DIGITAL EQUIPMENT CORPORATION
ANNUAL REPORT 1980

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Corporate Profile

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

Financial Highlights

Fiscal Year	**1980**	1979	% Change
Total operating revenues	**$2,368,045,000**	$1,804,092,000	+31.3
Net income	**$ 249,861,000**	$ 178,434,000	+40.0
Net income per share	**$5.45**	$4.10	+32.9
Total stockholders' equity	**$1,651,749,000**	$1,120,236,000	+47.4
Stockholders' equity per share	**$36.25**	$27.59	+31.4
Return on average equity	**18.0%**	17.6%	

Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held at 11:00 A.M., Tuesday, October 28, 1980 in the Dorothy Quincy Suite, John Hancock Building, 180 Berkeley Street, Boston, Massachusetts. Stockholders of record on September 5, 1980 will be entitled to vote at this meeting.

Contents

ON THE COVER:
Great care is taken at every step of the manufacturing process to ensure that the highest possible degrees of quality and reliability are built into all Digital products. At the company's new semiconductor engineering and production facility in Hudson, Massachusetts, a technician inspects tiny integrated circuits on a silicon wafer in a "clean room" where air is meticulously filtered to remove microscopic dust particles that might wind up as flaws in the complex circuits.

President's Letter

To our Shareholders, Employees and Friends:

I am pleased to report that during Fiscal 1980 Total Operating Revenues grew by 31 percent to $2.4 billion and Net Income increased by 40 percent to $250 million. Earnings per share totaled $5.45 and return on average shareholders' equity continued the positive trend it has followed over the last several years. I feel the Company made good progress in managing its rapid growth in the face of heavy customer demand. The year was one of continued economic uncertainty for our industry but we were not adversely affected by the recession that began at mid-year.

In Fiscal 1980 we continued heavy investments for the future: in new products, new services and new facilities, all designed to ensure that Digital maintains a high standard of quality in the eyes of its customers and investors, its employees, and the community at large.

The heavy demand for Digital's computer systems from markets around the world exceeded our expectations and resulted in longer-than-desired delivery times for many of our products. Our manufacturing organization responded by significantly increasing its production levels over the previous year. We are particularly proud of our Terminals and Far East manufacturing groups, whose combined efforts achieved a near-tripling in output of Digital's best-selling VT100 video terminal to the point where we are now making these units at the rate of more than one per minute. When other Digital video and printer terminals are included, the Company now ranks as one of the world's largest producers of computer terminals.

Digital also accelerated its rapid plant expansion program with the expenditure of $210 million, more than double last year's capital spending. The Company plans to continue heavy investment in new facilities and equipment into the future as our market expands.

Construction continued on manufacturing facilities in Augusta, Maine; Phoenix, Arizona; Colorado Springs, Colorado; Aquadilla, Puerto Rico; Ayr, Scotland and Hong Kong. New projects were begun in Greenville, South Carolina; Clonmel, Ireland; Kaufbeuren, Germany and Franklin, Mass. Plans were announced for a large plant in Singapore.

The Company increased its investment in new product development by 35 percent to $186 million to ensure Digital's continued leadership in both hardware and software products designed to fill growing customer needs, particularly in distributed processing and computer networking applications. Development also continued on future additions to our family of DECsystem-10 and -20 computers.

Important enhancements were made to Digital's DECnet networking software and to the VMS operating system software that powers our VAX-11/780 computer, which has become a standard for scientific computation and computer-aided design. A new mid-range computer, the PDP-11/44, was added to our well known PDP-11 family, and a number of important disk storage products and terminals were also introduced.

The Company made significant investments in the future of the Digital organization as well, adding more than 11,000 people to its worldwide employee population, which now totals more than 55,000, an increase of 25 percent over last year.

A significant portion of our new hiring involved expansion of our worldwide customer support organizations, including sales, maintenance, software services and educational services. These groups now total almost 20,000 people at more than 400 locations in 37 countries.

Automated telephone diagnosis of computer hardware and software problems was made available to Digital's customers in Europe with the opening of Remote Diagnostic Centers in the United Kingdom and France, enabling us to respond to these customers within 15 minutes of their call. These new centers combine with Digital's first such facility in Colorado Springs, Colorado, to provide the industry's most advanced remote computer maintenance capability.

As we look into the 1980s and beyond, we feel confident about the future of Digital. The people in our organization are bright, hard working and enthusiastic. We are financially sound. We currently offer a broad array of competitive products, with more under development that will continue to enhance our strong position for the future.

Kenneth H. Olsen
President
September 8, 1980

Digital's Computers: Quality Products to Meet the Challenges of a Changing World.

The original idea that created Digital Equipment Corporation in 1957 was to make computers that were affordable, approachable, versatile and easy-to-use by virtually anyone. In pioneering this approach, Digital has contributed to making the computer a powerful tool to help meet the challenges of a changing world.

At the same time, the affordable and adaptable computer has itself created further changes. Changes in the ways we access and manage information. Changes in the way we produce goods and services. Changes in the way we acquire knowledge, store it, and use it. Changes in work styles and in lifestyles.

Changes, even, in the way we think.

Of course, the goal of producing affordable, easy-to-use computers would mean very little without the equally important objective of producing a quality product. It is quality that makes our products viable for the long term, with high reliability and low cost of ownership. It is quality that makes us strive to provide the best possible balance of price, performance, and functionality in our products. And it is quality that helps us fulfill our obligations to our shareholders through growth and profits. This point is summarized in Digital's Corporate Philosophies:

"Growth is not our primary goal. Our goal is to be a quality organization and do a quality job, which means that we will be proud of our work and our products for years to come. As we achieve quality, growth comes as a result. The product we are selling includes the engineering, the software, the manufacturing, and the services."

A Faster Rate of Change.

As we begin the present decade, we can see that the biggest challenge of our changing world is the rate of change itself. Contemporary trends in politics and economics, impressive strides forward in science and technology, have all contributed to an ever-accelerating rate of change. Communications can be instant. The information base we use can be enormous beyond our imaginations. And the development of lower cost and easier-to-use communications and information processing tools means that the number of people using them increases daily.

Estel Hoogovens on the edge of Holland's North Sea, is one of Europe's largest steel works with an annual output of more than five million tons. The company uses over one hundred of our computers in a variety of distributed applications from process control to management information. At this blast furnace, which is one of five in the 2000 acre plant complex, a PDP-11 controls the raw materials that go into the furnace "charge," and monitors the melting process as the furnace reaches temperatures of 2000 degrees centigrade.

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For the high technology computer company of the 1980s, the challenge is to continue to develop products, services, and an organization that can be responsive to this ever accelerating rate of change.

Affordable, approachable, adaptable computing, delivered in high-quality products designed and built for the long term, still appears to be a strong concept to meet the challenges of a changing world.

At Digital, that has been our concept from the beginning.

Advancing Technology Creates New Uses.

In computers, three significant trends have emerged and will continue to develop during the 1980s:

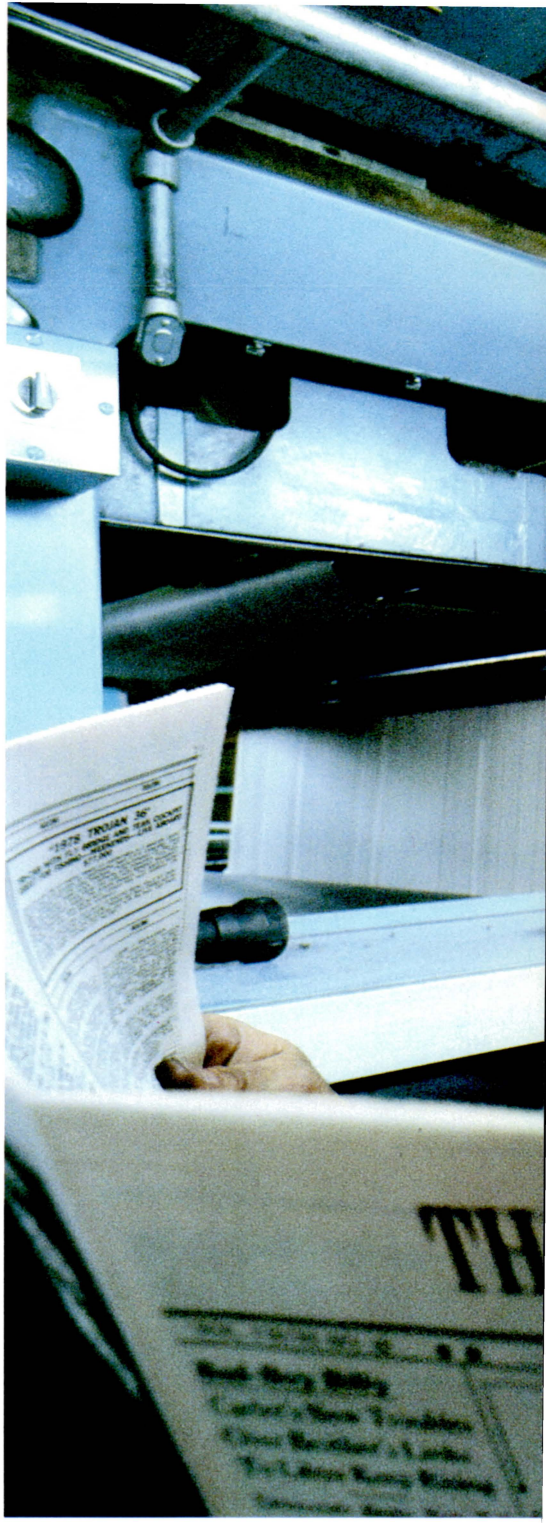
1. Largely because of advancements in semiconductor technology, the size and cost of computer hardware will continue to go down.
2. At the same time, people-related costs are on the rise, impacting the cost of software development, systems operations, training, and maintenance.
3. With the ever widening use of smaller computers in new applications and the increasing acceptance of distributed processing, the integration and control of computing resources have become prime concerns of managers and implementors alike.

For each of these trends in today's computer market, Digital's computers offer a significant, and often unique, response.

1. *Hardware costs.* Ever since it pioneered the minicomputer in 1963, Digital has been committed to lowering the cost of basic computer hardware. In addition, Digital believes in offering the market a broad line of products so that customers can purchase exactly the amount of computing power they need.

   Today, Digital offers the broadest product line in the computer industry. Its computer central processors (CPUs) range from the LSI-11/2 microcomputer for under $500 in quantity, to DECsystem-10 and DECSYSTEM-20 mainframes for over $400,000. Complete systems built around these processors sell for a few thousand to more than a million dollars.

   The company produces a complete line of printing terminals, video display terminals, mass storage and memory devices, and a range of special options. Digital also offers a full line of software, encompassing operating systems, language compilers, utilities, development tools, and applications software for certain selected markets such as word processing and engineering systems.



Dow Jones & Company, Inc., is best known for its WALL STREET JOURNAL, the nation's largest circulation newspaper, but the company is actually a global publishing and communications company that relies heavily on satellites and computers to move information between offices and printing plants as far away as Hong Kong. Its administration and research headquarters in South Brunswick, New Jersey, for example, is the control point for its Dow Jones News Retrieval Service that gives more than 8,500 subscribers electronic access to news from its publications. That service links PDP-11 and mainframe computers around the world to store and transmit news and financial data instantaneously.


THE WALL STREET JOURNAL

These products are available in a wide variety of configurations, including complete packaged systems designed to be especially cost-effective for many standardized uses.

The largest reduction in hardware costs have come about through developments in semiconductor technology. Tiny integrated circuits (ICs), wafer thin and just ¼" square, can contain the entire central processing unit of a computer. Ten years ago, this same unit would have taken up several square feet of floor space. Twenty years ago it would have taken up an entire room.

Since the advent of Digital's first LSI-11 microcomputer in 1974, the Company has been deeply involved in the development of custom large-scale integration (LSI) semiconductor technology. This year saw the opening of our first major semiconductor design and production facility in Hudson, Mass. It is among the most advanced semiconductor manufacturing facilities in the world, providing Digital with the capability of further lowering hardware costs.

2. *People-related costs.* As costs for programmers, system operators, and service people rise, Digital's long-term commitments to software-compatible computer architecture, ease-of-use, and low-cost maintainability have become even more important to customers.

Software compatibility has always been a prime objective with Digital's computer families. Programs developed on a small PDP-11 microcomputer will run on any PDP-11, and on the large VAX-11/780 as well. And programs developed on the smallest member of the DECsystem-10 or DECsystem-20 family will run on the larger systems in those families.

This compatibility is true not only system to system, but across generations. Programs written on Digital's computers made in 1965 will still run on their modern day counterparts. In other words, software investments on Digital systems are protected and can be built upon, an increasingly important benefit as the costs of software development continue to rise.

Another important objective has been to make Digital's computers easy to use. Key to meeting this objective is the design of the operating system software, the basic programs that run computers. Digital pioneered in the development of interactive operating systems that made computers easier to use, so that more people could take advantage of them without the need to be supported by huge operat-

When Boeing Commercial Airplane Company develops new aircraft, or works on existing programs, our PDP-11 computers perform much of the data analysis work. The new Boeing 757, for example, now in the final stages of mockup, has undergone extensive computer-aided data analysis by Boeing's Interactive Graphics Data Analysis (IGDA) Systems. Those PDP-11/70-based systems analyze wind tunnel, structural and flight test data gathered throughout the development process.

ing staffs. Digital continues to lead in this area with software that has become easy to use in every respect. It is easy to develop, easy to implement, easy to convert, and easy to operate.

Finally, in the design stage of new products and throughout the continuing development of existing ones, Digital seeks to design and build in features that will make hardware inherently more reliable, as well as easier and less costly to maintain. Digital's leadership in remote diagnostics is available through centers in Colorado, the United Kingdom and France to customers using the VAX-11/780 and PDP-11/70 systems and the new PDP-11/44 computer.

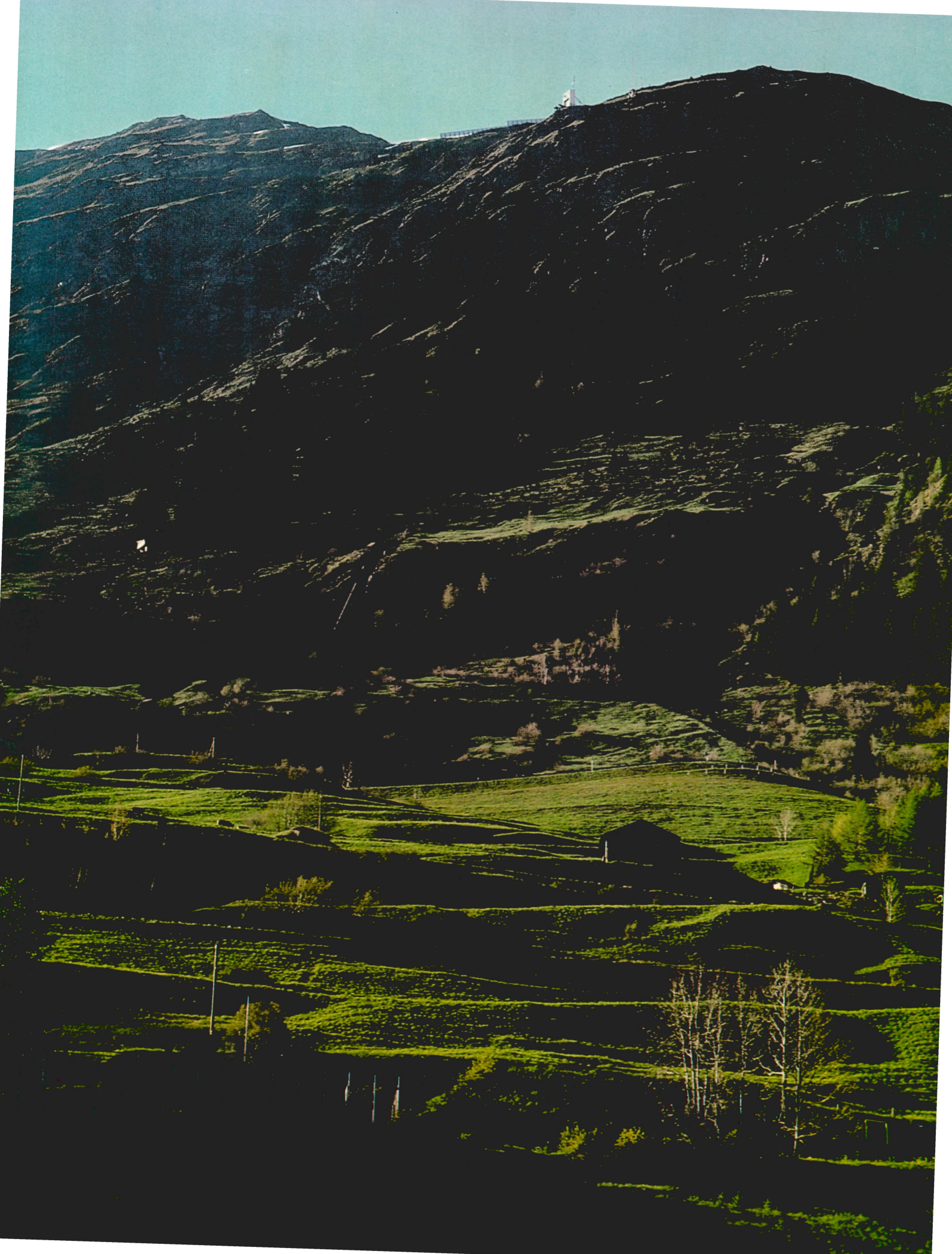
3. *Integration and control of computer resources.* Each year has brought more widespread use of smaller, more powerful computers in new and different ways throughout our customers' organizations.

The basic adaptability and software compatibility of Digital's computer families give customers an advantage in integrating programming, training, and maintenance throughout their companies. And Digital's advanced networking and communications products provide the final measure of control necessary in today's integrated information processing environment.

For example, a set of easy-to-use networking software tools called DECnet permits communication among virtually all of Digital's computer systems, irrespective of the software operating systems under which they run. It permits the sharing of resources and capabilities between systems under a range of control options.

Digital Network Architecture (DNA) includes a set of protocols for controlling communications that also allow interconnection to computers made by other manufacturers and to third party carrier services. Several organizations use DECnet for linking computers made by others. With five years of field experience behind it and more than 2,500 installations, DECnet is now one of the most proven and most advanced networking software systems available.

After 12 years of construction, the Gotthard Strassen tunnel opened this September, to become the world's longest car tunnel. The ten-mile-long connection through the Swiss Alps, lets people drive from Northern to Southern Europe all year-round instead of boarding a car train eight months out of the year because of bad weather. Because of the tunnel's length, ventilation and fresh air circulation is critical, and the electrical power consumption is considerable. Brown Boveri Company; a Swiss-based multinational, installed a supervisory control system based on two PDP-11/34 computers to monitor and control the power management system and installed a third PDP-11/34 to run the roadside emergency network.



Products to Help Manage Change.

Microcomputers. Digital's family of 16-bit microcomputers includes LSI-11's on boards and PDP-11's in both rack-mountable boxes and as complete packaged systems. This year, the family was expanded on the high-end with the PDP-11V23 and PDP-11T23 packaged systems. Both are based on the powerful LSI-11/23 central processor, which offers speeds approaching those of a mid-range minicomputer, plus the ability to run the PDP-11's versatile multi-user, RSX-11M operating system. The 11V23 uses convenient flexible disk storage; the 11T23 uses higher capacity hard disks.

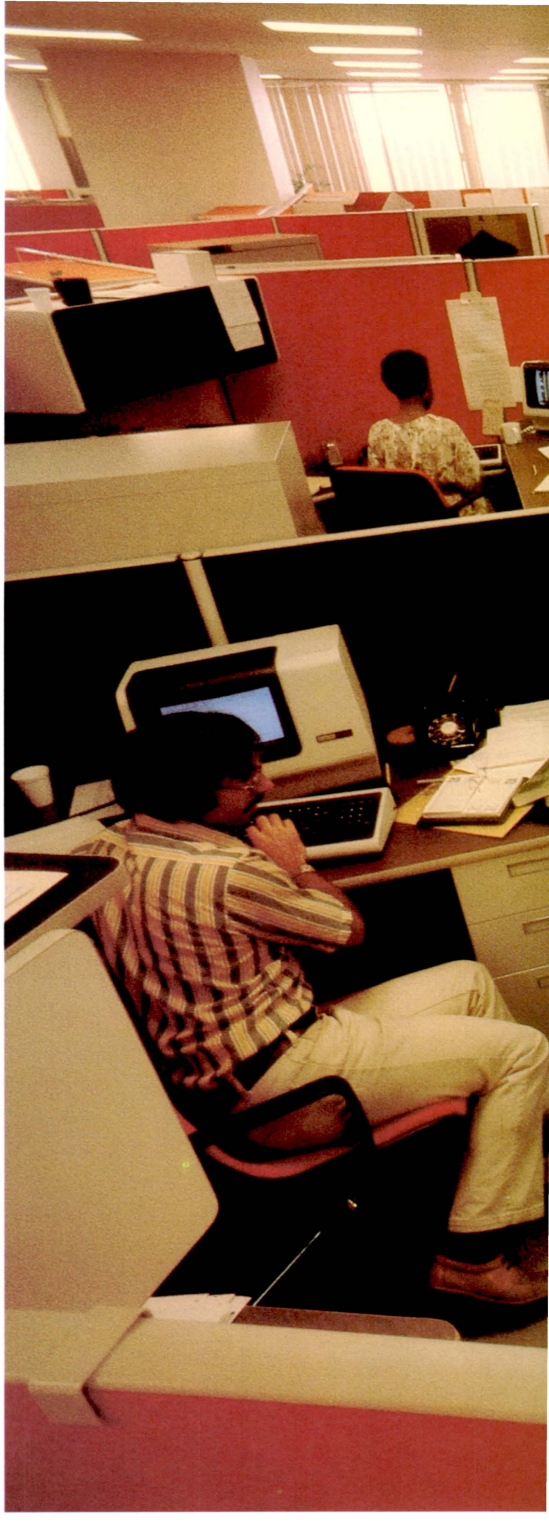
These new systems join the entry level LSI-11/2 and PDP-11/03, the first microcomputers to offer the performance and comprehensive software of a minicomputer in micro-sized packages. Both the LSI-11/2 and LSI-11/23 modules measure just 5.2" x 8.9" (13.2cm x 22.8cm) and are supported by a complete family of memory and interface modules, peripherals, terminals, and software development systems. With this product range, the LSI-11 family provides a complete systems approach to microcomputers and provides Digital with leadership in this important and fast-growing segment of the market.

The software compatibility found across the PDP-11 family permits a customer to start with an 11/23, then migrate downward to the smaller, less expensive LSI-11/2 or upward through the entire family of PDP-11 minicomputers all the way to the 32-bit VAX-11/780.

PDP-11 Family. 1980 marks the 10th anniversary of the PDP-11, the largest selling computer ever made. More than 170,000 are now in use throughout the world. During the year, the family was enhanced with several new software products and with the introduction of the fourth generation mid-range PDP-11/44. The new system gives customers twice the performance of the PDP-11/34 and provides an easy migration path to the larger, more powerful PDP-11/70.

Three new PDP-11 software products merit special note. An RSX-11M/SNA Emulator enables PDP-11's running under the RSX-11M multi-user operating system to network with non-Digital computers using the Systems Network Architecture (SNA) protocol. This permits PDP-11's to exchange data with large non-Digital hosts, allowing the network to take full advantage of PDP-11 system features.

An enhanced DATATRIEVE package, for use with RMS-11 record management software, improves report generation efficiency for both novice and experienced users.



In the past year our 32-bit VAX-11/780 has gained wide acceptance in commercial markets, particularly where communication and computer interaction are important. Commercial Union Insurance in Boston, Massachusetts, for example, uses two VAX-11/780 computers as part of a communication network that links minicomputers and terminals at independent agents' offices to the Boston corporate headquarters. This agency automation program allows independent agents to produce quotations and issue policies which are then transmitted to the VAX at the home office for monitoring. Commercial Union also uses VAXs and PDP-11s linked with DECnet for in-house timesharing and word processing.

And the new DPM/Plus software improves throughput for Distributed Plant Management systems running under the RSX-11M Plus operating system.

PDP-11 *based* DEC *Datasystem*. The DEC Datasystem family of PDP-11 computers which are optimized for business applications was enriched with new hardware and software offerings. On the low-end, Digital introduced the DEC Datasystem 333 and 335, which incorporate the high speed LSI-11/23 processor. These systems bring a new standard of price-performance to low-cost business systems intended for either stand-alone or distributed applications. To these was added the DEC Datasystem 540, whose PDP-11/44 processor creates a high performance business system at a mid-range price.

LSI-11 *based* MINC *systems*. Digital's MINC (for Modular Instrument Computer) is a compact, low-cost, roll-around system specifically designed for laboratory researchers who are not computer experts. During the year, this popular system was extended both upward and downward into a complete family. The new MiniMINC Desktop Computer System can process data gathered by standard MINC systems, or run programs of its own. The new MINC 23 extends capabilities upwards for researchers who require greater speed and higher memory capacity than are available in the smaller version. In addition, MINC NFT software can link MINC systems into a network of Digital computers running DECnet software.

VAX-11/780. Within months of its introduction in 1977, Digital's large and powerful VAX-11/780 computer system had become the standard of excellence by which scientific computers costing less than $250,000 are measured. During the past year, the 11/780 also gained acceptance among commercial users.

The unique VAX-11 architecture has two distinctive features which contribute to its popularity.

First, VAX's true 32-bit word length and virtual addressing allow an extremely large address space of four billion bytes. This not only permits VAX computers to run very large applications, but also increases programmer productivity, thereby reducing software development costs. With such large address space available to the user, programs can be developed far more easily and quickly than with computers of smaller capacity.

Second, VAX/VMS operating system software was designed as an integral part of the system, with much of the software functionality resident in the hardware. The VAX's rich instruction set can be implemented over a wide range of sys-

The Goodyear blimp hovering over the Houston Astrodome or other local public event, is one of four lighter-than-air ships owned by The Goodyear Tire & Rubber Company. Their airship "America" based in Spring, Texas, has an onboard PDP-11/03 microcomputer to animate the ship's four-color sign. When the America is not covering sporting events, it is making nightly flights over downtown Houston displaying public service and advertising messages. The on-board microcomputer can run a combination of 150 animation and design motifs, and typically goes through 50 or more different messages each night. The lighted signs on each side of the ship measure 25 x 105 feet; each sign contains 3,780 lamps making up the four-color display. Flying at an altitude of 1500 feet and reaching airspeeds of 35 mph, the Goodyear blimp fleet makes appearances at many public events around the world.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tem sizes, both larger and smaller than the original 11/780.

This year also saw the introduction of an enhanced version of the VAX/VMS operating system software, featuring broadened capabilities of the basic operating system, a new high-speed version of COBOL, plus new native mode language compilers for BASIC, FORTRAN, CORAL 66, and PASCAL. These new computer languages, optimized for the inherent performance capabilities of the VAX processor, extend the 11/780's usefulness to many more new applications, particularly among commercial users.

DEC*net Networking Software*. Fiscal 1980 saw the introduction of DECnet Phase III. This latest version of DECnet software brings significant new capabilities to customers networking Digital Equipment Corporation computers. These capabilities include: automatic routing of messages between non-adjacent modes; command access to remote systems from a terminal; the option of either fully distributed or centralized network management; and communications support for multipoint lines. DECnet Phase III is the most advanced networking software currently available and is proving extremely useful in a wide variety of commercial and technical distributed data processing applications.

DEC*system*-10 *and* DECSYSTEM-20 *Families*. Supported by over 15 years of software development, Digital's 36-bit large interactive computers continue to enjoy widespread use in high-end general purpose and timesharing applications involving large numbers of users. Both families now run both TOPS-10 and TOPS-20 operating systems, extending software compatibility benefits even further.

Terminals and Peripherals. Following the success of the DECwriter II teleprinter and VT100 video terminal, which established new industry standards, Digital has continued to introduce new terminal products. The VSV11-VS11 Color Graphics Terminals are Digital's first entry into that segment of the market. And the new VT103 has space for the LSI-11/2 or LSI-11/23 microcomputers so that users can develop specialized table-top computer systems.

In peripherals, Digital continued to lower the cost-per-bit of mass storage with the new 10.4 megabyte RL02 hard disk system. And the TS11 tape subsystem, with built-in microprocessor, permits greater system efficiency over standard tape drives.

The Mayo Clinic in Rochester, Minnesota is a world renowned medical care and research facility involved in many areas of human health. Their Thorasic Disease Research Unit, studies lung-related problems with special emphasis on the mechanics of the lung such as volume, air flow, gas pressure and diffusion. Here, in a simulated research project, the "patient" is placed in a sealed chamber where his breathing is monitored, and the data fed through a DECnet communication link to a PDP-11/70 computer for analysis and storage. The Mayo Clinic also uses a PDP-11/34 computer as part of its Regional Pulmonary Function Program that lets 33 remote facilities in hospitals around Minnesota and neighboring states perform lung tests locally under Mayo Clinic supervision.

Services to Meet the Growing Needs of Customers.

Digital feels that Customer Service begins even before a prospect becomes a customer. Our customer support organizations in the field are therefore structured into account teams, headed by an account manager, joined by specialists in hardware, software, maintenance, installation, and training. Pre-sale support has become increasingly important as more and more customers look at comprehensive long term distributed processing strategies requiring comprehensive, cost-effective solutions.

These services can be purchased in a wide variety of ways. Because our customers are in many different kinds of applications with widely varying needs, we offer everything from per-call service to around-the-clock contracts with on-site support. During the year, we significantly expanded our ability to service terminals and small systems through the use of terminals specialists and mobile stockrooms dispatched from more than 180 locations around the world.

Software Services. During the year, Digital's Software Services organization was expanded significantly throughout the world. A North American Telephone Support Center was opened at Colorado Springs, Colorado and a similar facility, Digital's first outside the United States, was established at Basingstoke, United Kingdom, to serve the company's fast-growing European customer base. These centers, together with the hundreds of software applications specialists deployed worldwide, make Digital an industry leader in post-warranty customer services for software.

At the close of the fiscal year, there were over 14,000 people engaged in Customer Service activities in more than 400 locations worldwide.

Customer Satisfaction Survey. The most important measure of the quality of Digital's services is made by the customers themselves. Each year for the past ten years, we have sent out our Comprehensive Customer Satisfaction Survey to all customers with hardware service contracts, and to most of our per-call customers. This survey was expanded during the year to include Software Services customers as well.

Alfa Romeo, the Italian automaker, has been building fine motorcars since the early 1900's. At its Arese factory outside Milan, much of the engine testing and practical development work is performed by Alfa Romeo specialists in conjunction with one of our Distributed Plant Management systems. That computer links engine test labs to dual PDP-11/34 computers that record test results and log data for further analysis at corporate headquarters. Each prototype engine undergoes vigorous endurance testing and overall performance both in the lab and over the road before it goes into mass production.


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These survey results provide an important benchmark overall. Each individual questionnaire helps us to maintain service at a consistently high level for each individual customer.

For fiscal 1980, Digital's scores in this customer survey increased over those of the previous year; our goal here is to make them even higher.

Continued Leadership in Remote Diagnostics. Digital now has Remote Diagnostic Centers in three locations worldwide. Remote diagnosis capability is available to all customers using PDP-11/44, PDP-11/70, and VAX-11/780 computers. With Remote Diagnosis, Digital can respond within 15 minutes of receiving notification by the customer to initiation of the diagnosis at the Center. The Center is equipped with PDP-11/70 computers that rapidly and comprehensively check out the computer at the customer site.

More than 3,000 customers used Remote Diagnostics during the year, more than double last year's coverage, and we expect to continue to expand this advanced service significantly in the future.

Remote Diagnosis provides faster response time and shorter repair efforts by dispatching specialists with the appropriate skills and parts for the diagnosed problem. The service is also being used to run preventative diagnostic sessions at installations during off hours.

Originally developed to improve hardware uptime, the Remote Diagnostic Centers now have the ability to handle warranty and contract services for software customers, including operating systems, programming languages, and utility packages.

Remote Diagnosis is available 24 hours a day, 7 days a week, and our objective is to offer this advanced technology with other Digital products, as appropriate.

Educational Services. Customer training continues to be a vital component of Digital's service offerings. Since Digital's purpose has always been to bring the power of computers closer and closer to more and more people, our customer training capabilities have been constantly expanded and refined.

Digital now operates 23 Customer Training Centers around the world where people can learn everything from how to program a computer to how to fix one. The Educational Services organization is headquartered in Bedford, Massachusetts. Other centers are located in Maynard, Mass.; San Francisco,

Digital's VAX-11/780 computer, with its capability to run very large programs, has become a standard for scientific computation and computer-aided design. Sony Corporation's plant in Atsugi, Japan, designs and builds over 400 different types of semiconductor chips including integrated circuits and large-scale integration (LSI) products for Sony's range of consumer and professional products. Much of the design work for the tiny chips is carried out on a 32-bit VAX-11/780 that is linked to company headquarters in Tokyo with our DECnet networking software.

Los Angeles, Chicago, Washington, D.C., Dallas, and New York City. Centers outside the United States are located in Paris, Munich, Milan, Tokyo, Madrid, and Zurich; also Utrecht, Netherlands; Solna, Sweden; Reading, United Kingdom; Kanata (Ottawa), Canada; and Sydney, Australia.

During the year 550 instructors taught more than 300 different courses in 17 languages to over 50,000 customer personnel. Resources include more than 500 computer systems to provide hands-on learning for students. During the past year, Digital's Customer Training organization delivered more than 2.7 million student hours of instruction, the equivalent of a 6000-student university.

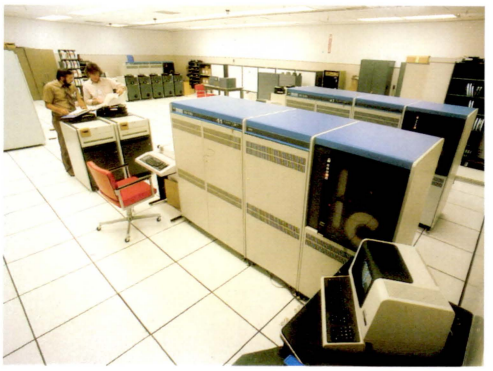
In addition, Digital's 26 Retail Computer Stores provide training designed to introduce operators of small businesses to the use of small computers and word processing systems.

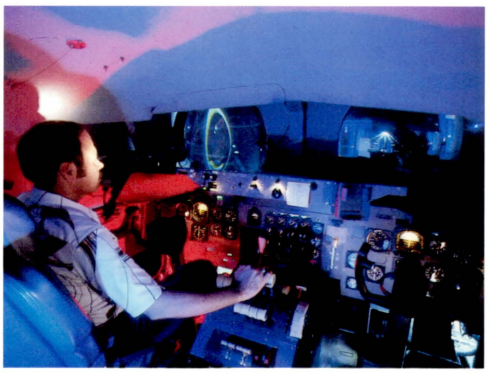
Digital also offers training through individualized self-paced courses using workbooks, cassette tapes, and audio/visual aids, as well as courses conducted on site at customer facilities.

And to ensure the ability of our Customer Services organizations to meet the burgeoning needs of Digital's customers, 600 managers from the groups attended more than 1600 student weeks of management education during the year.

DECUS. All Digital customers are invited to join DECUS, with 36,000 members, the largest and most active computer users' society in the industry. DECUS issues papers, supports publications, provides a forum for the exchange of ideas, and holds meetings at which Digital people actively participate. It also makes available to its members a software library containing more than 1700 active programs.

Computer Special Systems. For those customers whose needs are not met by standard Digital systems, the company also maintains Computer Special Systems facilities in the United States, Canada, England, Germany, France, Sweden, Japan, and Australia. These centers are dedicated to designing and building custom hardware and software for specialized applications. They also provide programming services, systems engineering and project management.





Wind tunnel testing for many of National Aeronautics and Space Administration's (NASA) prototype aircraft is carried out at their Ames Research Center near Mountain View, California. Here, in the 40 x 80 foot wind tunnel, NASA technicians prepare the scale model of a new jet aircraft for simulated flight. Sensors in the support mechanism measure pressure, temperature and air flow dynamics and feed that data to a bank of PDP-11 and VAX-11/780 computers. Other VAX computers at Ames are networked into research applications such as computational fluid dynamics, structural analysis and life sciences involving manned flight.


NASA

Responsive Marketing Channels.

Digital sells its products through a variety of distribution channels: directly to end-users, through Original Equipment Manufacturers (OEMs) and Authorized Distributors, through a catalog, and through retail stores.

Direct Sales to End Users. Principal markets served by direct selling efforts include: Telephone and Utility Industries; Laboratories; Medical and Educational Institutions; Governments; Engineering, Manufacturing, Banking, Insurance and Transportation industries.

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

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

The range of markets and applications covered by Digital OEMs is far broader than the markets served directly by the company. In most cases, they are highly specialized markets, understood in fine detail by the OEM. Some of the more prominent ones are: Electronic Test Equipment; Communications Equipment; Navigation and Guidance Equipment; Process Control Equipment; Energy Exploration Equipment; Medical Apparatus; Sensing Devices; Heavy Equipment; Industrial Systems; Simulation Equipment; Commercial Business Packages; Industry-Specific Business Packages; and Scientific and Engineering Packages.

Selling Through Authorized Distributors. Two years ago, Digital took a significant step to ensure even higher levels of service and sales support for commercial customers by offering existing Digital OEMs an opportunity to become Authorized Digital Computer Distributors. We will grant permission to use a special Distributor logo, and participate in cooperative advertising

During the summer months, Carnegie-Mellon University in Pittsburgh, Pennsylvania holds classes for young people who have demonstrated special abilities with computers. One such program is a six-week class for gifted seventh graders that combines classroom training in computer science with hands-on experience in the computer lab. Linked to one of three DECSYSTEM-2060 computers in the computation center, the keyboard and video terminals give the young students timeshared access for programming and other computer tasks. Carnegie-Mellon is known for its Computer Science Department and the diversity of undergraduate computer courses. Much of the computing power is provided by our DECsystem-10, DECSYSTEM-20 and VAX-11/780 computers.


B2
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with those OEMs whose eligibility has been determined through a stringent certification process. Distributors appointed to date represent a diverse geographical and specialty cross-section within the commercial market.

Selling Through Retail Stores and Catalog. Digital opened its first retail computer store in July 1978 in the Mall of New Hampshire at Manchester to test the concept of selling word processing systems and small computer systems to small businesses. Encouraged by the initial success of this pilot operation, Digital has since opened 26 retail outlets in 24 major metropolitan areas.

The objective of these stores is to sell small systems with standard software to businesses that require such products. Customer's with non-standard requirements are referred to the appropriate Commercial OEM or Authorized Distributor.

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

Digital's Commitments to People.

While Digital Equipment Corporation cannot be all things to all people, the company nevertheless recognizes that it has important obligations to many people. Customers expect us to be a reliable supplier of high quality products and services. Shareholders expect us to work hard to make their investments grow. The Company's progress in meeting these commitments is discussed elsewhere in this report. Here, we will discuss some of the ways in which Digital strives to meet its commitments to its employees and to the outside world, particularly in those communities where the Company maintains facilities and where it is expected to be a thoughtful neighbor and a responsible citizen.

Digital meets its primary obligation to the community by providing challenging and rewarding jobs in an environment which encourages people to learn and grow. The Company is also committed to making it easier for more people to secure these jobs by locating some of its facilities in city neighborhoods.

During Fiscal 1980, Digital opened a manufacturing plant in Boston which will provide meaningful jobs for 600 city residents.

CN Marine's Atlantic Ferry Fleet of 33 owned and chartered vessels, sails a million miles a year and carried nearly two and a quarter million passengers last year among Canada's four Atlantic provinces and across the Gulf of Maine. Ships in the fleet carry auto and truck traffic as well as general cargo and rail cars. A DEC Datasystem 573 at CN Marine headquarters in Moncton, New Brunswick, records many of the operational aspects of their business, to produce statistical reports, both for the company and for the Canadian Government.

A $9 million expansion of our plant in Springfield, Mass. will add 200 new jobs, bringing total employment there to more than 1000.

To support the goal of making good jobs available to more people, Digital is involved in a number of training programs in cooperation with public educational institutions and private agencies to which Digital provides curriculum materials and teaching aids which have been developed by our Educational Services organization. The goal here is to create new learning resources through which more people can acquire the technical skills required to secure productive and satisfying jobs that offer opportunities for advancement.

Digital's Corporate Contributions program provided gifts valued at almost $6 million to scores of local, regional and national organizations serving the needs of thousands of people. Included were scholarships to 113 college bound high school seniors in Digital communities, assistance to several important minority education programs, support of technical education and research activities and a long list of other programs serving the needs of large segments of the community through schools, hospitals and clinics, public service agencies, cultural organizations and civic groups. The company also matched dollar-for-dollar the personal gifts of individual employees to these organizations.

Credit for Digital's progress to date must go directly to the 55,000 individuals who comprise the company's employee population worldwide, for it is their hard work and dedication to the pursuit of our goal of quality that make them Digital's most valuable resources.

Digital strives to recognize their contributions by providing programs designed to enhance their effectiveness in the overall organization and to promote their individual development as well.

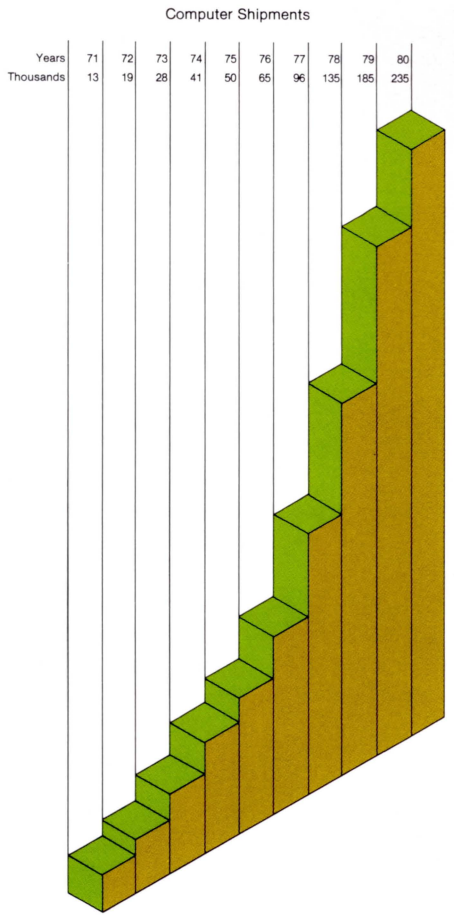
Making certain that all employees have equal opportunities for hiring and advancement is a serious commitment and Digital continues to actively pursue affirmative action programs to attract and develop minority and female employees at all levels.

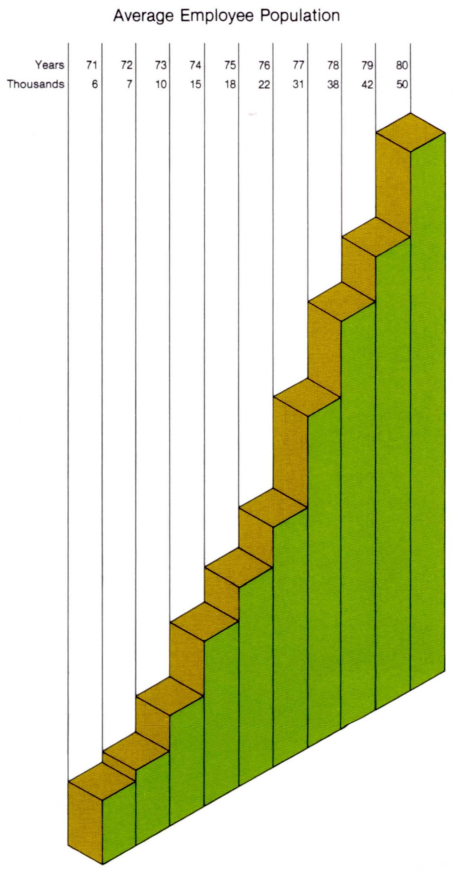
A comprehensive in-company program of continuing education offers individual courses, high school equivalency and University level courses leading to degrees. Opportunities are also available for employees to pursue further education through company-sponsored programs at scores of colleges and universities. In both cases, the goal is to encourage employees to increase their job-related knowledge and broaden their personal skills and experiences.

Tuition refunds, student loans (which are also available to dependents of employees) and scholarships are offered to encourage employees to participate in programs of continuing education.

As the use of Digital's products continues to grow around the world, the company will continue to expand its organization. Thus, Digital is committed to ensure that the jobs it creates are useful and challenging and the environment in which our people work is attractive and enjoyable.

By meeting commitments to its employees, Digital strengthens its ability to meet its commitments to customers, investors and the community.





DIGITAL EQUIPMENT CORPORATION
FINANCIAL STATEMENTS

Ten Year Financial Summary

Operations (In Millions except per share data)	**1980**	1979	1978
Revenues			
Equipment sales	**$1,779.4**	$1,381.8	$1,128.1
Service and other revenues	**588.6**	422.3	308.5
Total Operating Revenues	**2,368.0**	1,804.1	1,436.6
Costs and Expenses			
Cost of equipment sales, service and other revenues	**1,319.9**	1,012.3	802.3
Research and engineering expenses	**186.4**	138.3	115.7
Selling, general and administrative expenses	**478.9**	370.1	281.0
Interest expense (income), net	**(26.8)**	(11.5)	10.1
Total Costs and Expenses	**1,958.4**	1,509.2	1,209.1
Income Before Income Taxes	**409.6**	294.9	227.5
Income Taxes	**159.7**	116.5	85.3
Net Income	**$ 249.9**	$ 178.4	$ 142.2
Net Income Per Share[1]	**$ 5.45**	$ 4.10	$ 3.40
Weighted average number of shares outstanding during each year	**47.2**	44.9	43.2
Financial Position (In Millions of dollars except per share data)			
Inventories	**819.9**	513.5	428.1
Accounts receivable, net of allowances	**629.1**	475.1	375.2
Working capital	**1,658.2**	1,076.9	887.0
Property, plant and equipment, at cost	**772.3**	582.1	507.8
Total assets	**2,666.1**	1,863.2	1,501.4
Long-term debt	**489.7**	340.7	341.6
Stockholders' equity	**1,651.7**	1,120.2	904.8
Stockholders' equity per share	**$ 36.25**	$ 27.59	$ 22.69
General Information and Ratios (Dollars in Millions)			
Current ratio	**4.5:1**	3.8:1	4.7:1
Additions to property, plant and equipment	**$ 209.9**	$ 93.9	$ 167.0
Depreciation	**$ 69.8**	$ 57.7	$ 50.2
Income before income taxes as a percentage of total operating revenues	**17.3%**	16.4%	15.8%
Net income as a percentage of average stockholders' equity	**18.0%**	17.6%	17.3%
Net income as a percentage of average total assets	**11.0%**	10.6%	11.1%
Average number of employees for year	**50,000**	41,500	37,500
Revenues per average number of employees (in thousands)	**$ 47.4**	$ 43.5	$ 38.3
Common shares outstanding (in thousands)	**45,568**	40,606	39,873
Shareholders at year-end	**35,144**	28,835	25,868

[1]See Note E of Notes to Consolidated Financial Statements.

1977	1976	1975	1974	1973	1972	1971
$ 847.5	$ 586.7	$ 433.2	$ 360.8	$ 229.1	$ 166.3	$ 133.0
211.1	149.6	100.6	61.1	36.4	21.3	13.8
1,058.6	736.3	533.8	421.9	265.5	187.6	146.8
595.1	424.3	301.2	233.6	146.8	101.3	78.3
79.7	58.4	48.5	36.6	25.0	20.1	16.7
205.9	136.1	109.3	83.8	55.6	40.5	33.6
1.5	(1.9)	1.2	(1.0)	(.5)	(.1)	(.3)
882.2	616.9	460.2	353.0	226.9	161.8	128.3
176.4	119.4	73.6	68.9	38.6	25.8	18.5
67.9	46.0	27.6	24.5	15.1	10.5	7.9
$ 108.5	$ 73.4	$ 46.0	$ 44.4	$ 23.5	$ 15.3	$ 10.6
$ 2.78	$ 1.98	$ 1.28	$ 1.27	$ .72	$ .50	$ .35
39.0	37.1	35.9	35.1	32.6	30.8	30.1
375.0	218.8	174.8	137.4	102.7	62.1	44.4
323.1	219.3	165.0	144.6	107.2	68.4	49.9
574.2	499.0	333.2	238.6	152.7	87.2	86.6
352.4	215.8	167.6	127.4	83.9	58.9	37.0
1,070.4	856.0	565.1	440.3	287.4	192.4	150.1
90.6	91.4	85.2	10.6	—	—	—
735.5	606.0	394.4	339.6	223.5	144.8	125.9
$ 18.73	$ 15.61	$ 10.94	$ 9.49	$ 6.73	$ 4.67	$ 4.10
3.5:1	4.3:1	5.2:1	3.8:1	3.4:1	2.8:1	4.6:1
$ 143.2	$ 54.5	$ 45.9	$ 50.1	$ 31.8	$ 27.7	$ 18.4
$ 28.5	$ 22.0	$ 16.9	$ 12.4	$ 8.0	$ 5.1	$ 2.9
16.7%	16.2%	13.8%	16.3%	14.5%	13.8%	12.6%
16.2%	14.7%	12.5%	15.8%	12.8%	11.3%	10.5%
11.3%	10.3%	9.2%	12.2%	9.8%	8.9%	8.0%
30,500	22,000	18,300	15,300	10,400	7,000	6,000
$ 34.7	$ 33.5	$ 29.2	$ 27.6	$ 25.5	$ 26.8	$ 24.5
39,259	12,944	12,022	11,932	11,079	10,343	10,239
22,738	15,442	15,033	14,393	14,226	15,430	7,420

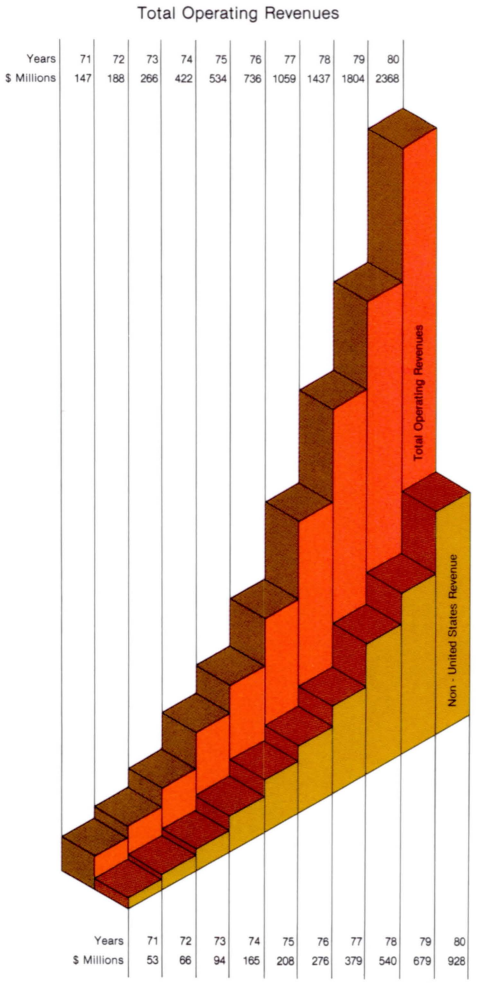
Management's Discussion and Analysis of Operations

As an aid to understanding the Company's operating results, the following tables indicate the percentage relationships of income and expense items included in the Consolidated Summary of Operations for the three fiscal years ended June 28, 1980 and the percentage changes in those items for such years.

Income and Expense Items as a Percentage of Total Operating Revenues				Percentage Increase		
1978	1979	**1980**	Income and Expense Items	**1979 to 1980**	1978 to 1979	1977 to 1978
78.5%	76.6%	**75.1%**	Equipment sales	**29%**	22%	33%
21.5%	23.4%	**24.9%**	Service and other revenues	**39%**	37%	46%
100.0%	100.0%	**100.0%**	Total operating revenues	**31%**	26%	36%
55.8%	56.1%	**55.7%**	Cost of sales, service and other revenues	**30%**	26%	35%
8.1%	7.7%	**7.9%**	Research and engineering expenses	**35%**	20%	45%
19.6%	20.5%	**20.2%**	Selling, general and administrative expenses	**29%**	32%	36%
1.6%	1.3%	**1.1%**	Interest expense	**11%**	8%	91%
(.9%)	(2.0%)	**(2.2%)**	Interest income	**51%**	192%	20%
84.2%	83.6%	**82.7%**	Total costs and expenses	**30%**	25%	37%
15.8%	16.4%	**17.3%**	Income before income taxes	**39%**	30%	29%
5.9%	6.5%	**6.7%**	Income taxes	**37%**	37%	26%
9.9%	9.9%	**10.6%**	Net income	**40%**	25%	31%

Revenues

Total operating revenues for fiscal 1980 were $2.368 billion, a 31% increase over the $1.804 billion reported for fiscal 1979. Equipment sales in fiscal 1980 were $1.779 billion, an increase of 29% over fiscal 1979 equipment sales of $1.382 billion. The 29% rate of increase in equipment sales was 7% more than the comparable fiscal 1979 growth rate of 22%. Service and other revenues, which includes maintenance service, software revenues, replacement parts, and, to a minor extent, equipment rentals, were $588.6 million in fiscal 1980, a 39% increase over fiscal 1979 revenues of $422.3 million. The 39% growth rate was 2% more than the corresponding fiscal 1979 growth rate of 37%. The higher rate of increase of both equipment sales and service and other revenues experienced by the Company in fiscal 1980 was due to strong customer order rates experienced throughout the fiscal year both in the United States and internationally. This strong customer demand extended to both older and newer products.



International Operations

Sales to customers outside the United States, including export shipments from the United States, were $928.3 million in fiscal 1980 compared to $679.4 million in fiscal 1979, an increase of 37%. These sales constituted 39% of total operating revenues in fiscal 1980 compared to 38% in fiscal 1979. The increase in international sales in fiscal 1980 reflects continued product demand, growth of the Company's international sales and service organizations, and, in part, the favorable effect of strengthened foreign currencies on the U.S. dollar reported revenues. Additional information on the Company's international operations is included in Notes A and B of Notes to the Consolidated Financial Statements.

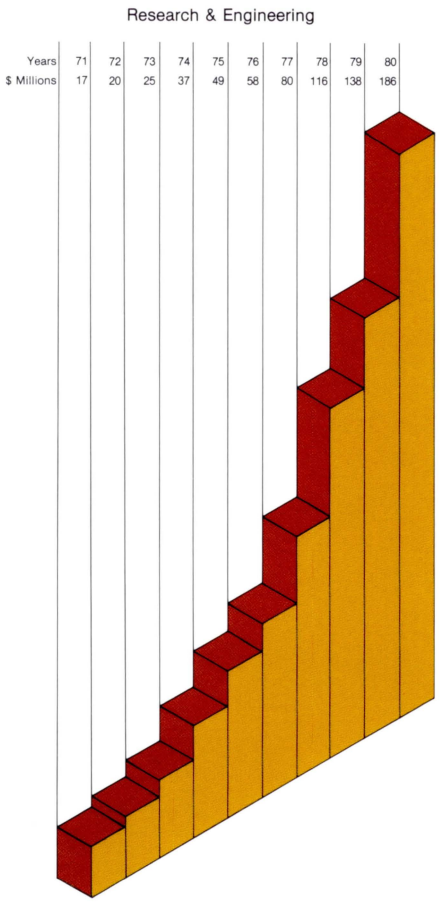
Expenses

The Company's gross profit margin increased slightly from 43.9% in fiscal 1979 to 44.3% in fiscal 1980 due to increased manufacturing productivity partially offset by higher customer training and field service costs.

Research and engineering expenses increased 35% from $138.3 million in fiscal 1979 to $186.4 million in fiscal 1980. This increase is consistent with the Company's continued investment in new product development.

Selling, general and administrative expenses increased 29% in fiscal 1980. This increase reflects, primarily, substantial additions to the Company's sales organization and increased selling and marketing expenses. As a percentage of total operating revenues, selling, general and administrative expenses were 20.2% in fiscal 1980 and 20.5% in fiscal 1979.

Interest expense increased 11% in fiscal 1980 as a result of the interest on the $400 million 8⅞% Convertible Subordinated Debentures issued on April 1, 1980, offset by a reduction in interest expense due to the conversion, in the third quarter of fiscal 1980, of the Company's 4½% Convertible Subordinated Debentures. Interest income increased 51% due to the increase in funds available for investment and higher prevailing interest rates.

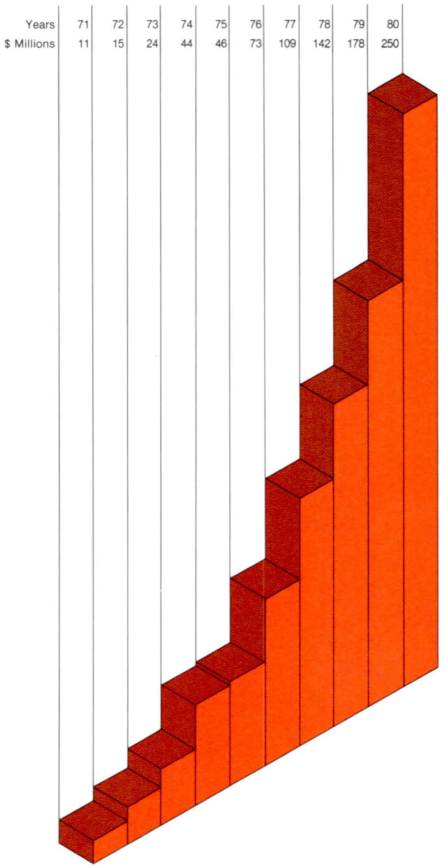


Income

Income before income taxes increased to $409.6 million in fiscal 1980 from $294.9 million in fiscal 1979 and was 17.3% of total operating revenues in fiscal 1980 compared to 16.4% in fiscal 1979. Income before income taxes increased 39% in fiscal 1980, compared to 30% in fiscal 1979. These changes are reflective of the revenue and expense changes discussed above.

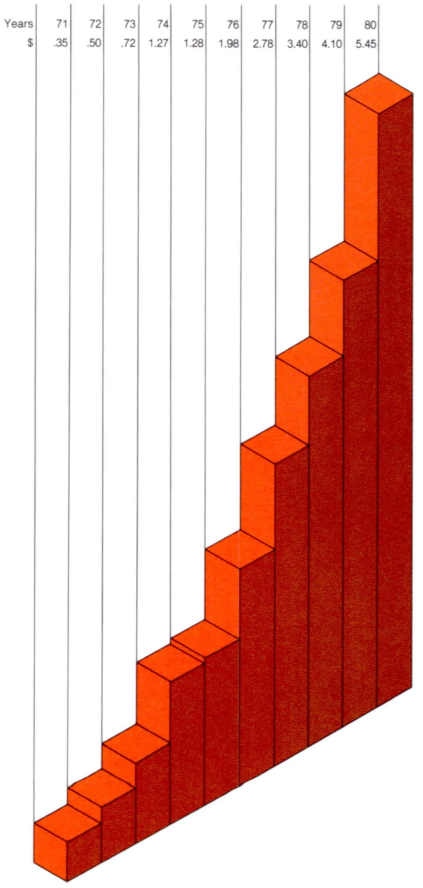
Net income increased 40% in fiscal 1980 compared to 25% in fiscal 1979. In fiscal 1980 after-tax income increased slightly more than pre-tax income (40% compared to 39%) because the Company's effective tax rate decreased to 39% in fiscal 1980 from 39.5% the preceding year.

Net Income



Net income per share for fiscal 1980 was $5.45, a 33% increase over the $4.10 in fiscal 1979. This 33% increase is less than the 40% increase in net income for fiscal 1980 due to the common stock equivalents attributable to the 8⅞% Convertible Subordinated Debentures.

Net Income Per Common Share



Financial Position

The Company continued to strengthen its financial position in fiscal 1980. Cash and temporary cash investments increased $183.3 million to $616.3 million at the end of fiscal 1980.

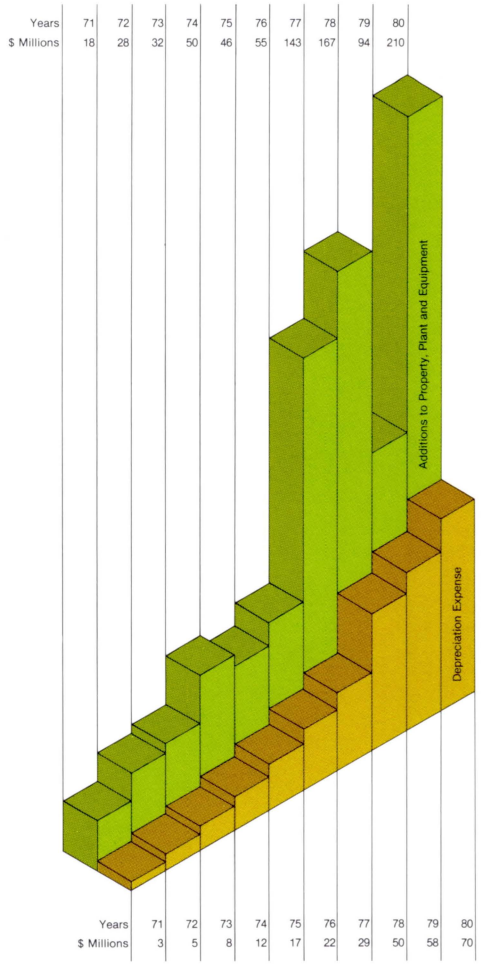
Working capital rose $581.3 million in fiscal 1980 to $1,658.2 million. Accounts receivable increased $154.0 million from $475.1 to $629.1 million. The average number of days sales outstanding (accounts receivable divided by fourth quarter operating revenues multiplied by 90 days) was 81 days, compared with the 82 day average last fiscal year.

Inventories at the end of fiscal 1980 were $819.9 million, up $306.4 million from the end of fiscal 1979, in response to the higher equipment sales in fiscal 1980, the anticipated increase in such sales in fiscal 1981, and the Company's efforts to improve customer satisfaction by reducing product lead times.

Additions to property, plant and equipment were $209.9 million, $116.0 million more than the preceding fiscal year. This increase reflects expansion of manufacturing and other plant and equipment capacity to meet current and anticipated demand for the Company's products and services. The major increases in plant and equipment in fiscal 1980 included machinery and equipment additions of $125.6 million and $84.3 million invested in new building construction, acquisition of land and improvements to leased facilities.

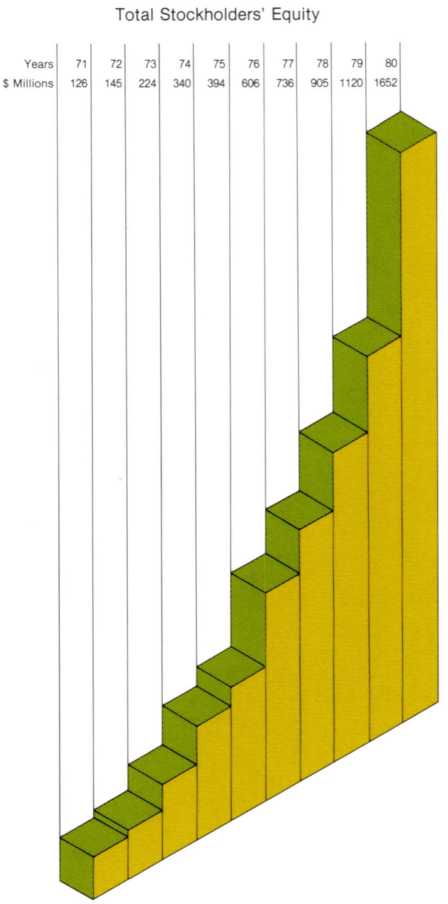
Long term debt increased by $149.0 million reflecting the conversion of the $250 million 4½% Convertible Subordinated Debentures into shares of common stock and the issuance of $400 million 8⅞% Convertible Subordinated Debentures.

Additions to Property, Plant and Equipment & Depreciation Expense



Stockholders' Equity

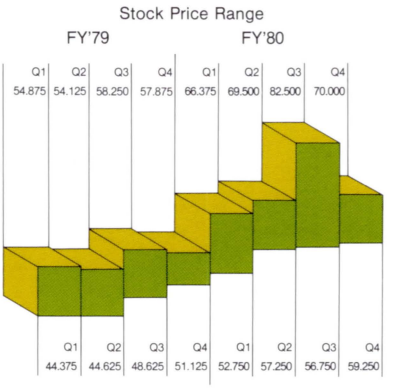
Stockholders equity rose to $1,651.7 million in fiscal 1980, an increase of $531.5 million. Return on average stockholders' equity was 18.0 percent versus 17.6 percent last year. Stockholders' equity per share was $36.25 versus $27.59 in 1979.



Common Stock Prices

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

	1980		1979	
Quarter:	**High**	**Low**	High	Low
First	**$66.375**	**$52.750**	$54.875	$44.375
Second	**69.500**	**57.250**	54.125	44.625
Third	**82.500**	**56.750**	58.250	48.625
Fourth	**70.000**	**59.250**	57.875	51.125



Report of Management

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

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

The Board of Directors, through its Audit Committee, is responsible for determining that management fulfills its responsibility with respect to the Company's financial statements and the system of internal accounting controls. The Audit Committee meets periodically with representatives of management, the independent accountants and the Company's internal auditors to review audits, financial reporting, and internal control matters. The independent accountants and the internal auditors have full and free access to the Audit Committee and periodically meet privately with the Audit Committee.

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

Kenneth H. Olsen
President

Alfred M. Bertocchi
Vice President, Finance and Administration

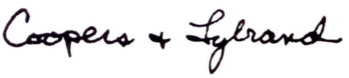
Report of Independent Certified Public Accountants

To The Stockholders and Directors, Digital Equipment Corporation

We have examined the consolidated balance sheets of Digital Equipment Corporation as at June 28, 1980 and June 30, 1979 and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Digital Equipment Corporation as at June 28, 1980 and June 30, 1979, and 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 5, 1980



COOPERS & LYBRAND

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

	Year Ended	
	June 28, 1980	June 30, 1979
Revenues (Notes A and B)		
Equipment sales	**$1,779,466**	$1,381,756
Service and other revenues	**588,579**	422,336
Total operating revenues	**2,368,045**	1,804,092
Costs and Expenses (Notes A and I)		
Cost of equipment sales, service and other revenues	**1,319,912**	1,012,257
Research and engineering expenses	**186,392**	138,266
Selling, general and administrative expenses	**478,967**	370,128
Interest expense	**26,996**	24,262
Interest income	**(53,829)**	(35,753)
Total costs and expenses	**1,958,438**	1,509,160
Income before income taxes	**409,607**	294,932
Provision for income taxes (Notes A and D)		
Federal	**116,784**	89,388
Foreign	**34,733**	18,811
State	**8,229**	8,299
Total provision for income taxes	**159,746**	116,498
Net income	**$ 249,861**	$ 178,434
Net income per share (Note E)	**$ 5.45**	$ 4.10

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

Consolidated Balance Sheets (In Thousands)

Assets	**June 28, 1980**	June 30, 1979
Current Assets		
Cash and temporary cash investments (Note C)	**$ 616,286**	$ 433,023
Accounts receivable, net of allowances of $22,151 and $18,182	**629,063**	475,067
Inventories (Note A):		
Raw materials	**199,210**	111,220
Work-in-process	**271,348**	195,424
Finished goods	**349,366**	206,886
	819,924	513,530
Prepaid expenses	**30,646**	18,871
Net deferred Federal and foreign income tax charges	**40,693**	23,480
Total Current Assets	**2,136,612**	1,463,971
Property, Plant and Equipment, at cost (Note A)		
Land	**38,261**	31,738
Buildings	**254,609**	191,895
Leasehold improvements	**45,783**	31,106
Machinery and equipment	**433,660**	327,342
	772,313	582,081
Less accumulated depreciation	**242,857**	182,872
	529,456	399,209
Total Assets	**$2,666,068**	$1,863,180
Liabilities and Stockholders' Equity		
Current Liabilities		
Loans payable to banks (Note F)	**$ 7,555**	$ 11,992
Accounts payable	**103,104**	86,839
Federal, foreign and state income taxes	**153,518**	129,621
Salaries, wages and related items	**85,925**	65,963
Deferred revenues and customer advances (Note A)	**69,770**	57,083
Current portion of long-term debt	**1,035**	972
Other current liabilities	**57,489**	34,650
Total Current Liabilities	**478,396**	387,120
Net deferred Federal and foreign income tax credits	**46,201**	15,110
Long-term debt (Note G)	**489,722**	340,714
Stockholders' Equity (Note J)		
Common stock, $1.00 par value; authorized 120,000,000 shares; issued and outstanding 45,568,498 and 40,605,516 shares	**45,569**	40,606
Additional paid-in capital	**675,110**	398,421
Retained earnings	**931,070**	681,209
Total Stockholders' Equity	**1,651,749**	1,120,236
Total Liabilities and Stockholders' Equity	**$2,666,068**	$1,863,180

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

Consolidated Statements of Stockholders' Equity (In Thousands)

	Years Ended June 28, 1980 and June 30, 1979			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
July 1, 1978	$39,873	$362,110	$502,775	$ 904,758
Shares issued under stock option and purchase plans (Note J)	733	23,579		24,312
Restricted stock plans, charge to operations (Note J)		8,602		8,602
Stock option and purchase plans — excess Federal income tax benefits (Note J)		4,130		4,130
Net income — 1979			178,434	178,434
June 30, 1979	$40,606	$398,421	$681,209	$1,120,236
Shares issued upon conversion of 4½% debentures (Note G)	4,384	241,506		245,890
Shares issued under stock option and purchase plans (Note J)	579	21,287		21,866
Restricted stock plans, charge to operations (Note J)		9,306		9,306
Stock option and purchase plans — excess Federal income tax benefits (Note J)		4,590		4,590
Net income — 1980			249,861	249,861
June 28, 1980	$45,569	$675,110	$931,070	$1,651,749

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

Consolidated Statements of Changes in Financial Position (In Thousands)

	Year Ended	
	June 28, 1980	June 30, 1979
Funds from Operations		
Net income	**$249,861**	$178,434
Add—expenses not requiring funds in current period:		
Depreciation (Note A)	**69,809**	57,655
Disposal of property, plant and equipment (Note A)	**9,841**	12,982
Restricted stock plans—charge to operations (Note J)	**9,306**	8,602
Deferred income tax provision (Note D)	**18,468**	(11,084)
Total funds from operations	**357,285**	246,589
Funds Used to Support Operations		
Increase (decrease) in working capital:		
Accounts receivable	**153,996**	99,862
Inventories	**306,394**	85,428
Prepaid expenses	**11,775**	5,819
Accounts payable	**(16,265)**	(36,332)
Income taxes	**(23,897)**	(65,810)
Other current liabilities	**(55,551)**	(43,377)
	376,452	45,590
Additions to property, plant and equipment	**209,897**	93,911
Total funds used to support operations	**586,349**	139,501
Net increase (decrease) in funds from operations	**(229,064)**	107,088
Funds provided by Financing Sources		
Increase (decrease) in:		
Loans payable to banks (Note F)	**(4,437)**	3,170
Long-term debt (Note G)		
4½% debentures	**(249,995)**	—
8⅞% debentures	**400,000**	—
Other	**(997)**	(909)
Net increase in stockholders' equity upon conversion of 4½% debentures (Note G)	**245,890**	—
Common stock issued under stock option and purchase plans (Note J)	**21,866**	24,312
Total funds from financing sources	**412,327**	26,573
Net increase in cash and temporary cash investments	**183,263**	133,661
Cash and temporary cash investments at beginning of year	**433,023**	299,362
Cash and temporary cash investments at end of year	**$616,286**	$433,023

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

Note A—Significant Accounting Policies

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

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

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

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

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

Taxes In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries in those operations and repatriation of retained earnings is done only when it is advantageous to do so. Applicable taxes are provided only on amounts planned to be remitted. 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.

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

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

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

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

Note B—International Operations

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

International Operations Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America and the Far East, by direct sales from the parent corporation and, to a minor extent, through various representative and distributorship arrangements. A substantial portion of these sales consists of products manufactured domestically. The Company's international manufacturing operations include plants in Canada, Taiwan, Hong Kong, West Germany, Ireland and Scotland. The products of these manufacturing plants are sold to the Company's international sales subsidiaries, the parent corporation or other international manufacturing plants for further processing.

The Company's prices to international customers are designed to yield consolidated profits substantially the same as the profits on products manufactured and sold to customers in the United States. Intercompany transfers between geographic areas are accounted for at discounts from list prices which are designed to be representative of unaffiliated party transactions.

Due to the organizational structure and complex manufacturing process, the results of operations of individual subsidiaries within the geographical areas are only reflective of the separate functions which they perform and may not be indicative of the geographical areas' contribution to consolidated profitability.

Sales to unaffiliated customers outside of the United States, including U.S. export sales, were $928,285,000 for the year ended June 28, 1980, $679,354,000 for the year ended June 30, 1979 and $539,513,000 for the year ended July 1, 1978, which represented 39%, 38% and 38%, respectively, of total operating revenue.

The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support their operations. These retained earnings, before elimination of intercompany transactions, aggregated $303,132,000 at June 28, 1980, $185,045,000 at June 30, 1979 and $112,201,000 at July 1, 1978.

Financial information by geographical area is summarized as follows:

Geographic Area

	Fiscal Year		
Sales	**1980**	1979	1978
		(In Thousands)	
United States			
Unaffiliated customers	**$1,474,529**	$1,148,701	$ 913,128
Intercompany	**453,814**	324,564	297,193
	1,928,343	1,473,265	1,210,321
Europe			
Unaffiliated customers	**678,153**	486,451	376,888
Intercompany	**—**	—	—
	678,153	486,451	376,888
Canada, Far East, Americas			
Unaffiliated customers	**215,363**	168,940	146,546
Intercompany	**187,179**	113,875	114,513
	402,542	282,815	261,059
Eliminations	**(640,993)**	(438,439)	(411,706)
Net sales	**$2,368,045**	$1,804,092	$1,436,562
Profits			
United States	**$ 267,809**	$ 203,586	$ 184,631
Europe	**79,095**	50,416	28,270
Canada, Far East, Americas	**71,889**	50,487	34,940
Eliminations	**(36,019)**	(21,048)	(10,208)
Profit from operations	**382,774**	283,441	237,633
Interest Income	**53,829**	35,753	12,254
Interest Expense	**(26,996)**	(24,262)	(22,384)
Income before income taxes	**$ 409,607**	$ 294,932	$ 227,503
Assets			
United States	**$1,759,039**	$1,239,266	$1,082,697
Europe	**500,888**	339,383	273,661
Canada, Far East, Americas	**266,743**	174,459	147,711
Corporate assets (Temporary cash investments)	**598,733**	432,240	298,500
Eliminations	**(459,335)**	(322,168)	(301,167)
Total assets	**$2,666,068**	$1,863,180	$1,501,402

Note C—Cash and Temporary Cash Investments

The Company's policy is to invest cash in income producing temporary cash investments. Accordingly, uninvested cash balances are kept at minimum levels. Temporary cash investments are valued at cost, which approximates market, and include principally certificates of deposit and time deposits.

Note D—Income Taxes

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

	1980	1979
U.S. Federal statutory tax rate	**46.0%**	47.0%
Tax benefit of nontaxable income (a):		
Puerto Rico	**(3.7)**	(2.2)
Ireland	**(1.8)**	(2.7)
Difference between U.S. and Foreign tax rates	**(.2)**	(1.8)
State income taxes, net of Federal income tax benefit	**1.0**	1.4
Other	**(2.3)**	(2.2)
	39.0%	39.5%

(a) Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico and of a foreign manufacturing subsidiary operating in Ireland. Effective in fiscal 1981, the Puerto Rican subsidiary converted its income tax exemption grants to the provisions of a new tax law. Under the new tax law, the subsidiary will be subject to tax at a rate of approximately 9% on its manufacturing earnings through fiscal 1995. Previously the income was not subject to Puerto Rican income taxes. Remitted earnings are not subject to U.S. Federal income taxes, but will be subject to Puerto Rican withholding taxes at rates not in excess of 10%, less a partial credit for taxes paid to Puerto Rico under the new tax law. Under Irish law, the income from products manufactured for export is exempt from Irish taxes for a period of 15 years, which period expires in 1986 (for the years 1987-1991 the income is partially exempt). The income tax benefits per common share attributable to the tax status of these subsidiaries for the years ended June 28, 1980 and June 30, 1979 were $.48 and $.32, respectively.

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

	Year Ended	
	June 28, 1980	June 30, 1979
	(In Thousands)	
U.S. Federal:		
Currently payable	**$ 97,832**	$ 93,484
Deferred	**18,952**	(4,096)
Total	**$116,784**	$ 89,388
Foreign:		
Currently payable	**$ 35,217**	$ 25,799
Deferred	**(484)**	(6,988)
Total	**$ 34,733**	$ 18,811

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended June 28, 1980 and June 30, 1979 and the tax effect of each were as follows:

	Year Ended	
	June 28, 1980	June 30, 1979
	(In Thousands)	
Inventory related transactions	**$ (28,774)**	$(23,840)
Installment sales, principally intercompany, and financing leases	**12,468**	(974)
Domestic International Sales Corporation profits	**11,964**	6,529
Depreciation	**10,455**	3,952
Other	**12,355**	3,249
Total	**$ 18,468**	$(11,084)

In connection with its normal examinations of the Company's 1975 through 1977 tax returns, the Internal Revenue Service has proposed certain adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition, the Company believes any adjustments which might result would not have a material effect on the financial statements.

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

Note E — Net Income Per Share and Dividends

Net income per share is based on the weighted average number of common shares and, if their aggregate dilutive effect is material, common share equivalents, outstanding during the year. In fiscal 1980 and 1979 common share equivalents are attributable principally to Convertible Subordinated Debentures (see Note G) and to a minor extent, stock options.

No cash dividends have ever been paid by the Company.

Note F — Short-Term Debt

Short-term debt and related interest rates at June 28, 1980 and June 30, 1979 were as follows:

	June 28, 1980		June 30, 1979	
	(In Thousands)	**Average Interest Rate**	(In Thousands)	Average Interest Rate
Loans payable to banks — foreign	**$7,555**	**18.8%**	$11,992	15.2%

The maximum aggregate short-term debt outstanding at any month-end was $18,894,000 during fiscal 1980 and $16,871,000 during fiscal 1979. Average short-term borrowings during these years, computed on a month-end basis, were $13,355,000 and $14,006,000 respectively. The average interest rate based on a weighted average of the stated month-end rates was 14.9% in fiscal 1980 and 15.6% in fiscal 1979.

Unused lines of credit for short term financing were $78,640,000 at June 28, 1980 and $122,900,000 at June 30, 1979. At June 28, 1980 certain lines of credit required either the maintenance of compensating balances or the payment of facility fees; $8,000,000 required the maintenance of compensating balances equal to 5% of such unused lines and $13,000,000 required the payment of facility fees which in general are approximately the equivalent of 5% compensating balances.

After considering "float" none of the cash reflected in the balance sheets at June 28, 1980 and June 30, 1979 was required as compensating balances.

In March, 1980 the Company entered into revolving credit agreements totalling $150,000,000. These commitments are available on a revolving basis until March, 1983, converting at such time to term loans with final maturities in March, 1987. Borrowing rates under these commitments vary with the prime rate or the London Interbank Offer Rate. There are no compensating balance requirements under these agreements. Commitment fees on the unused portion of the commitment in general approximate 5% compensating balances. These credit arrangements were unused at June 28, 1980.

Note G — Long-Term Debt

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

	June 28, 1980	June 30, 1979
	(In Thousands)	
Lease obligations payable 1981-1993 (4.5%-11.7%) (a)	**$ 6,627**	$ 7,154
Collateralized obligations maturing serially to 1993 (5.4%) (b)	**8,095**	8,565
Sinking Fund Debentures due March 15, 2000 (9⅜%) (c)	**75,000**	75,000
Convertible Subordinated Debentures due December 15, 2002 (4½%) (d)	**—**	249,995
Convertible Subordinated Debentures due June 15, 2005 (8⅞%) (e)	**400,000**	—
	$489,722	$340,714

Principal payments required during the next five fiscal years are as follows: 1981-$1,035,000; 1982-$1,093,000; 1983-$1,146,000; 1984-$1,212,000; and 1985-$5,220,000.

(a) Weighted average interest rate at June 28, 1980 of 8.1%.

(b) Interest rate shown is the weighted average rate at June 28, 1980.

(c) Sinking Fund Debentures were issued by the Company in March 1975. Sinking fund payments of $4,000,000 are required in each of the fiscal years 1985-1999. The Company at its option may increase the sinking fund payments up to an additional $4,000,000 in each such year. The Debentures are redeemable at the option of the Company at any time, as a whole or in part, at 109⅜% 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 9⅜% per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and dividend distributions.

(d) On September 8, 1977, the Company sold $250,000,000 of 4½% Convertible Subordinated Debentures. On January 16, 1980, the Company called for redemption all $249,995,000 of its then outstanding 4½% Convertible Subordinated Debentures. At the election of the Debentureholders, substantially all of the Debentures were converted into shares of common stock.

(e) On April 1, 1980, the Company issued $400,000,000 of 8⅞% Convertible Subordinated Debentures. The Debentures are subordinated in right of payment to all senior indebtedness, as defined, and are convertible, subject to prior redemption, into shares of common stock at $72 per share at any time up to and including the maturity date of June 15, 2005.

Annual sinking fund payments to redeem $14,400,000 principal amount of the Debentures are required beginning on June 15, 1991, and beginning June 15, 1986, the Company, at its option, may make additional sinking fund payments to redeem up to an additional $14,400,000 principal amount annually. In each case, the sinking fund redemption price is the principal amount of the Debentures, plus accrued interest to the date of redemption. In addition, the Debentures are redeemable at the option of the Company, at any time, in whole or in part, at 108⅞% of the principal amount of the Debentures through June 14, 1981 at prices which decrease annually thereafter to June 14, 2000 and thereafter at 100% of the principal amount, together with accrued interest to the date of redemption.

Note H — Leases

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

	(In Thousands)
1981	$50,580
1982	45,516
1983	38,720
1984	30,331
1985	21,276
1986-1990	49,438
1991-1995	28,133
1996-2000	17,462
2001 and thereafter	2,886
Total	$284,342

Total rental expense for the fiscal years ended June 28, 1980 and June 30, 1979 amounted to $55,961,000 and $37,306,000 respectively.

Note I — Pension Plans

The Company and its subsidiaries have pension plans covering substantially all of their employees. Total pension expense was $34,784,000 in fiscal 1980 and $23,654,000 in fiscal 1979. Annual contributions are made to the plans equal to the amounts accrued for pension expense. A change during fiscal 1980 in the actuarial assumptions used in computing pension expense had the effect of reducing net income for the year by approximately $2,400,000.

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

	June 28, 1980	June 30, 1979
		(In Thousands)
Actuarial present value of accumulated plan benefits:		
Vested	**$19,559**	$ 9,903
Nonvested	**19,292**	11,713
	$38,851	$21,616
Net assets available for benefits	**$67,831**	$42,154

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent for both 1980 and 1979.

Note J — Stock Options

Qualified Stock Options Under its 1965 Qualified Stock Option Plan, the Company 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. Authority to grant options under the plan expired March 9, 1975. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

Information concerning activity during fiscal 1980 follows:

	Options Outstanding	
	Shares	Average Price Per Share
June 30, 1979	25,575	$24.17
Options exercised	(10,575)	24.24
Options cancelled	(15,000)	24.14
June 28, 1980	**—**	**$ —**

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

Information concerning activity during fiscal 1980 follows:

		Options Outstanding	
	Shares Reserved For Future Grants	Shares	Average Price Per Share
June 30, 1979	513,095	2,667,619	$19.33
Additional shares authorized to be issued	1,800,000		
Options granted	(753,640)	753,640	27.95
Options exercised		(202,760)	15.67
Options cancelled	133,950	(133,950)	21.49
Options terminated	(73,505)		
June 28, 1980	**1,619,900**	**3,084,549**	**$21.59**

At the time these options are exercised, the common stock account is increased by the par value ($1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to $9,306,000 in fiscal 1980 and $8,602,000 in fiscal 1979. The amount deductible for Federal income taxes exceeds the amount charged to income for book purposes; the Federal income tax benefits relating to this difference have been credited to additional paid-in capital.

1968 Employee Stock Purchase Plan Under the Company's 1968 Employee Stock Purchase Plan, all United States, Canadian and German employees may be granted options to purchase common stock at 85% of market value on the first or last business day of the six month payment period, whichever is lower. Common stock reserved for future grants aggregated 1,411,781 shares at June 28, 1980 and 791,168 shares at June 30, 1979. There were 379,387 shares issued at an average price of $50.02 in fiscal 1980 and 360,842 shares at $40.84 in fiscal 1979. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

Note K—Quarterly Financial Data (Unaudited)

Selected quarterly financial data for fiscal 1980 and fiscal 1979 is set forth below:

	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Net Income	Net Income Per Share
			(In Millions except per share data)		
1980					
First Quarter	**$ 487.5**	**$ 215.1**	**$ 74.8**	**$ 45.2**	**$1.02**
Second Quarter	**553.9**	**242.8**	**89.1**	**54.0**	**1.21**
Third Quarter	**627.2**	**279.0**	**110.6**	**66.9**	**1.45**
Fourth Quarter	**699.4**	**311.2**	**135.1**	**83.8**	**1.73**
Total Year	**$2,368.0**	**$1,048.1**	**$409.6**	**$249.9**	**5.45**
1979					
First Quarter	$ 388.0	$166.0	$ 52.3	$ 32.2	$ .75
Second Quarter	426.0	183.2	61.6	37.9	.88
Third Quarter	465.9	203.6	79.0	46.6	1.07
Fourth Quarter	524.2	239.0	102.0	61.7	1.40
Total Year	$1,804.1	$791.8	$294.9	$178.4	4.10

Note L—Supplementary Information on the Effects of Inflation (Unaudited)

General Background To provide readers of financial statements with information to assist them in assessing the effects of inflation, the Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices, which requires disclosure of certain experimental information on the effects of inflation on business enterprises. The two different methods ("constant dollar" and "current cost") for estimating the effects of inflation are described below. Both methods involve the use of assumptions, approximations, and estimates, and therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effects of inflation.

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

Current Cost This method of measurement adjusts for "changes in specific prices." The objective of this method is to reflect the current cost of replacing resources, rather than the historical cost amounts actually spent to acquire them. Adjustments for changes in specific prices of property, plant and equipment were principally based on external price indexes specifically or closely related to the resources being measured, or internally developed indexes, and in the case of inventories and cost of sales, on recent production cost experience.

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

Note L—Continued

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

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

	Adjustment for General Inflation (constant dollars)	Adjustment for Changes in Specific Prices (current costs)
	(In Millions)	
Depreciation expense	$13.1	$ 4.1
Cost of sales, exclusive of depreciation	68.8	5.8
Total reduction in net income	$81.9	$ 9.9

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

The general inflation adjustment substitutes the higher costs measured by the general inflation rate for the lower historical cost of sales included in the primary financial statements. Cost of sales is also higher under the current cost method because the Company's first-in, first-out method of valuing inventories results in historical inventory costs being included in cost of sales reported in the primary (historical cost) income statement, whereas under the current cost method, the corresponding cost of sales element reflects higher current manufacturing costs.

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

Purchasing Power of Net Monetary Assets Net monetary assets are cash and temporary cash investments and fixed dollar claims to money. The Company's net monetary assets remained fixed in amount, while the amount of goods and services they could purchase declined because of inflation by $39,660,000, based on the change in the Consumer Price Index.

Current Cost of Inventories and Property, Plant and Equipment The current cost of inventories and property, plant and equipment, net of accumulated depreciation, and the corresponding historical cost amounts at June 28, 1980 were as follows:

	Inventories	Property, Plant and Equipment, Net
		(In Millions)
Current Cost	$866.8	$683.4
Historical Cost	819.9	529.4
Difference	$ 46.9	$154.0

The current cost of inventories is approximately 6% higher than the corresponding historical cost, which is reflective of the higher costs which would be incurred if the fiscal 1980 year-end inventories were to be replaced at the expected current costs. This is not necessarily a fair measure of the expected inflation effect on fiscal 1981 cost of sales, since the 1981 cost of sales will include the lower historical costs in inventory at the end of fiscal 1980, as well as the cost of products manufactured and sold in fiscal 1981, which are different and have different costs from those in inventory at the end of fiscal 1980.

Net property, plant and equipment at current costs exceeded the corresponding historical cost by $154.0 million. The current cost method assumes replacement of all the Company's property, plant and equipment as at June 28, 1980. However, the Company's property, plant and equipment is relatively new, with 87% of it having been acquired in the last 5 fiscal years. Consequently, the Company's future capital expenditures will be to principally expand, rather than replace existing capacity.

The increase in the current cost of inventories held during fiscal 1980 was $56.1 million and in property, plant and equipment was $42.8 million. The increases during fiscal 1980, measured by the general inflation rate, were $90.1 million for inventories and $79.5 million for property, plant and equipment.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices The five-year comparison shows the effect of adjusting historical revenues to dollar amounts expressed in terms of average 1980 dollars, as measured by the Consumer Price Index. Revenues for 1976-1979 would be higher, and the increase in revenues from each of those years to 1980 would be correspondingly less. The market price per share amounts show a similar trend of less growth from the earlier years to 1980.

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

For the Year Ended June 28, 1980

	As Reported In the Primary Statements (Historical Costs)	Adjusted For General Inflation (Constant Dollars)	Adjusted for Changes In Specific Prices (Current Costs)
		(In Millions except per share data)	
Statement of Income			
Total operating revenues	$ 2,368.0	$ 2,368.0	$ 2,368.0
Cost of equipment sales, service and other revenues (a)	1,281.4	1,350.2	1,287.2
Research and engineering expenses (a)	177.4	177.4	177.4
Depreciation expense	69.8	82.9	73.9
Selling, general and administrative expenses (a)	456.6	456.6	456.6
Interest (income) expense, net	(26.8)	(26.8)	(26.8)
Total costs and expenses	1,958.4	2,040.3	1,968.3
Income before income taxes	409.6	327.7	399.7
Provision for income taxes	159.7	159.7	159.7
Net income	$ 249.9	$ 168.0	$ 240.0
Net income per share	$ 5.45	$ 3.72	$ 5.25
Stockholders' equity			
Stockholders' equity, June 30, 1979	$ 1,120.2	$ 1,318.1	$ 1,326.9
Net income as reported above	249.9	168.0	240.0
Loss from decline in purchasing power of net monetary assets	—	(39.7)	(39.7)
Excess of increase in general price level of inventories and property, plant and equipment over increase in specific prices	—	—	(70.7)
Increase in common stock and additional paid-in capital.	281.6	281.6	281.6
Stockholders' equity, June 28, 1980	$ 1,651.7	$ 1,728.0	$ 1,738.1

(a) Excludes depreciation expense

Five Year Comparison of Selected Supplementary Data Adjusted for Effects of Inflation

	1980	1979	1978	1977	1976
		(In Millions except per share data)			
Total operating revenues:					
As reported in financial statements	**$2,368.0**	$1,804.1	$1,436.6	$1,058.6	$ 736.3
Restated in average 1980 dollars	**2,368.0**	2,045.0	1,781.2	1,400.6	1,030.5
Market price per common share:					
Actual at year end	**67.12**	55.75	46.62	46.25	58.75
Restated in average 1980 dollars	**63.10**	59.88	55.53	59.20	80.37
Average Consumer Price Index (1967=100)	**232.6**	205.2	187.6	175.8	166.2
Adjusted data on dividends per common share is not presented, because no cash dividends have ever been paid by the Company.					

Officers and Directors

Officers

Kenneth H. Olsen
President and Director

C. Gordon Bell
Vice President, Office of Development/ Engineering

Alfred M. Bertocchi
Vice President, Finance and Administration

Sheldon A. Davis
Vice President, Personnel

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

Theodore G. Johnson
Vice President, Sales and International

Andrew C. Knowles, III
Vice President, Technical Group

William H. Long
Vice President, Corporate Marketing

Julius L. Marcus
Vice President, Commercial Group

Stanley C. Olsen
Vice President, Computer Products Group

Edward A. Schwartz
Vice President, Secretary & General Counsel

John J. Shields
Vice President, Customer Services

John F. Smith
Vice President, Manufacturing

Richard J. Clayton
Vice President, Computer Systems Development

William C. Hanson
Vice President, Manufacturing Personnel and MIS

Irwin Jacobs
Vice President, Commercial OEM Group

Edward A. Kramer
Vice President, United States Sales

Gerald T. Moore
Vice President, Retail Products Group

Jean-Claude Peterschmitt
Vice President, Europe

Lawrence J. Portner
Vice President, Associate Head, Office of Development/Engineering

Robert W. Puffer, III
Vice President, Mass Storage Manufacturing

George A. Chamberlain, 3d
Treasurer

William R. Thompson
Controller

Directors

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

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

Georges F. Doriot*
Director of several corporations

William H. McLean
Engineering consultant and director of several corporations

Kenneth H. Olsen
President
Digital Equipment Corporation

Dorothy E. Rowe*
Director of several corporations

*Member of the Audit Committee of the Board of Directors

Corporate Headquarters

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Cable: Digital Mayn.
Telex: 94-8457

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TWX: 610-562-8732

General International Area Headquarters

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

Investor Information

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

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

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

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

Inquiries relating to investment in Digital Equipment Corporation should be directed to:

Albert E. Mullin, Jr.
Director, Corporate Relations
Digital Equipment Corporation
111 Powdermill Road (B79)
Maynard, MA 01754
(617) 493-5350

Digital Equipment Corporation's Annual Report on Form 10-K for the fiscal year ended June 28, 1980, including the financial statements and schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Company's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Company and its products can be obtained by addressing:

Digital Equipment Corporation
Inquiry Section
NR 2/C4 444 Whitney Street
Northboro, MA 01532
(617) 393-4401

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

Digital Equipment Corporation
Investor Relations — ML
111 Powdermill Road (B79)
Maynard, MA 01754
(617) 493-7182

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

Digital Equipment Corporation
Investor Services
111 Powdermill Road (B79)
Maynard, MA 01754
(617) 493-5213

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

Transfer Agent and Registrar for Common Stock

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

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

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

Trustees and Registrars

For 9⅜% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
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New York, NY 10015

For 8⅞% Convertible Subordinated Debentures
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