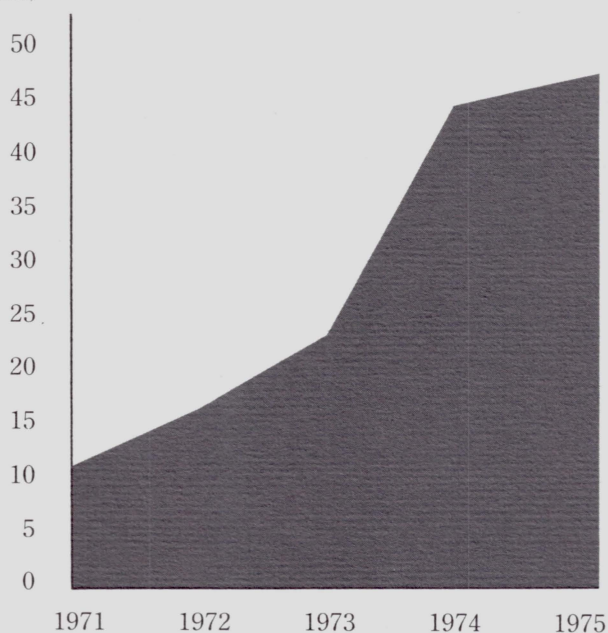
The increases in total costs and expenses reflect, in part, the higher volume of business, additional manufacturing capacity with attendant start-up costs, higher employment levels, and higher salaries and wages, as well as increases resulting from inflation. The Company's worldwide employment during fiscal 1974 and fiscal 1975 rose 35 percent and 8 percent, respectively.

Net income was adversely affected by the effective annual tax rate (Federal and state) in fiscal 1975 which was 37.5 percent as compared with the 35.6 percent rate in fiscal 1974. This increase and income taxes in general are set forth in Note F on page 29.

The increase in net income (4 percent) was not consistent with the increase in operating revenues (27 percent) due to the Company's commitment to its longer-term growth as reflected in research and engineering expenses and selling expenses which increased more rapidly than operating revenues.

NET INCOME

\$ (in millions)



FINANCIAL POSITION

Among the factors influencing the improved current asset position was management's continued emphasis on asset control. Cash and temporary cash investments at year-end totaled \$66.9 million, an increase of \$28.1 million or 73 percent over a year ago. The accounts receivable position was \$165.0 million, an increase of \$20.4 million or 14 percent from prior year-end. Days sales outstanding (accounts receivable divided by fourth quarter total operating revenues times 90 days) were 92 days compared to 96 days in fiscal 1974. Inventories rose 27 percent to \$174.8 million from the prior year-end, however increased only slightly as a percentage of equipment sales from 38 percent in fiscal 1974 to 40 percent in fiscal 1975. The rise in inventories reflects, in part, changing business conditions during the year and management's full employment policy.

QUARTERLY OPERATING RESULTS

The quarterly operating results for fiscal 1975 and 1974 are summarized below.

	Total Operating Revenues	Income Before Income Taxes ¹	Net Income	Net Income Per Share
	(Dollars in millions except per share data)			
1975				
First Quarter	\$111.8	\$12.2	\$ 7.5	\$.63
Second Quarter	126.8	15.5	9.8	.81
Third Quarter	134.6	18.2	11.3	.95
Fourth Quarter	160.6	27.7	17.4	1.46
Total Year	<u>\$533.8</u>	<u>\$73.6</u>	<u>\$46.0</u>	<u>\$3.85</u>
1974				
First Quarter	\$ 81.5	\$10.4	\$ 6.5	\$.58
Second Quarter	96.9	15.6	9.9	.85
Third Quarter	108.3	17.7	12.0	1.01
Fourth Quarter	<u>135.2</u>	<u>25.2</u>	<u>16.0</u>	<u>1.36</u>
Total Year	<u>\$421.9</u>	<u>\$68.9</u>	<u>\$44.4</u>	<u>\$3.80</u>

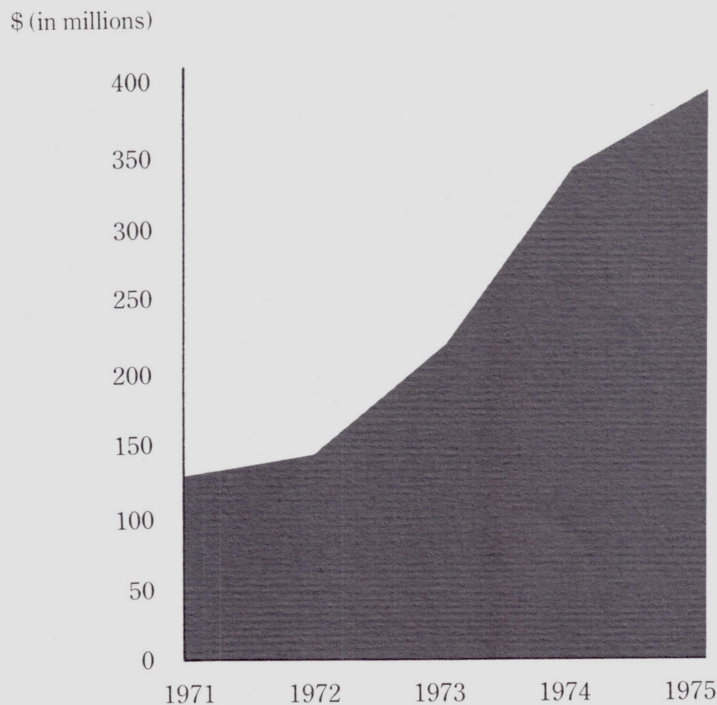
¹Amounts reported above as Income Before Income Taxes reflect the retroactive reclassification of state income taxes from Selling, general and administrative expenses to Income Taxes.

Working capital increased by \$94.6 million to a total of \$333.2 million during fiscal 1975. Our current ratio increased to 5.2:1 from 3.8:1 a year ago. An analysis of working capital changes is shown on page 25.

Total stockholders' equity was \$394.4 million, an increase of \$54.7 million. Return on average stockholders' equity declined from 15.8 percent in fiscal 1974 to 12.5 percent this year.

During fiscal 1975 the Company obtained additional capital through the issuance of long-term debt. The sale of \$75 million of 9-3/8% Sinking Fund Debentures was made to provide working capital needed to support the Company's increasing volume of business and to finance additions to property, plant and equipment.

TOTAL STOCKHOLDERS' EQUITY

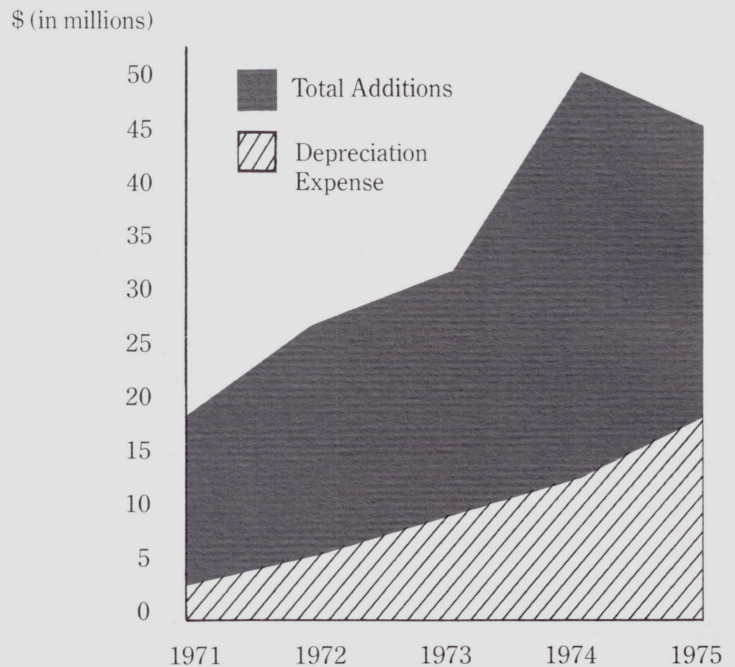


EXPENDITURES FOR PROPERTY, PLANT AND EQUIPMENT

During this past fiscal year the Company decided to postpone certain planned expenditures for plant and equipment until the business situation improved; however, \$45.9 million was invested in additions to property, plant and equipment in line with on-going

requirements of operating the business. These expenditures were 8 percent below the approximately \$50 million invested a year ago. The majority of these funds were spent on machinery and equipment used in furthering the efficiency and productivity of our manufacturing operations.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT



COMMON STOCK PRICES

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

Quarter:	1975		1974	
	High	Low	High	Low
First	\$107.000	\$64.500	\$107.000	\$79.500
Second	68.000	49.000	119.250	83.625
Third	91.250	45.375	122.750	84.500
Fourth	120.500	84.125	120.625	101.375

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

Year Ended		
June 29, 1974	June 28, 1975	
		REVENUES (Notes A and B)
\$360,756	\$433,185	Equipment sales
<u>61,128</u>	<u>100,589</u>	Service and other revenues
<u>421,884</u>	<u>533,774</u>	TOTAL OPERATING REVENUES
		COSTS AND EXPENSES
227,646	292,905	Cost of equipment sales, service and other revenues
36,599	48,520	Research and engineering expenses (Note A)
89,800	117,592	Selling, general and administrative expenses
(1,061)	1,157	Interest (income) expense, net, includes interest expense of \$2,066 and \$4,765
<u>352,984</u>	<u>460,174</u>	TOTAL COSTS AND EXPENSES (Notes C and D)
<u>68,900</u>	<u>73,600</u>	INCOME BEFORE INCOME TAXES
<u>24,500</u>	<u>27,600</u>	INCOME TAXES (Notes A, E and F)
<u>\$ 44,400</u>	<u>\$ 46,000</u>	NET INCOME
<u>\$3.80</u>	<u>\$3.85</u>	NET INCOME PER COMMON SHARE (Note G)

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

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

<u>June 29, 1974</u>	<u>June 28, 1975</u>	
		ASSETS
		CURRENT ASSETS
\$ 7,852	\$ 7,130	Cash
30,894	59,736	Temporary cash investments, at cost which approximates market (Note A)
144,578	164,966	Accounts receivable, net of allowances of \$4,735 and \$5,609
		Inventories (Note A):
36,445	35,522	Raw materials
45,592	52,150	Work-in-process
55,365	87,152	Finished goods
<u>137,402</u>	<u>174,824</u>	
3,430	5,504	Prepaid expenses
<u>324,156</u>	<u>412,160</u>	TOTAL CURRENT ASSETS
		INVESTMENTS (Notes A and E)
18,069	28,628	Marketable securities, at cost which approximates market
		PROPERTY, PLANT AND EQUIPMENT, at cost (Note A)
5,626	7,068	Land
50,212	58,207	Buildings
3,403	5,933	Leasehold improvements
1,373	3,755	Computer systems
66,780	92,600	Machinery and equipment
<u>127,394</u>	<u>167,563</u>	
29,349	43,282	Less accumulated depreciation
<u>98,045</u>	<u>124,281</u>	
<u>\$440,270</u>	<u>\$565,069</u>	
		LIABILITIES AND STOCKHOLDERS' EQUITY
		CURRENT LIABILITIES
\$ 8,121	\$ 3,455	Loans payable to banks (Note H)
27,977	22,865	Accounts payable
16,603	10,915	Federal, foreign and state income taxes
12,238	16,427	Salaries, wages and related items
9,589	13,483	Deferred revenues and customer advances (Note A)
345	360	Current portion of long-term debt
<u>10,663</u>	<u>11,453</u>	Other current liabilities
85,536	78,958	TOTAL CURRENT LIABILITIES
		Deferred Federal and foreign income taxes
4,514	6,511	Long-term debt (Note I)
10,575	85,215	
		STOCKHOLDERS' EQUITY (Note K)
		Common stock, \$1.00 par value; authorized 36,000,000 shares;
		issued and outstanding 11,931,841 and 12,021,793 shares
11,932	12,022	Additional paid-in capital
195,027	203,677	Retained earnings
132,686	178,686	
<u>339,645</u>	<u>394,385</u>	TOTAL STOCKHOLDERS' EQUITY
<u>\$440,270</u>	<u>\$565,069</u>	

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

Year Ended		
June 29, 1974	June 28, 1975	
		SOURCE OF FUNDS
		Operations:
\$ 44,400	\$ 46,000	Net income
		Add—expenses not requiring working capital in current period:
12,374	16,896	Depreciation (Note C)
5,229	2,744	Disposal of property, plant and equipment (Note A)
1,444	2,716	Restricted stock plan—charge to operations (Note K)
(821)	1,997	Deferred income taxes, non-current (Note F)
62,626	70,353	
867	796	Restricted stock plan—excess Federal income tax benefit (Note K)
64,582	—	Sale of common stock
5,335	—	Reclassification of deferred tax liability
10,575	75,000	Increase in long-term debt (Note I)
		Common stock issued under option plans, net of
4,117	4,354	repurchases (Note K)
689	514	Other
148,791	151,017	
		USE OF FUNDS
12,810	10,559	Investments in non-current marketable securities (Note A)
50,085	45,876	Additions to property, plant and equipment
62,895	56,435	
\$ 85,896	\$ 94,582	INCREASE IN WORKING CAPITAL
		ANALYSIS OF INCREASE IN WORKING CAPITAL
		Increase (decrease) in current assets:
\$ 2,892	\$ (722)	Cash
30,894	28,842	Temporary cash investments
37,339	20,388	Accounts receivable
34,659	37,422	Inventories
1,797	2,074	Prepaid expenses
107,581	88,004	
		(Increase) decrease in current liabilities:
(298)	4,666	Loans payable to banks
(6,771)	5,112	Accounts payable
(3,470)	5,688	Federal, foreign and state income taxes
(11,146)	(8,888)	Other current liabilities
(21,685)	6,578	
\$ 85,896	\$ 94,582	INCREASE IN WORKING CAPITAL

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)

Years Ended June 28, 1975 and June 29, 1974

<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>	
\$11,079	\$124,181	\$ 88,286	\$223,546	June 30, 1973
750	63,832		64,582	Sale of common stock
81	4,036		4,117	Shares issued under option plans — net of repurchases (Note K)
	1,444		1,444	Restricted stock plan (Note K):
	867		867	Charge to operations
				Excess Federal income tax benefits
22			22	Par value of common stock issued in pooling of interests (Note L)
	667		667	Other
		44,400	44,400	Net income — 1974
<u>11,932</u>	<u>195,027</u>	<u>132,686</u>	<u>339,645</u>	June 29, 1974
90	4,264		4,354	Shares issued under option plans — net of repurchases (Note K)
	2,716		2,716	Restricted stock plan (Note K):
	796		796	Charge to operations
	874		874	Excess Federal income tax benefits
		46,000	46,000	Other
				Net income — 1975
<u>\$12,022</u>	<u>\$203,677</u>	<u>\$178,686</u>	<u>\$394,385</u>	June 28, 1975

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

TRANSLATION OF FOREIGN CURRENCIES

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

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

REVENUE RECOGNITION

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

RESEARCH AND ENGINEERING AND WARRANTY COSTS

Research and engineering and warranty costs are expensed as incurred.

TAXES

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

INVENTORIES

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

TEMPORARY CASH INVESTMENTS

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

MARKETABLE SECURITIES

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

NOTE B — FOREIGN OPERATIONS

The Company's foreign manufacturing operations include manufacturing operations in Canada, Taiwan, Hong Kong and Ireland. Their product is sold to domestic and foreign manufacturing operations for integration into the final product or is sold directly to the Company's foreign sales subsidiaries.

Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America and the Far East and to a lesser extent by direct sales by the parent and through various representative and distributorship arrangements.

Sales to customers outside the United States were \$207,759,000 for the year ended June 28, 1975 and \$165,492,000 for the year ended June 29, 1974,

which represented in both years 39% of total operating revenues. A substantial portion of these sales consisted of product manufactured domestically. The Company's foreign prices are designed to yield profits at least equal to the profits on products manufactured and sold to customers in the United States. Due to the organizational structure and the complex manufacturing process the income of the individual subsidiaries is only reflective of the separate functions which they perform and, consequently, is not reported separately.

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

	<u>June 28, 1975</u>	June 29, 1974
	(Dollars in thousands)	
ASSETS		
Current assets	\$116,741	\$100,993
Property, plant and equipment — net	<u>14,759</u>	<u>12,634</u>
	<u>\$131,500</u>	<u>\$113,627</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	\$ 32,229	\$ 32,722
Intercompany obligations	60,846	54,246
Capital stock	1,133	1,067
Retained earnings	<u>37,292</u>	<u>25,592</u>
	<u>\$131,500</u>	<u>\$113,627</u>

NOTE C — DEPRECIATION

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 asset or term of lease, whichever is shorter (straight-line)
Machinery and equipment	8 and 10 years (sum-of-years), 4 and 5 years (double declining-balance)
Computer systems	No depreciation is provided on these systems which are manufactured by the Company and are used for short periods prior to being sold to customers

NOTE D—PENSION PLANS

The Company has several pension plans covering substantially all employees. Pension costs are charged to income and funded currently. Total pension costs were \$4,950,000 in 1975 and \$3,050,000 in 1974.

NOTE E—PUERTO RICAN OPERATIONS

The Company has a domestic manufacturing subsidiary located in Puerto Rico the products of which are sold to other members of the consolidated group. Earnings of this subsidiary included in consolidated retained earnings aggregated approximately \$43,000,000 at June 28, 1975. These earnings, if partially or fully repatriated under certain circumstances, may be subject to United States Federal income taxes at normal rates; however, under other circumstances these earnings could be repatriated totally free of United States Federal income taxes but after such a repatriation, the subsidiary's earnings would be subject to United States Federal income tax on an ongoing basis. The Company has no current plans to repatriate these earnings which have been reinvested in the Puerto Rican operations and in part invested by the Puerto Rican subsidiary in marketable securities.

NOTE F—INCOME TAXES

Income tax expense is made up of the following components:

	U.S.			
	Federal	Foreign	State	Total
	(Dollars in thousands)			
Year ended June 28, 1975				
Current tax expense	\$13,500	\$4,300	\$2,400	\$20,200
Deferred tax expense	<u>8,000</u>	<u>(600)</u>	<u>—</u>	<u>7,400</u>
	<u>\$21,500</u>	<u>\$3,700</u>	<u>\$2,400</u>	<u>\$27,600</u>
Year ended June 29, 1974				
Current tax expense	\$19,000	\$6,000	\$2,700	\$27,700
Deferred tax expense	<u>(2,600)</u>	<u>(600)</u>	<u>—</u>	<u>(3,200)</u>
	<u>\$16,400</u>	<u>\$5,400</u>	<u>\$2,700</u>	<u>\$24,500</u>

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

Year Ended
June 28, 1975 June 29, 1974
(Dollars in thousands)

Profit in inventories, principally intercompany sales	\$ (6,100)	\$(3,800)
Revenues from installment sales, principally intercompany, and financing leases	9,700	(800)
Deferral of taxes on undistributed earnings of Domestic International Sales Corporation	900	1,100
Other	<u>2,900</u>	<u>300</u>
TOTAL	<u>\$ 7,400</u>	<u>\$(3,200)</u>

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

	<u>1975</u>	<u>1974</u>
U.S. Federal statutory tax rate	48.0%	48.0%
Tax benefit of Puerto Rico non-taxable income (a)	<u>(6.5)</u>	(7.7)
Difference between U.S. and foreign tax rates	<u>(4.5)</u>	(2.7)
State income taxes, net of Federal tax benefit	1.7	2.0
Other (b)	<u>(1.2)</u>	<u>(4.0)</u>
	<u>37.5%</u>	<u>35.6%</u>

(a) Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico. Under an exemption grant which expires in 1981 (for the years 1982 through 1991 income is partially exempt) the income of this subsidiary is not subject to Puerto Rican income taxes. The Federal income tax benefits per common share attributable to the tax-exempt status of this subsidiary were \$.40 in 1975 and \$.45 in 1974.

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

State income taxes of \$2,700,000, classified as Selling, general and administrative expenses in fiscal 1974, have been retroactively reclassified and reported as part of Income taxes in the accompanying Consolidated Statements of Income for such year. See Note A of Notes to Consolidated Financial Statements for further explanation of the Company's income tax accounting policies.

NOTE G — NET INCOME PER COMMON SHARE AND DIVIDENDS

Net income per common share is computed based on the weighted average number of common shares outstanding during each year, 11,958,556 in fiscal 1975 and 11,687,848 in fiscal 1974. Common stock equivalents arising from stock options have been excluded from the computation since their dilutive effect is not material.

No cash dividends have been paid by the Company since its inception.

NOTE H — SHORT-TERM DEBT

Loans payable to banks at June 28, 1975 and June 29, 1974 represent foreign borrowings at average interest rates of 12% and 13%, respectively. The maximum aggregate short-term debt outstanding at any month-end was \$27,500,000 during fiscal 1975 and \$20,600,000 during fiscal 1974, while average short-term borrowings during such periods were \$13,000,000 and \$12,000,000, respectively. The average interest rate based on a weighted average of the stated month-end rates was 11.5% in fiscal 1975 and 12% in fiscal 1974.

Unused lines of credit for short-term financing were \$83,500,000 at June 28, 1975 and \$42,000,000 at June 29, 1974. At June 28, 1975, certain lines of credit required either the maintenance of compensating balances or the payment of commitment fees; \$24,700,000 required the maintenance of compensating balances equal to approximately 10% of such unused lines and \$28,800,000 required the payment of commitment fees which in general are based on 1/2% of such unused commitment amounts. After considering "float," none of the cash reflected in the balance sheets at June 28, 1975 and June 29, 1974 was required as compensating balances.

NOTE I — LONG-TERM DEBT

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

	June 28, 1975	June 29, 1974
	(Dollars in thousands)	
5.4% secured obligations maturing serially to 1993 ¹	\$10,215	\$10,575
9 3/8% Sinking Fund Debentures due March 15, 2000 ²	<u>75,000</u>	<u>—</u>
	<u>\$85,215</u>	<u>\$10,575</u>

¹ Interest rate shown is the weighted average rate at June 28, 1975.

² Sinking Fund Debentures were issued by the Company in March, 1975. Sinking fund payments of \$4,000,000 are required in each of the fiscal years 1985-1999. The Company at its option may increase the sinking fund payments up to an additional \$4,000,000 in each such year. The Debentures are redeemable at the option of the Company at any time, as a whole or in part, at 109 3/8% of the principal amount during the year beginning March 15, 1975, and at declining percentages each year thereafter. However, prior to March 15, 1985, the Company may not redeem any of the Debentures from the proceeds of funds borrowed at an interest rate less than 9 3/8% per annum. The Indenture for the Debentures also contains certain restrictions usual to such loan agreements on future borrowings and dividend distributions.

Principal payments required during the next five fiscal years are as follows: 1976—\$360,000; 1977—\$380,000; 1978—\$400,000; 1979—\$425,000 and 1980—\$445,000.

NOTE J — LEASES

Minimum annual rentals under noncancelable leases (which are principally for leased regional sales offices and manufacturing space) are as follows: 1976—\$8,650,000; 1977—\$7,500,000; 1978—\$5,400,000; 1979—\$3,500,000; 1980—\$2,300,000; 1981-1985—\$8,150,000; 1986-1990—\$4,400,000; 1991-1995—\$5,200,000; thereafter—\$6,050,000.

Total rental expense for the fiscal years ended June 28, 1975 and June 29, 1974 amounted to \$7,995,000 and \$6,625,000, respectively.

The Company has no significant non-capitalized financing leases.

NOTE K — STOCK OPTIONS

QUALIFIED STOCK OPTIONS:

Under its 1965 Qualified Stock Option Plan, the Company has granted certain officers and key employees options to purchase common stock within five years from the grant date at 100% of market

price on the grant date. Of the 244,684 options outstanding at June 28, 1975, 80,510 shares are presently exercisable, 62,449 shares become exercisable in fiscal 1976, 48,550 shares in fiscal 1977, 48,550 shares in fiscal 1978 and 4,625 shares in fiscal 1979.

Information concerning activity during fiscal 1975 follows:

	Shares Reserved For Future Grants	Options Outstanding	
		Shares	Average Price Per Share
June 29, 1974	185,174	253,383	\$89.52
Reduction	(150,000)		
Expiration	(30,864)		
Options granted	(18,500)	18,500	72.87
Options exercised		(13,009)	66.09
Options cancelled	14,190	(14,190)	90.90
June 28, 1975	<u>—</u>	<u>244,684</u>	

In October 1974, the shareholders voted to reduce by 150,000 the number of shares issuable under the plan and on March 9, 1975, the remaining ungranted 30,864 shares at that date expired when under the provisions of the plan authority to grant future options expired.

RESTRICTED STOCK OPTIONS:

Under its 1968 Restricted Stock Purchase Plan, the Company has granted certain officers and key employees options to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plan are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years.

Information concerning activity during fiscal 1975 follows:

	Shares Reserved For Future Grants	Options Outstanding	
		Shares	Average Price Per Share
June 29, 1974	150,837	275,438	\$17.19
Additional shares authorized to be issued	550,000		
Options granted	(216,630)	216,630	81.04
Options exercised		(14,976)	14.87
Options cancelled	6,185	(6,185)	25.59
June 28, 1975	<u>490,392</u>	<u>470,907</u>	

At the time these options are exercised, the common stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value (as adjusted for the restrictions for options granted before January 1, 1973) of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to \$2,716,000 in fiscal 1975 and \$1,444,000 in fiscal 1974. The amount actually deductible for Federal income taxes exceeds the amount charged to income for book purposes. The Federal income tax benefits relating to this difference (\$796,000 in fiscal 1975 and \$867,000 in fiscal 1974) have been credited to additional paid-in capital.

EMPLOYEE STOCK PURCHASE PLAN:

Under the Company's 1968 Employee Stock Purchase Plan, all United States and Canadian employees may be granted options to purchase common stock at 85 percent of market value on the first or last business day of the sixth month payment period, whichever is lower. There were 107,696 unissued shares of common stock reserved at June 28, 1975 for options to be granted and 68,330 shares were issued in fiscal 1975 at an average price of \$48.90.

NOTE L—POOLING OF INTERESTS

In June 1974, the Company issued 21,911 shares of its common stock to the holders of all the outstanding common stock of Maynard Industries, Inc. and Maynard Development Co., Inc. which owned certain land and buildings in Maynard, Massachusetts, substantially all of which had previously been leased by the Company. This transaction was accounted for as a pooling of interests. The balance sheets of the pooled companies have been included in the June 29, 1974 consolidated balance sheet. Prior balance sheets and the consolidated results of operations for the period ended June 29, 1974 and prior periods have not been restated because the effect would be insignificant.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE STOCKHOLDERS AND DIRECTORS DIGITAL EQUIPMENT CORPORATION

We have examined the consolidated balance sheet of Digital Equipment Corporation as at June 28, 1975 and the related consolidated statements of income, changes in financial position, and stockholders' equity for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements for the fiscal year ended June 29, 1974.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Digital Equipment Corporation at June 28, 1975 and June 29, 1974, the consolidated results of its operations and the consolidated changes in its financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
August 6, 1975



COOPERS & LYBRAND

DIRECTORS

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

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

Georges F. Doriot*
Director
American Research and
Development Corporation
(venture capital investments)

William H. McLean
Vice President
Stevens Institute of
Technology
(educational institution)

Kenneth H. Olsen
President
Digital Equipment Corporation

Dorothy E. Rowe*
Senior Vice President, Treasurer
and Secretary
American Research and
Development Corporation
(venture capital investments)

* Member of the Audit Committee
of the Board of Directors

OFFICERS

Kenneth H. Olsen
President

C. Gordon Bell
Vice President, Engineering

Alfred M. Bertocchi
Vice President, Finance & Treasurer

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

Theodore G. Johnson
Vice President, Sales & Service

Peter J. Kaufmann
Vice President, Manufacturing

Andrew C. Knowles, III
Vice President, Group Manager

Stanley C. Olsen
Vice President, Group Manager

Richard J. Clayton
Vice President,
Computer Systems Development

John Leng
Vice President, Large Computers

William H. Long
Vice President, OEM

Julius L. Marcus
Vice President, Communications

Gerald T. Moore
Vice President, North American Sales

Jean-Claude Peterschmitt
Vice President, Europe

Lawrence J. Portner
Vice President,
Software Development

Robert W. Puffer, III
Vice President,
Hardware Development

John J. Shields
Vice President,
Field Service and Training

Robert H. Lander
Controller

Edward A. Schwartz
Secretary & General Counsel

George A. Chamberlain, 3d
Assistant Treasurer

TRANSFER AGENTS

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

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

REGISTRARS

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

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

AUDITORS

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

LEGAL COUNSEL

Testa, Hurwitz & Thibault
10 Post Office Square
Boston, Massachusetts 02109
(617) 542-6155

SHARES TRADED

New York Stock Exchange
(Ticker Symbol "DEC")

UNLISTED TRADING

Boston Stock Exchange
Midwest Stock Exchange
PBW Stock Exchange

DIGITAL FACILITIES AROUND THE WORLD

DIGITAL SALES AND SERVICE OFFICES

NORTH AMERICA

UNITED STATES

ALABAMA

Birmingham*

Huntsville

ARIZONA

Phoenix

Tucson

ARKANSAS

Little Rock*

CALIFORNIA

El Segundo

Mountain View

Oakland

Ridgecrest*

Sacramento

San Diego

Santa Ana

Santa Clara

Stanford*

COLORADO

Denver

CONNECTICUT

Fairfield

Meriden

DISTRICT OF COLUMBIA

Washington (Lanham, Md.)

FLORIDA

Fort Lauderdale

Orlando

GEORGIA

Atlanta

HAWAII

Honolulu

ILLINOIS

Chicago (Loop)*

Peoria*

Rolling Meadows

INDIANA

Indianapolis

IOWA

Bettendorf

KENTUCKY

Louisville

LOUISIANA

New Orleans

MARYLAND

Odenton (Fort Meade)*

MASSACHUSETTS

Maynard

Waltham

Westfield

MICHIGAN

Detroit

Kalamazoo*

MINNESOTA

Minneapolis

MISSOURI

Kansas City

St. Louis

NEW HAMPSHIRE

Manchester

NEW JERSEY

Cherry Hill*

Fairfield

Metuchen

Princeton

NEW MEXICO

Albuquerque

Los Alamos*

NEW YORK

Albany

Buffalo*

Ithaca

Long Island

New York City

Rochester

Rome*

Syracuse

NORTH CAROLINA

Durham/Chapel Hill

OHIO

Cleveland

Columbus

Dayton

Toledo*

OKLAHOMA

Tulsa

OREGON

Eugene*

Portland

PENNSYLVANIA

Allentown*

Harrisburg*

Philadelphia

Pittsburgh*

SOUTH CAROLINA

Columbia*

TENNESSEE

Knoxville

Memphis*

Nashville

TEXAS

Austin

Dallas

Houston

UTAH

Salt Lake City

VIRGINIA

Richmond

WASHINGTON

Seattle

Vancouver*

WISCONSIN

Milwaukee

PUERTO RICO

San Juan (Sales only)

Santurce*

CANADA

Calgary

Chalk River*

Edmonton

Halifax

Kanata (Ottawa)

London

Montreal

Toronto

Vancouver

Winnipeg

EUROPE

AUSTRIA

Vienna

BELGIUM

Brussels

DENMARK

Copenhagen

EGYPT

Cairo (D)

FINLAND

Helsinki

Legend:

* = Field Service Only

D = Sales Through Authorized Distributors or
Manufacturers Representatives

† = Digital Field Service

FRANCE
Asnieurs
Grenoble
Paris
Toulouse*
IRELAND
Belfast*
Dublin
ISRAEL
Tel Aviv (D)
ITALY
Milan
Rome
Turin
LEBANON
Beirut (D)
NETHERLANDS
Amsterdam*
Hoofddorp
(European Module Repair Center)
The Hague
Utrecht
NORWAY
Oslo
PORTUGAL
Lisbon*
SPAIN
Barcelona*
Madrid
SWEDEN
Gothenburg
Stockholm
SWITZERLAND
Geneva (European Headquarters)
Zurich
UNITED KINGDOM
Birmingham
Brentwood*
Bristol
Edinburgh
Kent*
Leeds
Leicester
Liverpool
London City
London North
London South
Manchester
Reading

WEST GERMANY
Cologne
Frankfurt
Hannover
Hamburg
Munich
Stuttgart
West Berlin
YUGOSLAVIA
Ljubljana (D)†

GENERAL INTERNATIONAL

ARGENTINA
Buenos Aires (D)
AUSTRALIA
Adelaide
Brisbane
Canberra
Hobart*
Melbourne
Perth
Sydney
BOLIVIA
La Paz (D)
BRAZIL
Rio de Janeiro (D)
Sao Paulo
CHILE
Santiago (D)
HONG KONG (D)
INDIA
Bombay (D)
INDONESIA
Djakarta (D)
IRAN
Teheran (D)†
JAPAN
Osaka
Tokyo
Yokohama*
MALAYSIA
Kuala Lumpur (D)
MEXICO
Mexico City
NEW ZEALAND
Auckland
Christchurch
SINGAPORE (D)
TAIWAN
Taipei (D)
Taoyuan*
VENEZUELA
Caracas (D)

DIGITAL COMPUTER SPECIAL SYSTEMS FACILITIES

AUSTRALIA
Sydney
CALIFORNIA
Santa Ana
CANADA
Kanata (Ottawa)
FRANCE
Paris
GERMANY
Munich
JAPAN
Tokyo
MASSACHUSETTS
Maynard
UNITED KINGDOM
Reading

DIGITAL TRAINING CENTERS

AUSTRALIA
Sydney
CALIFORNIA
Sunnyvale
DISTRICT OF COLUMBIA
Washington, D.C. (Lanham, Md.)
FRANCE
Paris
GERMANY
Munich
ILLINOIS
Rolling Meadows (Chicago)
ITALY
Milan
JAPAN
Tokyo
MASSACHUSETTS
Marlborough
Maynard
NETHERLANDS
Utrecht
NEW JERSEY
Princeton
PENNSYLVANIA
Philadelphia (Blue Bell)
SWEDEN
Stockholm
SWITZERLAND
Zurich
UNITED KINGDOM
Reading

DIGITAL MANUFACTURING FACILITIES

ARIZONA
Phoenix
CALIFORNIA
Mountain View
CANADA
Kanata (Ottawa)
HONG KONG
IRELAND
Galway
MASSACHUSETTS
Marlborough
Maynard
Natick
Springfield
Westfield
Westminster
PUERTO RICO
Aguadilla
San German
TAIWAN

CORPORATE HEADQUARTERS

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Metropolitan Boston: 646-8600
Elsewhere: (617) 897-5111
TWX: 710-347-0212
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Telex: 94-8457

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Geneva 26, Switzerland
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Telex: 22593

(Besides the offices listed, Digital Equipment Corporation personnel provide Customer Service through an additional 110 locations worldwide.)

A copy of Digital's Annual Report on Form 10-K for the fiscal year ended June 28, 1975, including financial statements and schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge to any shareholder requesting it in writing.

The Form 10-K and additional information about Digital and its products can be obtained by addressing:

Digital Equipment Corporation
Investor Relations
Maynard, Massachusetts 01754
(617) 897-5111

digital

Digital Equipment Corporation
Maynard, Massachusetts 01754