

Digital Equipment Corporation  
Annual Report 1989

digital

## Initiatives In Enterprise Computing





## Corporate Profile

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Digital Equipment Corporation is one of the world's leading suppliers of networked computer systems, software, and services, and a leader in systems integration.

An international company, Digital does more than half its business outside the United States, developing and manufacturing products and providing customer services in the Americas, Europe, and the Pacific Rim.

Digital offers a full range of desktop, timesharing, transaction-processing, and scientific systems for research, computation, communications, education, data analysis, industrial control, commercial data processing, electronic publishing, word processing, personal computing, computer-integrated manufacturing, health care, instrumentation, engineering and simulation.

## Financial Highlights

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| Fiscal Year                              | 1989             | 1988             | %<br>Change |
|--|------------------|------------------|-------------|
| Total operating revenues . . . . .       | \$12,741,956,000 | \$11,475,446,000 | + 11        |
| Net income . . . . .                     | \$ 1,072,610,000 | \$ 1,305,633,000 | (18)        |
| Net income per share . . . . .           | \$8.45           | \$9.90           | (15)        |
| Total stockholders' equity . . . . .     | \$ 8,035,673,000 | \$ 7,510,374,000 | + 7         |
| Number of stockholders . . . . .         | 99,084           | 103,162          |             |
| Stockholders' equity per share . . . . . | \$66.12          | \$59.47          | + 11        |
| Return on equity . . . . .               | 13.8%            | 18.9%            |             |
| Return on assets . . . . .               | 10.3%            | 14.1%            |             |

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## Annual Meeting of Stockholders

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The Annual Meeting of Stockholders will be held at 11:00 A.M., Monday, November 6, 1989, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on September 8, 1989, will be entitled to vote at this meeting.

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## President's Letter

### To Our Shareholders, Employees, and Customers:

Digital is in the business of helping organizations become more productive and more competitive. Our computer systems and networks tie organizations together, facilitating easy, efficient teamwork.

In 1989, Digital's revenue growth came from overseas markets, particularly Europe and Japan, where businesses are strengthening their long-term competitive positions in the global marketplace. Although relatively flat U.S. sales restrained our growth, Digital is among the most profitable companies in America. We have a significant, positive cash flow and a very strong balance sheet.

Our \$1.5-billion investment in new product development is among the highest in the world. We are enhancing the network application support services our customers need to integrate systems from disparate manufacturers, so information, data, and ideas can be exchanged freely across the entire enterprise.

We are continuing to invest heavily in VAX and RISC-based systems and VMS and UNIX software. Our VAX/VMS operating system is the most modern and complete computing environment in the world.

VAX/VMS is the only operating system with the range and functions needed to support everything from personal workstations to large-scale commercial data processing systems, and to tie practically unlimited numbers of computers into a single enterprise-wide information network.

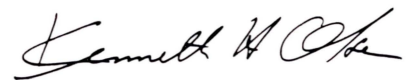
Software written years ago runs unchanged on any VAX system today, and software written today will run on VAX systems in the future. VAX and VMS continue to be central to Digital's strategy. The enormous number and breadth of applications, the ease of use, and the security and robustness of the VMS operating system will not be matched for a long time.

Like VMS, the UNIX operating system has an important place in enterprise computing. UNIX software has been part of Digital's product line for 20 years, for those who wanted a simple operating system. Today, UNIX software often lacks the functionality, security, and robustness necessary for commercial applications. Digital's priority in UNIX systems development is to make UNIX software into a quality commercial system.

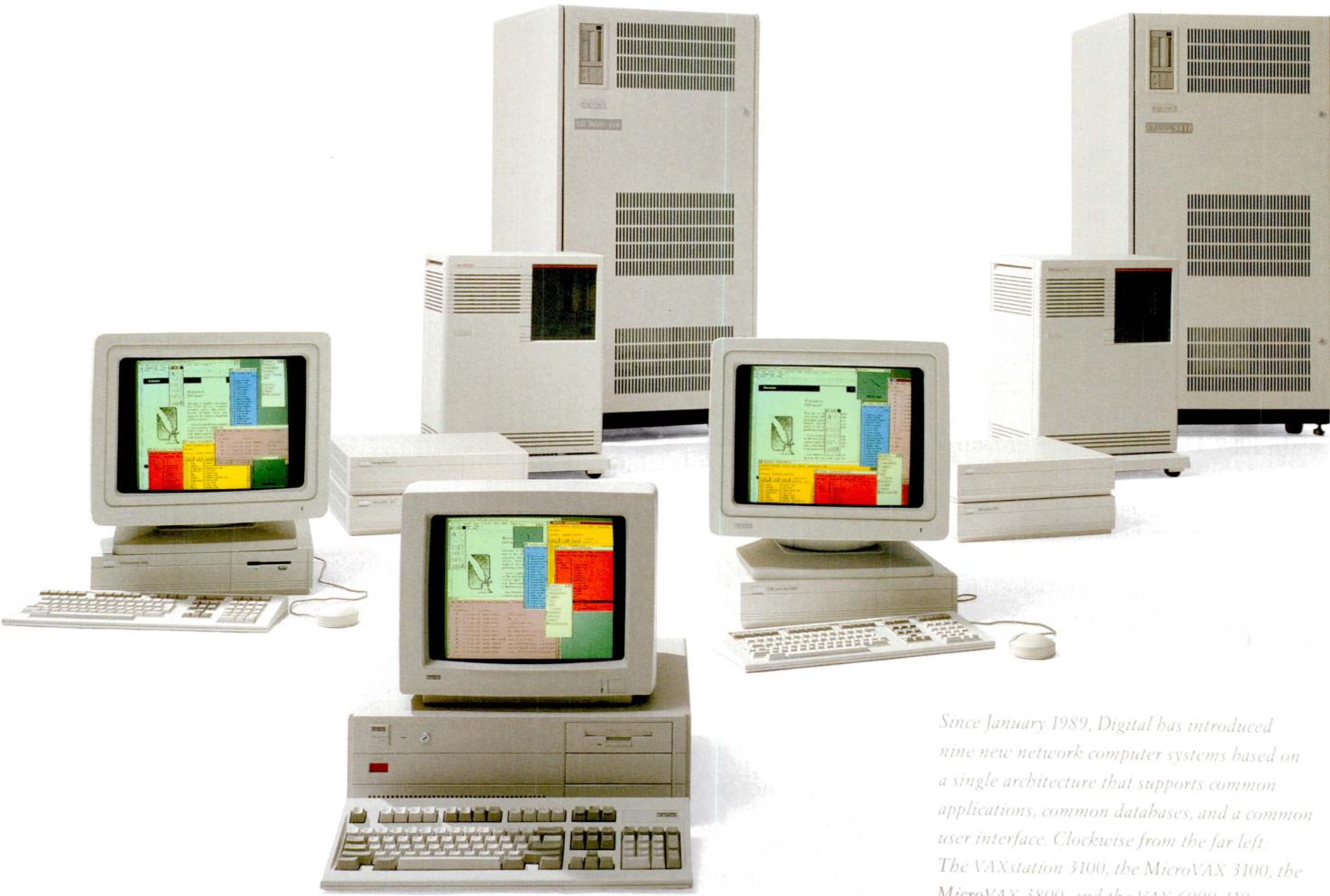
This Annual Report shows how Digital is building an integrated computing environment around the VMS and UNIX software systems. Digital is committed to:

- Integrating existing desktop computer systems into corporate networks while increasing our share of the terminal, personal computer, and workstation market.
- Developing distributed transaction-processing systems and applications.
- Becoming a leader in integrating the products of different manufacturers, by building a network of alliances with software developers, with other manufacturers, and with systems integrators.

These initiatives require teamwork. Teamwork characterizes the way Digital works with its customers and suppliers. Teamwork is the whole idea behind enterprise computing.



Kenneth H. Olsen, President  
September 1, 1989



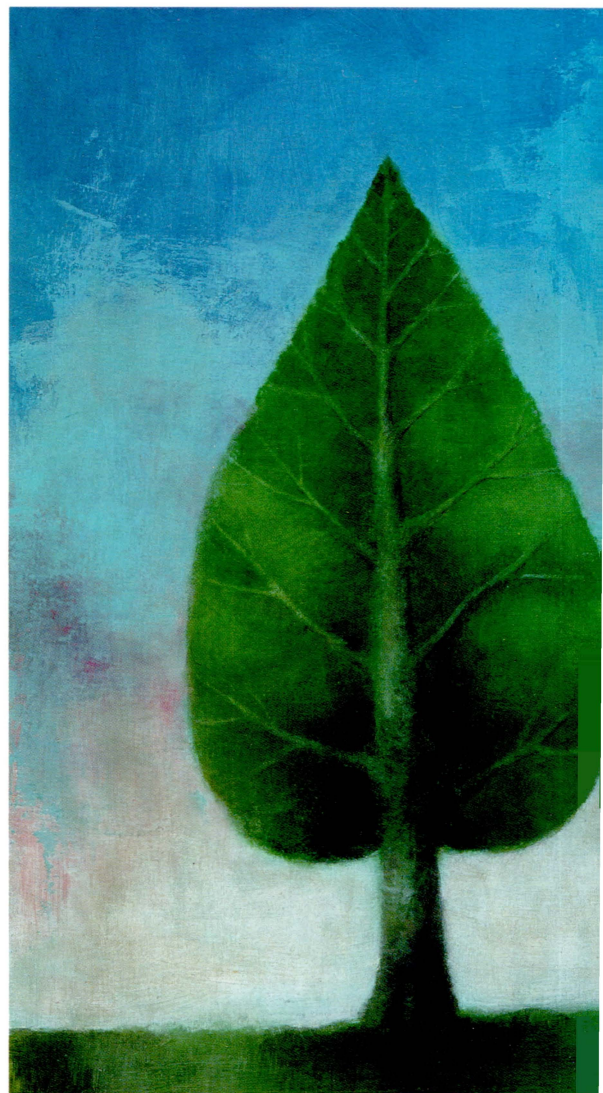
*Since January 1989, Digital has introduced nine new network computer systems based on a single architecture that supports common applications, common databases, and a common user interface. Clockwise from the far left: The VAXstation 3100, the MicroVAX 3100, the MicroVAX 3800, and the VAX 6000-410 systems. Clockwise from top right, Digital's new RISC systems: The DECsystem 5810, the DECsystem 5400, the DECsystem 3100, and the DECstation 3100 computers. Bottom: The DECstation 320 personal computer.*

Every enterprise is unique.

Information, automation, and communications networks have to adapt to the way each organization grows and changes.

The challenge is to integrate resources and manage change without writing off existing investments or restricting future choice.

This Annual Report shows how Digital and its customers are working together to meet this challenge.





**The Rewards  
of Working  
Together**

There is a choice. Computers can remain resources for automating discrete functions. Or they can empower the organization so that everyone works together as a single team.

Digital has developed the technology, the systems, the applications, and the support services needed to manage change and integrate a business with its customers and suppliers.

This technology is based on an open systems architecture designed to enhance existing computer investments and provide a single, dynamic computing environment in which systems from different manufacturers can work together.

Within this framework, Digital has undertaken three major initiatives:

- To make terminal, personal-computer, and workstation users more productive—both as individuals and as team members—by giving them access to computer resources throughout the enterprise.
- To distribute transaction-processing and other key applications, making the entire organization more respon-

sive to its customers and to changing business conditions.

- To broaden Digital engineering, systems-integration, and service programs to support multivendor networks by building strategic relationships with customers, software developers, component manufacturers, and other computer companies.

These initiatives let a retailer work with its suppliers, a parts manufacturer with the automobile company, and a money center bank with its correspondents. They enable a telephone operating company to offer new services to its subscribers.

For example, Pacific Bell installed Digital computers in telephone offices to give businesses access to a public computer network. Businesses can now send electronic mail to customers and suppliers. One computer can access information or submit data to another over a public voice/data network.

But this is only one example of how Digital is making it easier for both individuals and businesses to work together.

“You have to start with a definition. ‘The Enterprise’ encompasses more than just the corporation. Without customers and suppliers there would be no enterprise. Working toward common objectives, computer and telecommunications companies like Digital and Pacific Bell are providing the services and solutions businesses need to communicate with their customers and suppliers.”

*Lee Camp, Vice President and General Manager, Information Services Group*

**Pacific Bell**

**Pacific Telesis Group**



## **The Customer Challenge: Make the Enterprise More Productive**

Desktop computing focuses on individual productivity. Desktop systems make it easier for individuals to do their work. But desktop systems have to be networked, if they are to make it easier for people to work together.

Networking enhances both personal and organizational productivity. A network environment automates the delivery of reports and memos, as well as their production. The network provides the up-to-the-minute data financial analysts need for their spreadsheets. The network integrates engineering with marketing and manufacturing so that design engineers are not working in a vacuum.

In most large organizations there are hundreds – sometimes thousands – of people using terminals, personal computers, and workstations for different jobs. They work as individual contributors, on project or interdepartmental teams, and as members of the larger team that includes everyone in the enterprise.

The challenge is to improve both individual and team productivity. To have everyone working with

the same information. To share ideas across the organization.

This requires a dynamic, multivendor network based on accepted technologies, open standards, and a clear understanding of customer needs. All the pieces have to fit together.

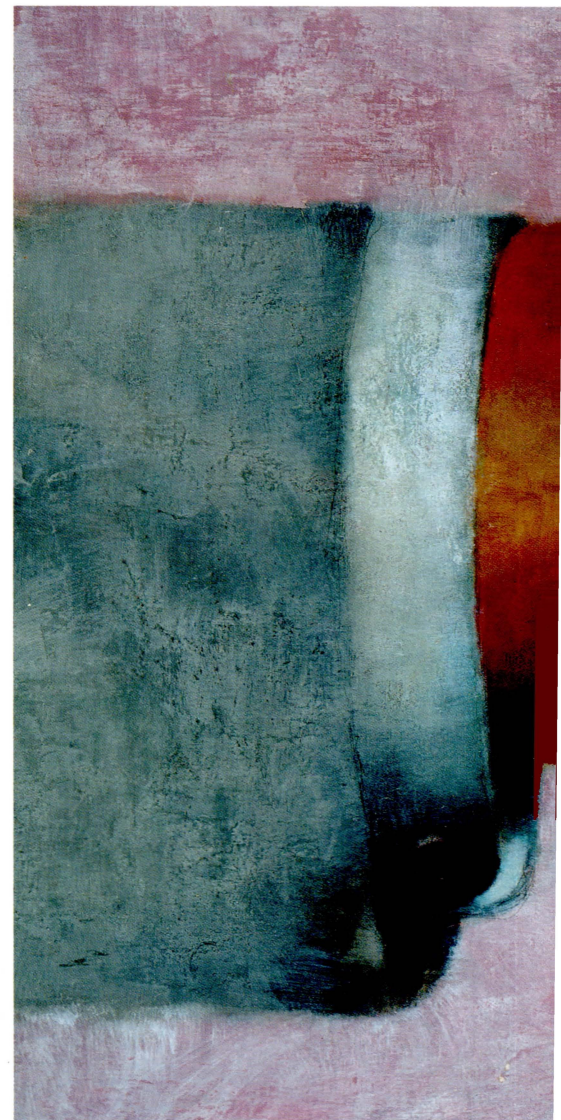
Digital has the technology and support services needed to:

- Network ten to tens of thousands of PCs and other desktop devices.
- Integrate MS-DOS, UNIX, VMS, and Apple Macintosh systems in a single, integrated computing environment.
- Link new and existing local area networks and integrate them with existing wide-area networks.

This step-by-step approach enhances computer investments by providing existing desktop systems with new capabilities. It eliminates the need to standardize on a single operating system. And it does this without creating complications for either the user or MIS.

Individuals, departments, and divisions all work together. Both the individual and the enterprise are more productive.

## **The Digital Initiative: Empower the User by Integrating the Desktop Into the Network**



“By pushing industry standards, incorporating them into a clearly defined architecture, and by making formal alliances with other hardware and software companies, Digital is providing the leadership needed to integrate terminals, personal computers, workstations, and applications into the enterprise-wide network.”

*Ed Esber, Chairman and Chief Executive Officer*

**Ashton-Tate Inc.**



## Integrating Ten or Tens of Thousands of Desktop Systems on a Single Network

Linking industry-standard MS-DOS PCs in a local area network is a good way to enhance computer investments and improve productivity. When desktop systems are networked, users can work together as a team.

The challenge comes when an organization wants to build a company-wide or enterprise-wide network.

This involves a little more than just linking PCs together.

Building a network that will support people in different disciplines and different offices means integrating different desktop systems – Apple Macintosh, IBM, other MS-DOS personal computers, and UNIX workstations.

The key to accessing the enterprise-wide network is the local area network server – the system that keeps a database for the local area network and passes information back and forth among local systems.

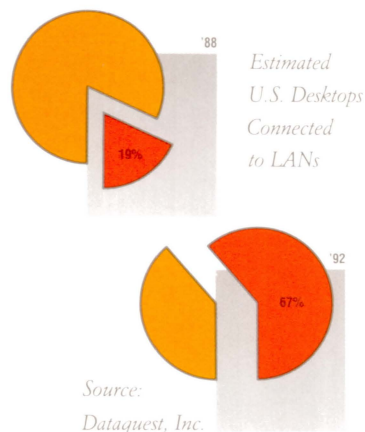
Servers are hardware/software systems. They differ widely, not just in power, but in functionality. If a server is to support a variety of desktop devices and act as a gateway to the larger corporate network, it needs

sophisticated software that is consistent with industry standards. In addition, a server should manage and simplify network access so that users will not have to master complex networking commands. This will reduce support and training costs.

There is no practical limit to the number of desktop systems that Digital can link together. Many Digital customers have hundreds or thousands of desktop systems from different vendors working smoothly on a single network that lets users share information. Digital's own internal network serves over 100,000 users at nearly 500 sites around the world.

Leading desktop computing companies including Apple, COMPAQ, Olivetti, Tandy, and Toshiba, and Ashton-Tate, Lotus, Computer Associates, and Interleaf, have established formal working relationships with Digital. These alliances help ensure that MS-DOS, Apple, UNIX, and VMS desktop systems and applications are able to share files and exchange information.

Everyone can work together as a team.



Source:  
Dataquest, Inc.

*In the past year alone, over four million new desktops were added to Ethernet networks. This is the technology Canadian Broadcasting Corporation chose for the datacenter which, together with free-standing PCs in smaller offices, are linked together by DECnet software over CBC's private X.25 data highway. Gateways provide overseas bureaus with access to the network.*

“Four thousand PCs. Four hundred thousand E-mail messages a month. Canadian Broadcasting Corporation (CBC) is giving a new meaning to networking. CBC built a Digital-based ALL-IN-1 office information and communications system to link users in 35 Canadian cities and its news bureaus in London, Paris, New York, Washington, Tel Aviv, Moscow, and Beijing.”

*Michael Hughes, Executive Director, MIS*

**Canadian Broadcasting Corporation**



## Opening Windows Into Every Corner of the Enterprise



*Every PC is a building block. The LEGO Group built its business by developing an easy way to put components together. Digital's new DECwindows software will provide desktop users in large enterprises like The LEGO Group with a single, easy-to-use, intuitive interface to other systems on the network.*

As long as different people have different jobs to do, there will be a need for different desktop systems.

This does not have to create needless complexity for either the user or for MIS.

Terminals, personal computers, and workstations can be integrated into a single, uncomplicated computing environment. With DECwindows software, it makes no difference whether the user runs a VMS, UNIX, MS-DOS, or Apple Macintosh application. Everything has the same look and feel.

Unlike stand-alone PC or workstation windowing software that only displays information stored on the local system, DECwindows software can access information and applications anywhere on the network. Realtime links can be established so that, when someone updates data, every system using that data will be automatically updated.

Using a single set of commands, a user can combine text from a PC with graphics generated on an Apple Macintosh, while using a UNIX or VAX system to perform complex calculations. Each application runs in

its own window. New windows can be opened as needed, and users can move applications around the screen almost as easily as they move papers around their desks.

At the same time, DECwindows provides software developers with a common application program interface. It is no longer necessary to write separate applications for MS-DOS, UNIX, and VMS systems. A single application can be written for all three environments.

By integrating a complete range of terminals, personal computers, and workstations into a single computing environment, Digital is helping both customers and third-party software developers cut application development, training, and support costs.

Digital's simplified approach to program development has been adopted as a standard by The Open Software Foundation, a consortium of leading hardware and software companies including Digital, IBM, Hewlett-Packard, Bull, and Hitachi. On the strength of this, more than 700 independent software companies are developing DECwindows applications.

“The issue isn’t what people do *at* their desks, it is what they can accomplish *from* their desks. It is empowering the user to reach out for data and share information and ideas. Digital has helped us establish a common ground among different computing environments, so our employees can now access all the resources on our worldwide network.”

Niels Bonde, Information Technology Manager

LEGO Systems A/S



## Building the Worldwide Local Area Network



*MicroVAX server systems, such as the PCLAN/Server 3100, link the desktop and the enterprise-wide network. Federal Express has shown how an integrated voice-data network can provide a competitive advantage. Federal Express can track packages from source to destination.*

*Digital systems are a part of the network that makes this possible. This network is one of the reasons businesses call Federal Express when they "absolutely, positively" want overnight delivery just about anywhere in the world.*

In a sense, all networks are local networks.

The whole purpose of a computer network is to compress time and distance. So that a toy wholesaler in New York can place an order directly with the factory in Copenhagen. A money trader in London can work hand-in-glove with a colleague in New York. A customer service engineer in Hong Kong can consult with a software specialist in Phoenix.

Speeding the flow of information and ideas is basic to inventory reduction, just-in-time delivery, computer integrated manufacturing, new product introductions, customer service, and other corporate programs.

These programs all require teamwork. They cut across professional, departmental, and organizational lines. They redefine the whole idea of a local area network.

Most local area networks were originally set up by individual workgroups, departments, or facilities. Little thought was given to tying them into a single corporate net-

work, let alone into an enterprise network that could provide direct communication with customers and suppliers.

Fortunately, the pieces can be put together. Working with telephone operating companies and telecommunications equipment suppliers in the Americas, Europe, and the Pacific Rim, Digital can link LANs together into a single worldwide network utilizing Ethernet, fiber-optic, microwave, leased-line, and satellite communications.

An enterprise-wide network makes someone on the next continent as accessible as the person in the next office. It is one of the things that distinguishes the global enterprise of today from yesterday's multinational corporation.

Enterprise-wide networks can provide needed coordination among different companies, different divisions, or different geographies without creating a technological straitjacket. Digital networks are dynamic. They can change and grow with the enterprise.

“When we started to integrate PCs and workstations, we saw that local area networks would only be components in a larger, multivendor, enterprise-wide network. It sounds elementary, but it is all too easy to create islands of automation that are difficult, if not impossible, to integrate into a single, cohesive network.”

*Thomas Oliver, Vice President, Sales and Customer Service*

**Federal Express Corporation**



## **The Customer Challenge: Remove the Restraints Surrounding Transaction Processing**

In the past, airline reservation, currency trading, computer integrated manufacturing, and other large, complex, and critical transaction-processing applications were almost always implemented on mainframe systems.

Only a mainframe could manage corporate databases and provide the automatic backup, audit trails, and other features required for large-scale strategic computing.

But there is a price. Developing mainframe applications is a complex, time-consuming, and expensive business. As a consequence, many companies find themselves with a large backlog of applications.

Fortunately, large-scale transaction processing is no longer limited to datacenter systems. It no longer requires a specialized environment, specialized equipment, or a large and highly specialized support staff. Digital is developing distributed computer systems that will meet today's requirements for transaction-processing speed, security features, and availability.

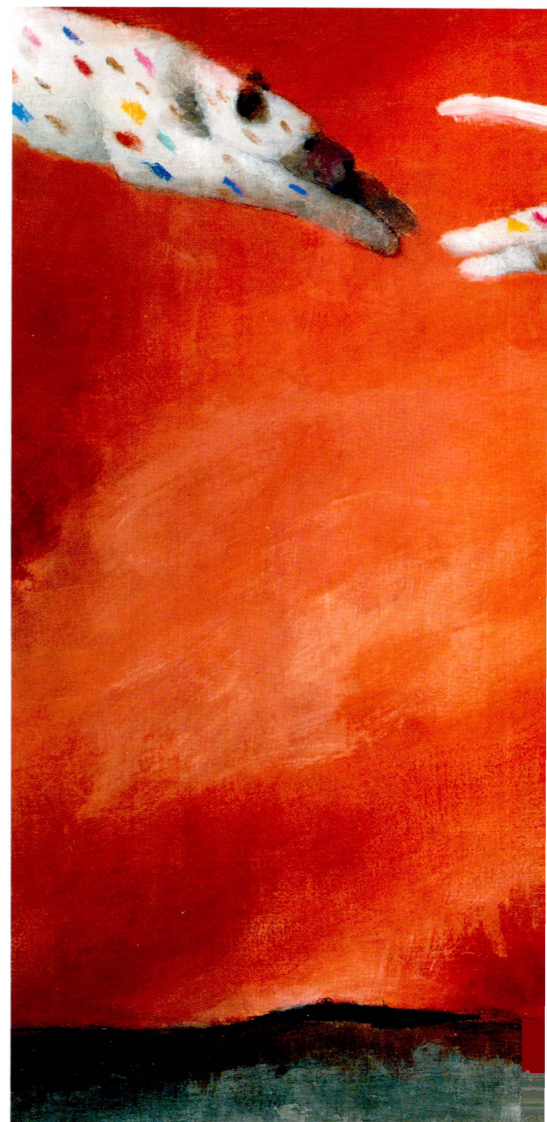
Distributed transaction processing is particularly attractive to

the company looking to speed application development and implementation. New applications can be developed on a small VAX system and replicated on any other VAX system.

Business needs will now determine how and where transaction-processing applications are implemented. Large transaction-processing and database applications can be centralized on a cluster of VAX systems or distributed over a network of desktop or departmental systems. Small applications can run on small local systems.

Distributed transaction processing can often eliminate the need for dedicated systems. Transaction-processing applications can run concurrently in the same environment as office-automation, decision-support, and scientific and engineering applications. This provides organizational flexibility. Applications can be scaled up and down, be centralized or decentralized, as markets, technologies, and economic conditions change. This flexibility can help bring new products and services to market faster and improve customer service, while cutting the cost of ownership.

## **The Digital Initiative: Put Full-Function TP on Distributed Systems to Cut Costs, Save Time**



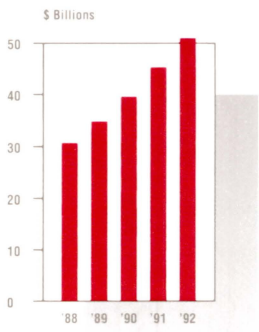
“Transaction processing is not so much an application as it is a style of computing, a way of implementing a manufacturing or commercial application. The functionality associated with TP used to be something that you could only find in a mainframe environment. Bringing TP into a distributed environment cuts costs, shortens time-to-market, and provides organizational flexibility.”

*Manfred Eicker, Commercial Managing Director*

*Bayerische Motoren Werke BMW AG*



## Cutting Time-to-Market While Lowering “Opportunity Cost”



Projected Worldwide  
Transaction Processing Market

*With a worldwide distributed transaction-processing network, The Sumitomo Bank is dramatically reducing the time it takes to get a new investment product to market. Using Digital program development tools, Sumitomo programmers develop new applications on desktop VAX systems. These applications are then replicated or distributed over the entire network. Once an application is developed for one VAX computer, it will run on any other VAX computer. It will run on a larger system, a smaller system, a newer system or an older one—without any reprogramming.*

In today's competitive, global economy only one new product in ten is a commercial success.

In many industries, being the first—or certainly one of the first—to market a new product or service often makes the difference between success and failure. But getting to market involves more than simply having a new or better idea. Manufacturing, marketing, and distribution systems have to be developed.

Digital's approach to transaction processing minimizes time-to-market by speeding the development of the support systems needed to test-market new products and services, ramp-up production, refine distribution strategies, and then scale-up operations, if test marketing confirms potential.

Distributed systems provide the ideal environment for software development, freeing programmers from the complexities of mainframe software. In fact, many software companies use VAX computers to

develop mainframe applications.

They have a whole library of CASE (Computer Aided Software Engineering) and AI (Artificial Intelligence) tools to work with. And every programmer can have a low-cost VAX development system that has the same functionality as a large VAX computer.

In addition to lower programming costs, distributed transaction processing can reduce operating costs. Studies show that distributed systems cost less per transaction than conventional mainframe systems.

Lower cost per transaction and faster application development are two of the reasons VAX distributed transaction-processing systems are being used to introduce stock options and futures trading in West Germany and Switzerland. And to implement computer-integrated manufacturing programs at BMW and other major manufacturers around the world.

“Developing a new product or service and getting it to market are two very different things. This is particularly true in the financial services industry. We are constantly developing new investment vehicles. Time-to-market is often dependent on the speed with which we can develop the computer applications we need to support those products.”

*Sadao Okino, Senior Managing Director*

**The Sumitomo Bank Limited**



## Making Customer Service a Competitive Advantage in a Service Economy



*A network of distributed transaction-processing systems, like the VAX 6000-410 shown here, can match many mainframes in transaction-processing speed and functionality. In The Hartford's Group Operation, a cluster of VAX transaction-processing systems provides up-to-the-minute account information for agents and their customers.*

Extended warranties, hotlines, service contracts, and telemarketing are just a few of the ways in which business is using customer service as a marketing tool.

When a retailer shortens the checkout line, when a distributor can tell a buyer exactly what's in stock and when it can be delivered, when an insurance company can provide immediate answers to telephone inquiries, business picks up.

Improving customer service is often dependent on bringing transaction processing closer to the point of sale. Automatic teller machines eliminate rush-hour lines at the bank while providing depositors with up-to-the-minute account balances. Checkout terminals provide immediate credit authorization. Shoppers no longer have to wait for a "blue pencil person" or supervisor to OK their purchases. Distributors can quote immediate delivery from inventory. Travel agents can confirm reservations as they're made.

Distributed computing makes

things happen. It brings transaction processing to the point of sale. It keeps track of change orders in large engineering projects. It lets a sales representative see what's in the warehouse or where a particular order stands in the production cycle.

Distributed transaction processing can also speed product development. For example, pharmaceutical manufacturers use it to collect, analyze, and compile the huge volume of data needed to win approval of a new drug.

Digital transaction-processing systems helped Toys "R" Us shorten checkout lines during the holiday rush. Networks of VAX computers provide worldwide trading systems for Sumitomo and other large money-center banks. The management at Hardee's now has online inventory and sales reports. The Hartford Insurance Group can now provide its agents with prompt answers to their customers' questions about group insurance coverage.

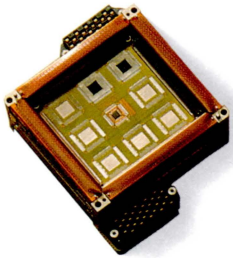
“At The Hartford Insurance Group, we define good service as providing prompt response to customers’ questions. Information isn’t worth much unless it’s available—online—to the people who need it, when they need it.”

*Lou Abdou, Vice President, Life Systems*

**The Hartford Insurance Group**



## Reducing the Cost of Ownership With Distributed Transaction Processing



*The MCU—Digital's Multiple Chip Unit—will provide companies like Hardee's with even more power for large-scale distributed transaction-processing applications. The MCU will power high-end VAX processors of the future. This new technology speeds signals by shortening interconnection paths. High-density interconnect technology is used in place of a conventional circuit board, eliminating chip carriers, so integrated circuits can be placed closer together.*

Traditional transaction-processing systems were developed for large, stable, and not particularly time-critical applications. Transaction processing was seen as an accounting tool rather than a marketing weapon.

In this environment MIS managers focused on “cost per transaction.” This is still a valid measurement. Distributed transaction processing reduces cost per transaction. But this tells only part of the story.

It ignores operating costs.

Studies have shown that distributed systems can cut these costs.

Operating costs include training and personnel costs, the cost of network operations, and, most importantly, the cost of developing new applications and supporting existing programs.

Transaction-processing applications must keep pace with business needs. There are very few applica-

tions that run unchanged from year to year. Business is constantly changing as the organization responds to technological change, to competition, and to changing customer demands and expectations.

Change mandates an approach to transaction processing that cuts application development, maintenance, training, and networking costs.

Digital transaction-processing networks can cost up to 50 percent less to operate than comparable networks from other vendors. Distributed systems cost less per unit of processing power than mainframes. Support, training, and programming costs are all lower.

This means that low-cost, full-function transaction processing can now be brought to a wider range of departmental and corporate applications.

“We looked at the total cost of implementing a transaction-processing application – at equipment costs, at the cost of program development and support, as well as cost per transaction. We found that cost of ownership really sets Digital apart. Distributed transaction processing is simply a more cost-effective approach.”

*William C. Burd, Vice President, Information Services*

**Hardee's Food Systems, Inc.**

**Imasco Limited**



## **The Customer Challenge: Be Open – Support Whatever Solution or Technology Is Right for the Job That Has To Be Done**

The concept of “The Enterprise” as an organization encompassing a company, its suppliers, its customers, and the community demands an unequivocal commitment to multivendor computing.

No company can go it alone.

To support multivendor computing, Digital is broadening the network of strategic relationships that have enabled it to offer solutions to business problems other computer manufacturers have not addressed.

The idea of interactive computing, and later distributed data processing, came from customers looking for ways to bring computer resources closer to the work that needed to be done. Strategic relationships based on openness and trust are now helping Digital develop multivendor network integration to support the distributed data processing solutions of the 1990s.

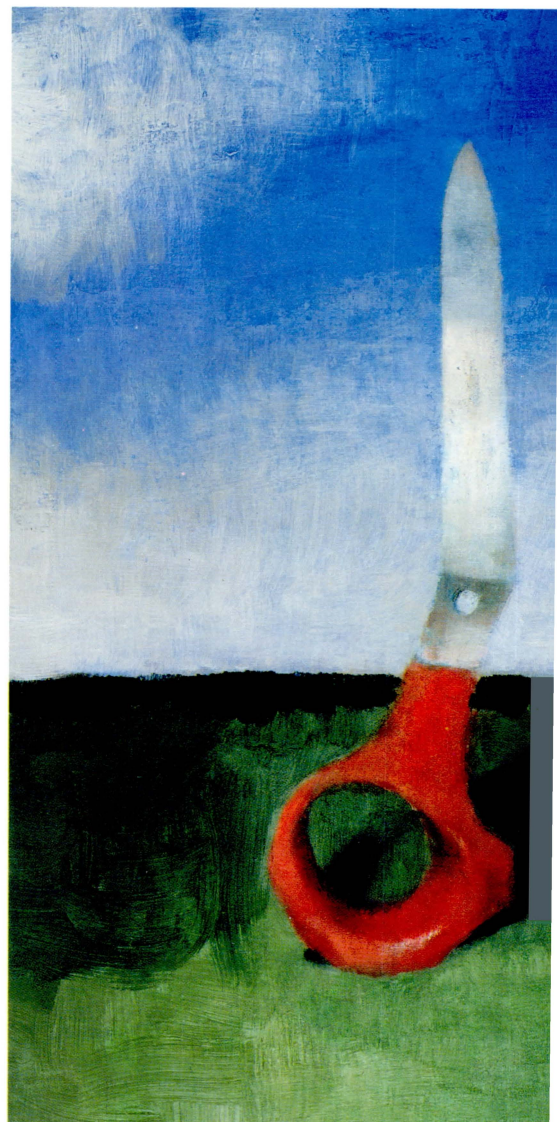
In developing new systems, solutions, and services, Digital follows a well-marked path. Digital has a clearly defined, dynamic architecture designed to support a multi-

vendor computing environment. Multivendor computing is the common vision shared by the entire Digital enterprise—customers, suppliers, software developers, channels of distribution, industry standards organizations, and university and industry research organizations.

This focus on multivendor computing and the broadening network of relationships with other computer companies, software developers, and consultant organizations has helped to make Digital a major factor in the systems integration market. At the same time, these strategic relationships have enabled Digital to develop a complete range of multivendor support services.

Teamwork is critical in multivendor systems integration. The essence of teamwork is bringing the strengths and talents of different people together to achieve a common goal. This teamwork characterizes the way Digital people work together within the company, with our customers, and in the community.

## **The Digital Initiative: Broaden Strategic Relationships to Support Multivendor Computing**



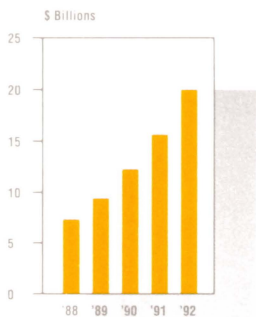
“Many customers are afraid to commit to new technology. They either want to wait until something better comes along or they want to make sure that new technology is fully accepted before they adopt it. You have to take customers into your confidence, show them where technology is going and how you are going to provide them with a continuing support program.”

*J. Tracy O'Rourke, President and Chief Executive Officer*

*Allen-Bradley Company*



## Systems Integration – Leveraging Current and Future Computer Investments



*Projected U.S. Systems  
Integration Market  
Source: G2 Research*

*Systems Integration is one of the fastest-growing segments of Digital's business. When Sweden's Asea and Switzerland's Brown Boveri merged to become the world's largest manufacturer of heavy electrical equipment, they were faced with the problem of integrating 170,000 employees and two different computer networks into a single, responsive organization. Digital was called in to help with systems integration.*

Every computer system, every application program has to be justified on its own merits. Management wants to see a return on every investment.

In many cases a new system will pay for itself in less than three years and provide the purchaser with a 20- to 30-percent internal rate of return. But the real payback comes when individual systems are linked together to support the enterprise as a whole, rather than a particular application or department.

Systems integration is the process of building an enterprise network that will leverage current and future computer investments.

In an enterprise network, everything works together. Manufacturing is in step with Sales. Research and Development works with Engineering. Everyone shares information. Everyone works with the same data.

Unfortunately, though, a company can't go out and "buy" an enterprise network. It has to be built, step by step. Integrating computers built by different manufacturers, doing dif-

ferent jobs, and working in different departments requires a real understanding of the way people and organizations work.

Digital has that understanding. Digital is not just a systems integrator, a manufacturer of computer systems, or a worldwide service organization. Digital is also a multinational laboratory in which new ways to integrate people, technology, and business goals are explored and tested.

There is no substitute for experience. That's why Digital is currently working with several hundred customers on major systems integration programs representing a total investment of nearly \$1.3 billion. In manufacturing, Digital is working with companies like ABB Asea Brown Boveri. In government with the U.S. Census Bureau. And in banking with the London office of Bankers Trust, to develop a system for the bank's trading room that will distribute realtime market data and analysis to over 200 dealers simultaneously.

“1992. In just a matter of years, customs barriers that have separated one European nation from the next will come tumbling down. Europe will become one of the world’s largest and wealthiest markets. But economic community means economic competition. Business can no longer structure itself along national lines.”

*Percy Barnevik, President and Chief Executive Officer*

**ABB Asea Brown Boveri**



## Enterprise Services – Controlling Operating Costs



*The introduction of new products like the VAXstation 3100 system highlights the need for the kind of integrated support services Digital is providing British Gas. Over 360 VAX and VAXstation systems are being used to map a gas distribution system that covers the country. New equipment and applications, like Synercom's INFORMAP III, have to be integrated into existing networks. At British Gas, Digital is helping to plan, design, implement, and manage one of the largest computer mapping programs ever undertaken.*

There is much more to service than a technician with a screwdriver. Digital's Enterprise Services support an ongoing, open process that integrates both individual applications and computers from different manufacturers into an enterprise-wide network.

"There has to be a framework around which you can build new applications," according to Robin Laidlaw, British Gas' Director of Information Technology. "This is particularly important to a company like British Gas, with exploration, production, distribution, and business operations spread across an entire country. That's why we chose Digital's ALL-IN-1 office information and communication architecture. New developments in this field will conform to this architecture."

Digital's Enterprise Services simplify implementation of applications and their integration on a multivendor network. When it is time to plan such a network, there's a clear path to follow.

These Digital services include strategic planning and design, implementation and management, and the migration, replication, and distribution of applications across the worldwide enterprise. In addition, Digital provides consulting, training, online

preventive maintenance and—when needed—custom hardware and software. These services support the customer with a multivendor computing environment. They are not limited to equipment and applications developed by Digital.

Digital provides service and support for more than 4,000 products and systems from over 100 different manufacturers.

In addition, Digital has built a network of alliances that help assure multivendor interoperability. There are alliances with leading computer manufacturers including Cray Research, Apple, Olivetti, Tandy, and Toshiba. With manufacturers of control systems like Honeywell and Allen-Bradley. With Computer Associates, Ashton-Tate, and other major software developers. In addition, Digital has access to new technologies through alliances with SEMATECH and other research consortia and with key suppliers like MIPS Computer Systems and Motorola.

Digital is also establishing a program to formalize relationships with independent systems integration and service companies. Together this network of alliances enables Digital to provide the broad support needed in a multi-vendor computing environment.

“When we set out to map every gas main in Great Britain, we knew we were tackling an immense job. It’s going to take five years to complete. That’s why we looked for a systems supplier who could provide us with a continuous, integrated support service.”

*Mikes Ives, Digital Records Project Manager*

**British Gas PLC**



## An Open Architecture— Change Without Obsolescence



*Matra Datavision, the world's leading supplier of solid-modeling technology, has ported its EUCLID-IS CAD-CAM-CAE software to Digital's new high-performance RISC workstations. EUCLID-IS integrates and manages design, analysis, and manufacturing applications to allow productive concurrent engineering. Matra Datavision's customers include the U.S. Air Force, Boeing, General Dynamics, Siemens, Digital, Bosch, Thyssen, Audi-Volkswagen, Renault, and CERN.*

Computers can do much more than simply automate existing processes. They can provide the flexibility needed to update those processes, scale them up or down, or replicate them in other locations.

When two retail chains merge, when environmental regulations mandate the installation of new automobile emission systems, or when a defense contractor wins a multi-billion-dollar contract, existing computer systems have to adapt to change.

And the key to change without obsolescence, to maintaining future compatibility among past, present, and future hardware and software systems, is an open architecture.

A computer architecture breaks a system into a number of components—the processor, the network, the user interface, the application—and defines the relationships among those components. Most computer architectures are closed in that they are designed to protect proprietary technology.

The ability to support multi-

The ability to support multi-vendor networks requires an open architecture that defines the way *different* hardware, software, and networking components work together. If the architecture is thought through, individual components can be changed without disturbing the operation of the system or the network as a whole.

For example, an open systems architecture can support a number of different operating systems. Different hardware technologies can support common applications and work together on the same network. And users can have a single, simple way to access all the computing resources on the network.

Digital's systems architecture integrates proprietary technology with accepted industry standards for the user interface, networking, graphics, mail, document exchange, and software.

By providing an architecture that accommodates change, Digital makes it possible for customers to adapt their computer systems and networks to changing business requirements.

“Matra Datavision is committed to building long-term strategic relationships with both customers and suppliers. Everyone talks about this, but Matra has made it a key business strategy. That’s why we expect a computer vendor to provide us with technology that meets current standards and anticipates emerging ones. This is a prerequisite to maintaining a technological advantage that gives our customers a competitive edge.”

*Jean-Luc Lagardere, Chief Executive Officer*

**Matra**



**How Digital and Digital People  
Make Their Communities Better  
Places to Live and Work**

“A long-term relationship between Digital and Boston’s Children’s Hospital helps children with impaired speech put thoughts into words. With the help of volunteer engineers and a million-dollar Digital grant, we’ve adapted the DECTalk commercial speech synthesizer to the needs of speech-impaired children. Children’s DECTalk is a small, battery-operated unit that can be mounted on a wheelchair or carried to school.”

*Howard C. Shane, Ph.D., Director, Communication Enhancement Center*

***The Children’s Hospital, Boston***



Technology – when focused on the needs of the community – can make a difference.

Digital’s relationship with Boston’s Children’s Hospital is an example. Digital has contributed equipment to the hospital for the development of a speech synthesizer based on Digital’s DECTalk technology. Much of the engineering needed to adapt DECTalk technology to the needs of children was done by volunteer engineers from Digital. In addition, the company donated money to establish a loan fund to make DECTalk units available to children who cannot afford them.

This kind of relationship can be found in every country where Digital has major facilities. In Israel, Digital is working closely with The Technion (Israel Institute of Technology), in France with the Technological University of Compiegne, and in Germany with the University of Mannheim. In Italy, Digital is supporting E.N.E.A., a major public research center working to safeguard Venice from high tides and pollution. Digital has also been a long-

term supporter of the European Community Youth Orchestra.

In the U.S., Digital underwrites *Evening At Pops* on over 270 public television stations, and *The Infinite Voyage*, a series of hour-long specials, broadcast over both public television and selected commercial stations to imaginatively present the latest advances in technology and science. Digital subsidiaries in Hong Kong, Singapore, and Taiwan are sponsoring local broadcasts of this science series. Digital is also underwriting *Monet In The '90s*, a major art exhibition that will open in Boston in February 1990 and tour Chicago and London.

In all, Digital donated more than \$35 million in cash and equipment to educational, health-care, civic, cultural, and environmental programs during the fiscal year, while matching \$5.5 million in employee contributions to non-profit organizations.

By sharing time, talent, money, and technology, Digital, its employees, and the community reap the rewards of working together.

## Financial Contents

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## Eleven-Year Financial Summary

| <b>Operations</b> <i>(in millions except per share data)</i>                           | 1989      | 1988      | 1987      | 1986     |
|--|-----------|-----------|-----------|----------|
| <b>Revenues</b>  |           |           |           |          |
| Product sales  | \$ 8,190  | \$ 7,541  | \$ 6,254  | \$ 5,103 |
| Service and other revenues   | 4,552     | 3,934     | 3,135     | 2,487    |
| Total operating revenues   | 12,742    | 11,475    | 9,389     | 7,590    |
| <b>Costs and Expenses</b>  |           |           |           |          |
| Cost of product sales, service and other revenues                                      | 6,242     | 5,468     | 4,514     | 4,282    |
| Research and engineering expenses  | 1,525     | 1,306     | 1,010     | 814      |
| Selling general and administrative expenses  | 3,639     | 3,066     | 2,253     | 1,665    |
| Operating income   | 1,336     | 1,635     | 1,612     | 829      |
| Interest income  | 124       | 144       | 122       | 116      |
| Interest expense   | 39        | 38        | 45        | 88       |
| Income before income taxes   | 1,421     | 1,741     | 1,689     | 857      |
| Provision for income taxes   | 348       | 435       | 552       | 240      |
| Net income   | \$ 1,073  | \$ 1,306  | \$ 1,137  | \$ 617   |
| Net income per share <sup>1,2</sup>  | \$ 8.45   | \$ 9.90   | \$ 8.53   | \$ 4.81  |
| Weighted average shares outstanding  | 127       | 132       | 133       | 131      |
| <b>Financial Position</b> <i>(in millions except per share data)</i>                   |           |           |           |          |
| Inventories  | \$ 1,638  | \$ 1,575  | \$ 1,453  | \$ 1,200 |
| Accounts receivable, net of allowance  | \$ 2,965  | \$ 2,592  | \$ 2,312  | \$ 1,903 |
| Property, plant and equipment, at cost   | \$ 6,249  | \$ 5,210  | \$ 3,859  | \$ 3,263 |
| Total assets   | \$ 10,668 | \$ 10,112 | \$ 8,407  | \$ 7,173 |
| Long-term debt   | \$ 136    | \$ 124    | \$ 269    | \$ 333   |
| Stockholders' equity   | \$ 8,036  | \$ 7,510  | \$ 6,294  | \$ 5,728 |
| Stockholders' equity per share <sup>2</sup>  | \$ 66.12  | \$ 59.47  | \$ 49.87  | \$ 44.54 |
| <b>General Information and Ratios</b> <i>(dollars in millions except stock prices)</i> |           |           |           |          |
| Current ratio  | 2.9:1     | 2.9:1     | 3.4:1     | 4.9:1    |
| Quick ratio  | 1.9:1     | 2.0:1     | 2.4:1     | 3.5:1    |
| Working capital  | \$ 4,501  | \$ 4,516  | \$ 4,377  | \$ 4,223 |
| Additions to property, plant and equipment   | \$ 1,223  | \$ 1,518  | \$ 748    | \$ 564   |
| Depreciation   | \$ 659    | \$ 516    | \$ 435    | \$ 384   |
| Debt to debt plus equity ratio   | 1.7%      | 1.6%      | 4.1%      | 5.5%     |
| Operating income as a percentage of revenues   | 10.5%     | 14.2%     | 17.2%     | 10.9%    |
| Income before income taxes as a percentage of revenues                                 | 11.2%     | 15.2%     | 18.0%     | 11.3%    |
| Effective tax rate   | 24.5%     | 25.0%     | 32.7%     | 28.0%    |
| Net income as a percentage of revenues   | 8.4%      | 11.4%     | 12.1%     | 8.1%     |
| Net income as a percentage of average stockholders' equity                             | 13.8%     | 18.9%     | 18.9%     | 12.0%    |
| Net income as a percentage of average total assets                                     | 10.3%     | 14.1%     | 14.6%     | 9.1%     |
| Number of days sales of accounts receivable outstanding                                | 76        | 75        | 78        | 79       |
| Inventory turns  | 3.9       | 3.6       | 3.4       | 2.9      |
| Number of employees at year-end  | 125,800   | 121,500   | 110,500   | 94,700   |
| Common shares outstanding <i>(in thousands)</i>  | 121,537   | 126,290   | 126,187   | 128,591  |
| Stockholders at year-end   | 99,084    | 103,162   | 99,379    | 76,860   |
| Common stock yearly high and low sales prices  | \$ 122-86 | \$ 199-99 | \$ 174-82 | \$ 94-46 |

| 1985                | 1984     | 1983     | 1982     | 1981     | 1980     | 1979     |
|---------------------|----------|----------|----------|----------|----------|----------|
| \$ 4,530            | \$ 3,804 | \$ 2,828 | \$ 2,739 | \$ 2,313 | \$ 1,736 | \$ 1,338 |
| 2,156               | 1,780    | 1,444    | 1,142    | 885      | 632      | 466      |
| 6,686               | 5,584    | 4,272    | 3,881    | 3,198    | 2,368    | 1,804    |
| 4,087               | 3,379    | 2,606    | 2,188    | 1,779    | 1,320    | 1,012    |
| 717                 | 631      | 472      | 350      | 251      | 186      | 139      |
| 1,432               | 1,179    | 831      | 758      | 632      | 479      | 370      |
| 450                 | 395      | 363      | 585      | 536      | 383      | 283      |
| 63                  | 41       | 61       | 103      | 60       | 54       | 36       |
| 82                  | 35       | 13       | 15       | 29       | 27       | 24       |
| 431                 | 401      | 411      | 673      | 567      | 410      | 295      |
| (16) <sup>3</sup>   | 72       | 127      | 256      | 224      | 160      | 117      |
| \$ 447              | \$ 329   | \$ 284   | \$ 417   | \$ 343   | \$ 250   | \$ 178   |
| \$ 3.71             | \$ 2.87  | \$ 2.50  | \$ 3.76  | \$ 3.35  | \$ 2.73  | \$ 2.05  |
| 124                 | 115      | 113      | 111      | 105      | 94       | 90       |
| \$ 1,756            | \$ 1,852 | \$ 1,354 | \$ 1,137 | \$ 1,102 | \$ 820   | \$ 514   |
| \$ 1,539            | \$ 1,527 | \$ 1,125 | \$ 808   | \$ 758   | \$ 629   | \$ 475   |
| \$ 2,828            | \$ 2,352 | \$ 1,961 | \$ 1,605 | \$ 1,128 | \$ 772   | \$ 582   |
| \$ 6,369            | \$ 5,593 | \$ 4,541 | \$ 4,024 | \$ 3,456 | \$ 2,666 | \$ 1,863 |
| \$ 837              | \$ 441   | \$ 93    | \$ 92    | \$ 88    | \$ 490   | \$ 341   |
| \$ 4,555            | \$ 3,979 | \$ 3,541 | \$ 3,165 | \$ 2,680 | \$ 1,652 | \$ 1,120 |
| \$ 38.43            | \$ 34.42 | \$ 31.42 | \$ 28.65 | \$ 24.65 | \$ 18.12 | \$ 13.79 |
| 4.9:1               | 3.8:1    | 3.9:1    | 4.1:1    | 4.2:1    | 4.5:1    | 3.8:1    |
| 2.8:1               | 1.9:1    | 2.0:1    | 2.3:1    | 2.3:1    | 2.6:1    | 2.3:1    |
| \$ 3,694            | \$ 3,001 | \$ 2,377 | \$ 2,181 | \$ 2,030 | \$ 1,658 | \$ 1,077 |
| \$ 572              | \$ 452   | \$ 419   | \$ 511   | \$ 399   | \$ 210   | \$ 94    |
| \$ 315              | \$ 253   | \$ 203   | \$ 153   | \$ 102   | \$ 70    | \$ 58    |
| 15.5%               | 10.0%    | 2.6%     | 2.8%     | 3.2%     | 22.9%    | 23.3%    |
| 6.7%                | 7.1%     | 8.5%     | 15.1%    | 16.8%    | 16.2%    | 15.7%    |
| 6.4%                | 7.2%     | 9.6%     | 17.3%    | 17.7%    | 17.3%    | 16.4%    |
| (3.7%) <sup>3</sup> | 18.0%    | 31.0%    | 38.0%    | 39.5%    | 39.0%    | 39.5%    |
| 6.7%                | 5.9%     | 6.6%     | 10.7%    | 10.7%    | 10.6%    | 9.9%     |
| 10.5%               | 8.7%     | 8.5%     | 14.3%    | 15.9%    | 18.0%    | 17.6%    |
| 7.5%                | 6.5%     | 6.6%     | 11.2%    | 11.2%    | 11.0%    | 10.6%    |
| 75                  | 83       | 82       | 73       | 73       | 81       | 82       |
| 2.3                 | 2.1      | 2.1      | 2.0      | 1.9      | 2.0      | 2.2      |
| 89,000              | 85,600   | 73,000   | 67,100   | 63,000   | 55,500   | 44,200   |
| 59,253              | 57,811   | 56,357   | 55,227   | 54,348   | 45,568   | 40,606   |
| 68,810              | 44,389   | 40,903   | 44,706   | 39,948   | 35,144   | 28,835   |
| \$ 63-39            | \$ 61-33 | \$ 65-32 | \$ 55-34 | \$ 55-29 | \$ 41-27 | \$ 29-22 |

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

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

<sup>3</sup>Includes elimination of DISC taxes of \$63M accrued prior to 1984.

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

Income and Expense Items as a  
Percentage of Total Operating Revenues

|        |        |               | Percentage Changes                                     |              |         |         |
|--------|--------|---------------|--|--------------|---------|---------|
| 1987   | 1988   | 1989          | Income and Expense Items                               | 1988-89      | 1987-88 | 1986-87 |
| 66.6%  | 65.7%  | <b>64.3%</b>  | Product sales . . . . .                                | <b>9%</b>    | 21%     | 23%     |
| 33.4%  | 34.3%  | <b>35.7%</b>  | Service and other revenues . . . . .                   | <b>16%</b>   | 25%     | 26%     |
| 100.0% | 100.0% | <b>100.0%</b> | Total operating revenues . . . . .                     | <b>11%</b>   | 22%     | 24%     |
| 40.5%  | 40.3%  | <b>42.3%</b>  | Cost of product sales . . . . .                        | <b>14%</b>   | 20%     | (5%)    |
| 63.2%  | 61.7%  | <b>60.9%</b>  | Service expense and cost of other revenues . . . . .   | <b>14%</b>   | 22%     | 23%     |
| 48.0%  | 47.7%  | <b>49.0%</b>  | Total cost of operating revenues . . . . .             | <b>14%</b>   | 21%     | 5%      |
| 10.8%  | 11.4%  | <b>12.0%</b>  | Research and engineering expenses . . . . .            | <b>17%</b>   | 29%     | 24%     |
| 24.0%  | 26.7%  | <b>28.5%</b>  | Selling, general and administrative expenses . . . . . | <b>19%</b>   | 36%     | 35%     |
| 17.2%  | 14.2%  | <b>10.5%</b>  | Operating income . . . . .                             | <b>(18%)</b> | 1%      | 95%     |
| 1.3%   | 1.3%   | <b>1.0%</b>   | Interest income . . . . .                              | <b>(14%)</b> | 18%     | 5%      |
| 0.5%   | 0.3%   | <b>0.3%</b>   | Interest expense . . . . .                             | <b>4%</b>    | (16%)   | (49%)   |
| 18.0%  | 15.2%  | <b>11.2%</b>  | Income before income taxes . . . . .                   | <b>(18%)</b> | 3%      | 97%     |
| 5.9%   | 3.8%   | <b>2.8%</b>   | Provision for income taxes . . . . .                   | <b>(20%)</b> | (21%)   | 130%    |
| 12.1%  | 11.4%  | <b>8.4%</b>   | Net income . . . . .                                   | <b>(18%)</b> | 15%     | 84%     |

As an aid to understanding the Company's operating results, the above tables indicate the percentage relationships of income and expense items included in the Consolidated Statements of Income for the three years ended July 1, 1989 and the

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

## Revenues

In 1989, the Company's operating revenues grew by 11% compared with the prior year. As has been the case for several years, growth overseas exceeded that in the United States. For the year, international revenues accounted for approximately 55% of the Company's total revenues with growth particularly strong in Western Europe and Japan. The Company has invested considerably in its overseas operations in terms of sales, marketing and distribution resources. In recognition of the growing importance of overseas markets, the Company hosted DECWORLD '88 in Cannes, France during its first quarter. DECWORLD '88 was an international demonstration of distributed network computing.

Product sales, which account for nearly two-thirds of operating revenues, increased by 9% in 1989, following increases of 21% in 1988 and 23% in 1987. The Company's VAX architecture and networking products, which allow customers to build enterprise-wide distributed data processing networks, contributed to the improvement in product sales. The reduced rate of growth of product sales reflects the slow pace of business in the U.S. and a change in demand for the industry, favoring mid-range and low-end products. The Company responded to this change in demand by introducing a number of new computer systems for both UNIX and Digital's own VMS operating systems, as well as a variety of software and service products.

Customer demand during the year was particularly strong for the Company's VAX 6000 computer systems, VAX workstations and peripherals. During the year, the Company shipped approximately 50,000 workstations and over 562,000 terminal products. Two year totals were 80,000 and 1,100,000 units respectively, attesting to the continuing strength of this class of products. A number of other products also contributed to the growth of product sales.

While demand for the Company's mid-range and low-end products was good, sales of the Company's high-end 8000 series computers declined as the year progressed. Shifts in customer demand, the attractiveness of other VAX computer systems and anticipation of the announcement of a more powerful high-end computer system contributed to this decline.

The Company believes it has the technology, products and services needed to integrate a multivendor environment, thereby responding to customer needs and allowing for future growth.

In 1989, service and other revenues, which primarily include maintenance, software support, consulting services, customer training and the sale of replacement parts, grew by \$600 million or 16%, following increases of 25% in 1988 and 26% in 1987. Service revenue growth slowed somewhat from the prior two years reflecting the same factors that affected product sales. Service revenues also were affected by changes in the warranty policy in the U.S., the high level of product quality and improvements in product price performance that lead to product replacement instead of maintenance.

### Total Operating Revenues \$ Millions

|    |      |       |
|----|------|-------|
| 89 | 4552 | 12742 |
| 88 | 3934 | 11475 |
| 87 | 3135 | 9389  |
| 86 | 2487 | 7590  |
| 85 | 2156 | 6686  |
| 84 | 1780 | 5584  |
| 83 | 1444 | 4272  |
| 82 | 1142 | 3881  |
| 81 | 885  | 3198  |
| 80 | 632  | 2368  |
| 79 | 466  | 1804  |

■ Service and Other Revenues

### Non-United States Revenues \$ Millions

|    |      |
|----|------|
| 89 | 7017 |
| 88 | 5730 |
| 87 | 4413 |
| 86 | 3179 |
| 85 | 2642 |
| 84 | 1978 |
| 83 | 1543 |
| 82 | 1439 |
| 81 | 1302 |
| 80 | 928  |
| 79 | 679  |

## Expenses and Profit Margins

The Company's gross margin declined from the previous year, reflecting primarily competitive pricing pressures and a shift in the Company's mix of product revenues away from larger systems toward smaller desktop systems. This shift reflects a trend evident throughout much of the industry – customers are migrating applications to more of a distributed data processing environment and placing computer resources in the hands of the ultimate user. Service gross margin was slightly higher than the previous year.

The Company continued to be among the leaders in the industry in its commitment to research and engineering investment. Such investment is critical to maintaining a strong competitive position and ensuring future growth. Research and engineering expenses grew 17% in 1989 and represented 12% of total operating revenues, compared with 11.4% in 1988 and 10.8% in 1987. For the last three years combined, the Company's investment in research and engineering exceeded \$3.8 billion. Approximately 8,300 professional employees are involved in a number of research, engineering and programming activities around the world. These activities include developing or enhancing systems and related peripheral equipment and software, expanding product applications, and multivendor systems integration.

During 1989, the Company entered into a comprehensive technology exchange for current and future RISC (reduced instruction set computing) technology and designs developed by MIPS Computer Systems, Inc., of Sunnyvale, California. With the addition of ULTRIX/OSF systems using RISC technology, the Company is able to offer customers more versatility in matching technology to application demands. RISC/ULTRIX and VAX/VMS will be alternative technologies within the Company's system architecture.

The Company announced many new products during the year, the result of its commitment to research and engineering investment. Among the new products were DECtp, allowing for an enhanced transaction processing environment; Digital Enterprise Services, a portfolio of services to aid systems integration; and Digital Enterprise Management Architecture, an open network-management system designed to tie multiple voice and data systems together.

### Research and Engineering

\$ Millions

|    |  |      |
|----|--|------|
| 89 |  | 1525 |
| 88 |  | 1307 |
| 87 |  | 1010 |
| 86 |  | 814  |
| 85 |  | 717  |
| 84 |  | 631  |
| 83 |  | 472  |
| 82 |  | 350  |
| 81 |  | 251  |
| 80 |  | 186  |
| 79 |  | 138  |

### Net Income

\$ Millions

|    |  |      |
|----|--|------|
| 89 |  | 1073 |
| 88 |  | 1306 |
| 87 |  | 1137 |
| 86 |  | 617  |
| 85 |  | 447  |
| 84 |  | 329  |
| 83 |  | 284  |
| 82 |  | 417  |
| 81 |  | 343  |
| 80 |  | 250  |
| 79 |  | 178  |

### Net Income Per Common Share

\$

|    |  |      |
|----|--|------|
| 89 |  | 8.45 |
| 88 |  | 9.90 |
| 87 |  | 8.53 |
| 86 |  | 4.81 |
| 85 |  | 3.71 |
| 84 |  | 2.87 |
| 83 |  | 2.50 |
| 82 |  | 3.76 |
| 81 |  | 3.35 |
| 80 |  | 2.73 |
| 79 |  | 2.05 |

Supporting its desktop initiative, the Company introduced DECstation 210, 316 and 320 systems, a family of industry-standard personal computers; DECstation 3100, a RISC-based desktop workstation; VAXstation 3100, a VAX-based high-performance workstation; and a series of server products that link PC's in work groups and PC's and workstations in local area networks. Also announced as part of the desktop initiative were a number of software, disk and tape drive and imaging products.

The Company expanded its presence in the distributed computing market with the announcement of MicroVAX 3300 and MicroVAX 3400 computer systems, which essentially replace the MicroVAX II line and deliver twice the price performance. Shortly after the close of the second quarter the Company announced VAX 6300 systems, enhancements to the popular VAX 6200 computer; DECsystem 3100, a multiuser, RISC-based system for general purpose computing; and MicroVAX 3800 and 3900 systems with improved performance and storage capacity.

Selling, general and administrative expenses increased 19% over the previous year, and represented 28.5% of total operating revenues compared with 26.7% in 1988 and 24% in 1987. The Company continued to invest in its sales, sales support and marketing efforts to ensure sales growth and to further enhance customer support. Much of the increase in spending represented the addition of personnel added to support growth in overseas markets.

Operating income in 1989 declined 18% from that of the previous two years. Flat year-to-year revenues in the U.S. and a higher level of operating expenses led to the decline.

Interest income in 1989 decreased from 1988 levels, reflecting lower cash balances after the Company repurchased \$815 million of its common stock on the open market. Interest expense was essentially unchanged from the previous year.

The Company's effective tax rate for 1989 was 24.5%, down slightly from 25% in 1988.

During December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes, SFAS No. 96, which will require the Company to adjust its deferred tax assets and liabilities. The Company must adopt SFAS No. 96 no later than December 29, 1990. Management expects that the adoption of SFAS No. 96 will not have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

The total number of employees at year-end was 125,800, an increase of approximately 4,300 over the previous year.

Return on equity, the ratio of net income to average stockholders' equity, was 13.8% in 1989 and 18.9% in both 1988 and 1987.

| Employee Population | Thousands |
|---------------------|-----------|
| 89                  | 126       |
| 88                  | 122       |
| 87                  | 111       |
| 86                  | 95        |
| 85                  | 89        |
| 84                  | 86        |
| 83                  | 73        |
| 82                  | 67        |
| 81                  | 63        |
| 80                  | 56        |
| 79                  | 44        |

## Management's Discussion and Analysis of Financial Condition

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

Cash to support the Company's operations has historically been met with internally generated cash supplemented with external financing. During 1989, internally generated cash was more than sufficient to support operations.

During the three-year period of 1987-1989, cash generated from operating activities exceeded cash used for investing activities by \$1,231 million. In 1989, net cash generated from operations and investments was \$189 million, compared with \$161 million in 1988 and \$881 million in 1987.

The Company repaid at maturity \$150 million of 11<sup>3</sup>/<sub>4</sub>% Guaranteed Notes in March 1989. Total long-term debt, exclusive of current maturities, was \$136 million at the end of 1989.

In October 1988, the Board of Directors authorized the repurchase of up to ten million shares of the Company's

### Common Stock Information

The Company's common stock is listed and traded on the Midwest Stock Exchange, New York Stock Exchange, Pacific Stock Exchange and several European stock exchanges. There were 99,084 stockholders of record as of July 1, 1989. The high and low quarterly sales prices for the past two fiscal years are presented below.

| Fiscal Quarter | 1989                              |                                   |
|----------------|-----------------------------------|-----------------------------------|
|                | High                              | Low                               |
| First          | \$117                             | \$91 <sup>1</sup> / <sub>2</sub>  |
| Second         | 99 <sup>3</sup> / <sub>8</sub>    | 86 <sup>3</sup> / <sub>8</sub>    |
| Third          | 122 <sup>3</sup> / <sub>8</sub>   | 95 <sup>3</sup> / <sub>4</sub>    |
| Fourth         | 102 <sup>1</sup> / <sub>2</sub>   | 89 <sup>3</sup> / <sub>4</sub>    |
| Fiscal Quarter | 1988                              |                                   |
|                | High                              | Low                               |
| First          | \$198 <sup>1</sup> / <sub>4</sub> | \$157 <sup>1</sup> / <sub>2</sub> |
| Second         | 199 <sup>1</sup> / <sub>2</sub>   | 110                               |
| Third          | 144 <sup>3</sup> / <sub>4</sub>   | 103 <sup>3</sup> / <sub>4</sub>   |
| Fourth         | 115 <sup>7</sup> / <sub>8</sub>   | 99 <sup>1</sup> / <sub>4</sub>    |

common stock on the open market. During 1989, the Company purchased 8.25 million shares of common stock at a total cost of \$815 million. The shares are being held as treasury stock.

Cash and temporary cash investments were \$1,655 million at the end of 1989, compared to \$2,164 million at the end of 1988. The decline in cash and temporary investments in 1989 reflects the repurchase of common stock and the repayment of debt. Unused lines of credit at the end of 1989 were \$576 million.

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

| Total Stockholders' Equity | \$ Millions |
|----------------------------|-------------|
| 89                         | 8036        |
| 88                         | 7510        |
| 87                         | 6294        |
| 86                         | 5728        |
| 85                         | 4555        |
| 84                         | 3979        |
| 83                         | 3541        |
| 82                         | 3165        |
| 81                         | 2680        |
| 80                         | 1652        |
| 79                         | 1120        |

## Spending for Operations

During 1989, the Company continued to make significant investments for the long term, while maintaining a strong financial position.

The Company invested \$1,223 million in property, plant and equipment in 1989 compared with \$1,518 million in 1988. Of this total, about two-thirds was spent for machinery and equipment primarily related to ensuring continued advances in technology, quality and efficiency in the Company's products and services, and throughout its operations. The balance of the capital spending was for land, buildings and leasehold improvements.

Although revenues increased by 11%, inventories grew only 4% from the prior year. The increase was more than accounted for by higher finished goods inventories as the Company prepared for a number of new product announcements shortly after the close of the fiscal year. Average year inventory turned 3.9 times, an improvement from 3.6 times in 1988 and 3.4 times in 1987. Accounts receivable grew 14% in 1989, slightly greater than the percentage growth in revenues. Days sales in accounts receivable outstanding were 76 days compared with 75 days in the prior year.

Return on assets, the ratio of net income to average total assets, was 10.3% in 1989, 14.1% in 1988 and 14.6% in 1987. The decrease in 1989 reflects a decrease in net income and growth in fixed assets.

The Company added approximately 3.8 million square feet of building space in 1989, bringing the total amount of space to

42.3 million square feet in over 1,100 owned and leased facilities. This compares with 38.5 million square feet in 1988 and 33.6 million square feet in 1987. More than half of the additional space was put in place to support overseas operations, and includes a state-of-the-art semiconductor manufacturing facility in South Queensferry, Scotland.

The Company will continue to invest for the future, and anticipates that its capital spending level in 1990 will be in the same general range as that of 1989. The actual level of spending will be dependent on a variety of factors, including worldwide economic conditions, growth in demand for the Company's products and services and changes in semiconductor and manufacturing process technology.

### Additions to Property, Plant & Equipment

|    | Depreciation Expense | \$ Millions |
|----|----------------------|-------------|
| 89 | 659                  | 1223        |
| 88 | 516                  | 1518        |
| 87 | 435                  | 748         |
| 86 | 384                  | 564         |
| 85 | 315                  | 572         |
| 84 | 253                  | 452         |
| 83 | 203                  | 419         |
| 82 | 153                  | 511         |
| 81 | 102                  | 399         |
| 80 | 70                   | 210         |
| 79 | 58                   | 94          |

■ Depreciation Expense

## Report of Management

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

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

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

## Report of Independent Accountants

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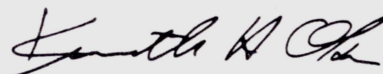
To The Stockholders and Directors,  
Digital Equipment Corporation

We have audited the accompanying consolidated balance sheets of Digital Equipment Corporation as of July 1, 1989 and July 2, 1988 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended July 1, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

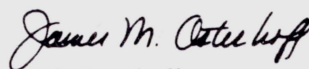
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

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

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



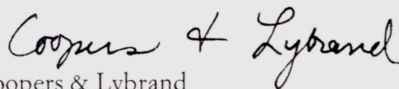
Kenneth H. Olsen  
*President*



James M. Osterhoff  
*Vice President, Finance*

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Equipment Corporation as of July 1, 1989 and July 2, 1988 and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended July 1, 1989 in conformity with generally accepted accounting principles.



Coopers & Lybrand

Boston, Massachusetts  
July 27, 1989

## Consolidated Statements of Income

(in thousands except per share data)

|   | Year Ended   |              |               |
|---|--------------|--------------|---------------|
|   | July 1, 1989 | July 2, 1988 | June 27, 1987 |
| <b>Revenues</b> (Notes A and C)                             |              |              |               |
| Product sales . . . . .                                     | \$ 8,190,308 | \$ 7,541,241 | \$6,254,187   |
| Service and other revenues . . . . .                        | 4,551,648    | 3,934,205    | 3,135,257     |
| Total operating revenues . . . . .                          | 12,741,956   | 11,475,446   | 9,389,444     |
| <b>Costs and Expenses</b> (Notes A, D and I)                |              |              |               |
| Cost of product sales . . . . .                             | 3,468,307    | 3,042,172    | 2,532,259     |
| Service expense and cost of other revenues . . . . .        | 2,773,563    | 2,426,176    | 1,981,635     |
| Research and engineering expenses . . . . .                 | 1,525,129    | 1,306,543    | 1,010,438     |
| Selling, general and administrative expenses . . . . .      | 3,638,868    | 3,065,555    | 2,253,105     |
| Operating income . . . . .                                  | 1,336,089    | 1,635,000    | 1,612,007     |
| Interest income . . . . .                                   | 124,021      | 143,665      | 122,149       |
| Interest expense . . . . .                                  | 39,435       | 37,820       | 45,203        |
| Income before income taxes . . . . .                        | 1,420,675    | 1,740,845    | 1,688,953     |
| <b>Provision for income taxes</b> (Notes A and E) . . . . . | 348,065      | 435,212      | 551,518       |
| <b>Net Income</b> . . . . .                                 | \$ 1,072,610 | \$ 1,305,633 | \$1,137,435   |
| <b>Net income per share</b> (Note B) . . . . .              | \$ 8.45      | \$ 9.90      | \$ 8.53       |
| Weighted average shares outstanding (Note B) . . . . .      | 127,008      | 131,923      | 133,305       |

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

## Consolidated Balance Sheets

(in thousands)

|   | July 1, 1989 | July 2, 1988 |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| <b>Current Assets</b>   |              |              |
| Cash and temporary cash investments (Note F) . . . . .  | \$ 1,655,264 | \$ 2,163,580 |
| Accounts receivable, net of allowance of \$74,345 and \$78,148 . . . . .                              | 2,965,408    | 2,592,160    |
| Inventories (Note A)  |              |              |
| Raw materials . . . . .   | 360,135      | 392,734      |
| Work-in-process . . . . .   | 570,064      | 555,229      |
| Finished goods . . . . .  | 707,802      | 627,096      |
| Total inventories . . . . .   | 1,638,001    | 1,575,059    |
| Prepaid expenses . . . . .  | 255,195      | 274,160      |
| Net deferred Federal and foreign income tax charges . . . . .   | 381,140      | 324,962      |
| Total Current Assets . . . . .  | 6,895,008    | 6,929,921    |
| <b>Property, Plant and Equipment, at cost (Note A)</b>  |              |              |
| Land . . . . .  | 300,540      | 299,157      |
| Buildings . . . . .   | 1,599,673    | 1,283,048    |
| Leasehold improvements . . . . .  | 530,773      | 458,449      |
| Machinery and equipment . . . . .   | 3,817,587    | 3,169,792    |
| Total property, plant and equipment, at cost . . . . .  | 6,248,573    | 5,210,446    |
| Less accumulated depreciation . . . . .   | 2,602,677    | 2,115,421    |
| Net property, plant and equipment . . . . .   | 3,645,896    | 3,095,025    |
| Other assets, net (Note G) . . . . .  | 126,875      | 86,610       |
| Total Assets . . . . .  | \$10,667,779 | \$10,111,556 |
| <b>Liabilities and Stockholders' Equity</b>   |              |              |
| <b>Current Liabilities</b>  |              |              |
| Bank loans and current portion of long-term debt (Note H) . . . . .                                   | \$ 29,755    | \$ 154,670   |
| Accounts payable . . . . .  | 553,818      | 523,173      |
| Federal, foreign and state income taxes . . . . .   | 445,977      | 504,195      |
| Salaries, wages and related items . . . . .   | 300,393      | 257,663      |
| Deferred revenues and customer advances (Note A) . . . . .  | 833,831      | 727,984      |
| Other current liabilities . . . . .   | 230,265      | 246,419      |
| Total Current Liabilities . . . . .   | 2,394,039    | 2,414,104    |
| Net deferred Federal and foreign income tax credits . . . . .   | 102,048      | 63,154       |
| Long-term debt (Note H) . . . . .   | 136,019      | 123,924      |
| Total Liabilities . . . . .   | 2,632,106    | 2,601,182    |
| <b>Stockholders' Equity (Notes I and J)</b>   |              |              |
| Common stock, \$1.00 par value; authorized 450,000,000 shares;<br>issued 130,008,231 shares . . . . . | 130,008      | 130,008      |
| Additional paid-in capital . . . . .  | 2,469,711    | 2,424,391    |
| Retained earnings . . . . .   | 6,366,418    | 5,463,050    |
| Treasury stock at cost; 8,471,655 shares and 3,718,375 shares . . . . .                               | (930,464)    | (507,075)    |
| Total Stockholders' Equity . . . . .  | 8,035,673    | 7,510,374    |
| Total Liabilities and Stockholders' Equity . . . . .  | \$10,667,779 | \$10,111,556 |

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

## Consolidated Statements of Cash Flows

(in thousands)

|   | Year Ended   |              |               |
|---|--------------|--------------|---------------|
|   | July 1, 1989 | July 2, 1988 | June 27, 1987 |
| <b>Cash Flows from Operating Activities</b>   |              |              |               |
| Net income . . . . .  | \$1,072,610  | \$1,305,633  | \$1,137,435   |
| Adjustments to reconcile net income to<br>net cash provided by operating activities |              |              |               |
| Depreciation and amortization . . . . .   | 686,738      | 527,141      | 436,118       |
| Other adjustments to income . . . . .   | 49,702       | 66,349       | 74,109        |
| (Increase) in accounts receivable . . . . .   | (373,248)    | (279,972)    | (408,901)     |
| (Increase) in inventories . . . . .   | (62,942)     | (122,140)    | (253,163)     |
| (Increase)/decrease in prepaid expenses . . . . .                                   | 18,965       | (154,967)    | (33,919)      |
| Increase in accounts payable . . . . .  | 30,645       | 92,598       | 171,010       |
| Increase/(decrease) in taxes . . . . .  | (75,502)     | 92,600       | 190,418       |
| Increase in deferred revenues & customer advances . . . . .                         | 105,847      | 252,059      | 222,135       |
| Increase/(decrease) in other liabilities . . . . .                                  | 26,576       | (80,916)     | 174,573       |
| Total adjustments . . . . .   | 406,781      | 392,752      | 572,380       |
| Net cash flows from operating activities . . . . .                                  | 1,479,391    | 1,698,385    | 1,709,815     |
| <b>Cash Flows from Investing Activities</b>   |              |              |               |
| Purchase of plant, property, and equipment . . . . .                                | (1,223,038)  | (1,517,579)  | (748,359)     |
| (Increase) in other assets, net . . . . .   | (67,624)     | (19,212)     | (80,463)      |
| Net cash flows from investing activities . . . . .                                  | (1,290,662)  | (1,536,791)  | (828,822)     |
| Net cash flows from operating and investing activities . . . . .                    | 188,729      | 161,594      | 880,993       |
| <b>Cash Flows from Financing Activities:</b>  |              |              |               |
| Proceeds from issuance of debt . . . . .  | 40,425       | 7,283        | 0             |
| Payments to retire debt . . . . .   | (153,245)    | (2,854)      | (81,187)      |
| Purchase of treasury shares . . . . .   | (814,958)    | (363,499)    | (781,790)     |
| Proceeds from issuance of treasury shares . . . . .                                 | 230,733      | 242,761      | 189,346       |
| Net cash flows from financing activities . . . . .                                  | (697,045)    | (116,309)    | (673,631)     |
| Net increase/(decrease) in cash and cash equivalents . . . . .                      | (508,316)    | 45,285       | 207,362       |
| Cash and cash equivalents at the beginning of year . . . . .                        | 2,163,580    | 2,118,295    | 1,910,933     |
| Cash and cash equivalents at end of year . . . . .                                  | \$1,655,264  | \$2,163,580  | \$2,118,295   |

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

## Consolidated Statements of Stockholders' Equity

| <i>(in thousands)</i>  | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Total<br>Stock-<br>holders'<br>Equity |
|--|-----------------|----------------------------------|----------------------|-------------------|---------------------------------------|
| June 28, 1986 .....  | \$128,591       | \$2,224,304                      | \$3,374,932          |                   | \$5,727,827                           |
| Purchase of 5,000,000 shares of treasury<br>stock <i>(Note J)</i> .....          |                 |                                  |                      | \$(781,790)       | (781,790)                             |
| Shares issued under stock option and<br>purchase plans <i>(Note I)</i> .....     | 1,417           | 65,466                           | (102,125)            | 182,072           | 146,830                               |
| Restricted stock plans, charge to operations .....                               |                 | 20,653                           |                      |                   | 20,653                                |
| Tax benefits related to stock option and purchase<br>plans <i>(Note I)</i> ..... |                 | 42,516                           |                      |                   | 42,516                                |
| Net income—1987 .....  |                 |                                  | 1,137,435            |                   | 1,137,435                             |
| June 27, 1987 .....  | \$130,008       | \$2,352,939                      | \$4,410,242          | \$(599,718)       | \$6,293,471                           |
| Purchase of 3,000,000 shares of treasury<br>stock <i>(Note J)</i> .....          |                 |                                  |                      | (363,499)         | (363,499)                             |
| Shares issued under stock option and<br>purchase plans <i>(Note I)</i> .....     |                 |                                  | (252,825)            | 456,142           | 203,317                               |
| Restricted stock plans, charge to operations .....                               |                 | 32,008                           |                      |                   | 32,008                                |
| Tax benefits related to stock option and purchase<br>plans <i>(Note I)</i> ..... |                 | 39,444                           |                      |                   | 39,444                                |
| Net income—1988 .....  |                 |                                  | 1,305,633            |                   | 1,305,633                             |
| July 2, 1988 .....   | \$130,008       | \$2,424,391                      | \$5,463,050          | \$(507,075)       | \$7,510,374                           |
| Purchase of 8,247,000 shares of treasury<br>stock <i>(Note J)</i> .....          |                 |                                  |                      | (814,958)         | (814,958)                             |
| Shares issued under stock option and<br>purchase plans <i>(Note I)</i> .....     |                 |                                  | (169,242)            | 391,569           | 222,327                               |
| Restricted stock plans, charge to operations .....                               |                 | 36,914                           |                      |                   | 36,914                                |
| Tax benefits related to stock option and purchase<br>plans <i>(Note I)</i> ..... |                 | 8,406                            |                      |                   | 8,406                                 |
| Net income—1989 .....  |                 |                                  | 1,072,610            |                   | 1,072,610                             |
| July 1, 1989 .....   | \$130,008       | \$2,469,711                      | \$6,366,418          | \$(930,464)       | \$8,035,673                           |

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

## Notes to Consolidated Financial Statements

### Note A—Significant Accounting Policies

**Principles of Consolidation** □ The consolidated financial statements of the Company include the financial statements of the parent and its domestic and foreign subsidiaries. All significant intercompany accounts and profits have been eliminated.

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

The Company enters into forward exchange contracts to reduce the impact of foreign currency fluctuations on operations and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the operating revenues and expenses are recognized and, for assets and liabilities, in the period in which the exchange rates change.

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

### Note B—Net Income Per Share and Dividends

Net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the year. In the years ended July 1, 1989, July 2, 1988 and June 27, 1987, common

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

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

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

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

| 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 . . . . . | 3 to 10 years (accelerated methods)                                   |

share equivalents were attributable to stock options.

Cash dividends have never been paid by the Company.

## Note C—International Operations

(in thousands)

|   | Year Ended   |              |               |
|---|--------------|--------------|---------------|
|   | July 1, 1989 | July 2, 1988 | June 27, 1987 |
| <b>Revenues</b>   |              |              |               |
| United States customers . . . . .                       | \$ 5,848,975 | \$ 5,810,598 | \$ 5,016,606  |
| Intercompany . . . . .                                  | 2,103,290    | 2,017,928    | 1,921,043     |
|   | 7,952,265    | 7,828,526    | 6,937,649     |
| Europe customers . . . . .                              | 5,130,052    | 4,221,631    | 3,252,482     |
| Intercompany . . . . .                                  | 113,820      | 137,669      | 114,582       |
|   | 5,243,872    | 4,359,300    | 3,367,064     |
| Canada, Far East, Americas customers . . . . .          | 1,762,929    | 1,443,217    | 1,120,356     |
| Intercompany . . . . .                                  | 1,065,746    | 912,786      | 659,204       |
|   | 2,828,675    | 2,356,003    | 1,779,560     |
| Eliminations . . . . .                                  | (3,282,856)  | (3,068,383)  | (2,694,829)   |
| Net revenue . . . . .                                   | \$12,741,956 | \$11,475,446 | \$ 9,389,444  |
| <b>Income</b>   |              |              |               |
| United States . . . . .                                 | \$ 510,364   | \$ 512,754   | \$ 758,795    |
| Europe . . . . .  | 815,655      | 770,135      | 634,543       |
| Canada, Far East, Americas . . . . .                    | 411,267      | 390,787      | 278,359       |
| Eliminations . . . . .                                  | (401,197)    | (38,676)     | (59,690)      |
| Operating income . . . . .                              | 1,336,089    | 1,635,000    | 1,612,007     |
| Interest income . . . . .                               | 124,021      | 143,665      | 122,149       |
| Interest expense . . . . .                              | 39,435       | 37,820       | 45,203        |
| Income before income taxes . . . . .                    | \$ 1,420,675 | \$ 1,740,845 | \$ 1,688,953  |
| <b>Assets</b>   |              |              |               |
| United States . . . . .                                 | \$ 5,499,763 | \$ 5,245,439 | \$ 4,627,838  |
| Europe . . . . .  | 3,420,247    | 3,093,818    | 2,246,333     |
| Canada, Far East, Americas . . . . .                    | 1,298,519    | 1,293,906    | 843,067       |
| Corporate assets (temporary cash investments) . . . . . | 1,469,842    | 2,057,528    | 1,979,470     |
| Eliminations . . . . .                                  | (1,020,592)  | (1,579,135)  | (1,289,322)   |
| Total assets . . . . .                                  | \$10,667,779 | \$10,111,556 | \$ 8,407,386  |

**Note C—International Operations** (continued)

**Industry** □ The Company's business consists of the design, manufacture, sale and service of network computer systems, associated peripheral equipment, and related network, communications and software products.

**International Operations** □ Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America and the Far East; by direct sales from the parent corporation and through various representative and distributorship arrangements. The Company's international manufacturing operations include plants in Canada, the Far East and Europe. The products of these manufacturing plants are sold to the Company's sales subsidiaries, the parent corporation or other manufacturing plants for further processing.

**Note D—Pension Plans and Other Retirement Benefits**

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

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

(in thousands)

|   | 1989       | 1988       | 1987       |
|---|------------|------------|------------|
| Service cost-benefits earned during the period . . . . .        | \$ 188,068 | \$ 160,225 | \$ 126,977 |
| Interest cost on projected benefit obligation . . . . .         | 111,095    | 90,283     | 67,695     |
| Actual return on plan assets . . . . .                          | (230,671)  | 590        | (187,541)  |
| Net amortization and deferral . . . . .                         | 84,129     | (124,714)  | 93,272     |
| Net periodic pension cost . . . . .                             | \$ 152,621 | \$ 126,384 | \$ 100,403 |
| Total net periodic pension cost for all pension plans . . . . . | \$ 166,848 | \$ 138,308 | \$ 110,365 |

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

Sales to unaffiliated customers outside the United States, including U.S. export sales, were \$7,016,952,000, \$5,729,879,000 and \$4,412,527,000 for the years ended July 1, 1989, July 2, 1988 and June 27, 1987, respectively, which represented 55%, 50%, and 47%, respectively, of total operating revenues. The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated \$3,426,975,000, \$2,793,239,000 and \$2,070,337,000 at July 1, 1989, July 2, 1988 and June 27, 1987, respectively.

equity and debt securities, government securities and real estate.

The following table provides information on the status of the U.S. pension plan and certain non-U.S. plans which, in aggregate, represent approximately 91% of the total pension expense of the Company and its subsidiaries for the years ended July 1, 1989, July 2, 1988 and June 27, 1987, respectively. The measurement dates for all plans were within 90 days of year-end.

Net periodic pension cost for fiscal years 1989, 1988 and 1987 included the following components:

**Note D – Pension Plans and Other Retirement Benefits** (continued)

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

|  | 1989      | 1988      | 1987      |
|--|-----------|-----------|-----------|
| U.S. pension plan:   |           |           |           |
| Discount rate . . . . .                                    | 9.0%      | 9.0%      | 8.5%      |
| Expected long-term rate of return on plan assets . . . . . | 9.5%      | 9.5%      | 9.5%      |
| Rate of increase in future compensation levels. . . . .    | 6.8%      | 7.0%      | 6.5%      |
| Non-U.S. pension plans:                                    |           |           |           |
| Discount rate . . . . .                                    | 5.0-12.5% | 5.0-11.5% | 5.0- 9.0% |
| Expected long-term rate of return on plan assets . . . . . | 5.0-10.0% | 5.0-10.0% | 5.5-10.0% |
| Rate of increase in future compensation levels. . . . .    | 4.0- 9.5% | 5.3-10.5% | 5.8- 7.5% |

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

(in thousands)

|   | 1989           | 1988           |
|---|----------------|----------------|
| Actuarial present value of benefit obligations:                                   |                |                |
| Vested benefit obligation . . . . .   | \$ (472,004)   | \$ (382,457)   |
| Accumulated benefit obligation. . . . .   | \$ (552,685)   | \$ (448,903)   |
| Projected benefit obligation. . . . .   | \$ (1,570,855) | \$ (1,375,916) |
| Plan assets at fair value . . . . .   | 1,884,146      | 1,592,023      |
| Plan assets in excess of projected benefit obligation . . . . .                   | 313,291        | 216,107        |
| Contributions made after measurement date but before end of fiscal year . . . . . | 3,112          | 2,874          |
| Unrecognized net (gain) loss . . . . .  | (140,296)      | 35,628         |
| Unrecognized prior service cost . . . . .   | 25,149         | 27,719         |
| Unrecognized transition asset, net. . . . .                                       | (147,320)      | (158,678)      |
| Pension cost recognized on the balance sheet. . . . .                             | \$ 53,936      | \$ 123,650     |

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

recognized as an expense as claims are paid. These costs totaled \$1,565,000, \$1,025,000 and \$864,000 for the years ended July 1, 1989, July 2, 1988 and June 27, 1987, respectively. The majority of the Company's foreign subsidiaries do not offer such benefits to retirees. Of those that do, the amounts are immaterial.

## Note E – Income Taxes

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

| <i>(in thousands)</i> | <i>Year Ended</i>  |                    |                    |
|-----------------------|--------------------|--------------------|--------------------|
|                       | July 1, 1989       | July 2, 1988       | June 27, 1987      |
| Domestic .....        | \$530,298          | \$ 773,679         | \$ 832,638         |
| Foreign .....         | 890,377            | 967,166            | 856,315            |
| <b>Total .....</b>    | <b>\$1,420,675</b> | <b>\$1,740,845</b> | <b>\$1,688,953</b> |

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

|   | 1989         | 1988         | 1987         |
|---|--------------|--------------|--------------|
| U.S. Federal statutory tax rate .....           | 34.0%        | 34.0%        | 46.0%        |
| Tax benefit of manufacturing operations in: (a) |              |              |              |
| Puerto Rico .....                               | (3.9)        | (2.6)        | (3.4)        |
| Ireland .....                                   | (3.3)        | (2.4)        | (4.1)        |
| Singapore .....                                 | (0.4)        | (0.7)        | (1.5)        |
| Taiwan .....                                    | (0.4)        | (0.4)        | (0.5)        |
| Research and engineering credit .....           | (1.5)        | (1.6)        | (1.1)        |
| State income taxes .....                        | 0.8          | 1.9          | 1.5          |
| Other .....                                     | (0.8)        | (3.2)        | (4.2)        |
| <b>Effective tax rate .....</b>                 | <b>24.5%</b> | <b>25.0%</b> | <b>32.7%</b> |

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

December 1999. The income from certain products manufactured by the Company's Singaporean manufacturing subsidiary is wholly exempt from Singaporean taxes through December 1990 and partially exempt through December 1993. The income from certain products manufactured by the Company's manufacturing subsidiary operating in Taiwan is wholly exempt from Taiwanese taxes through May 1991.

**Note E – Income Taxes** (continued)

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

| <i>(in thousands)</i>               | Year Ended       |                  |                  |
|-------------------------------------|------------------|------------------|------------------|
|                                     | July 1, 1989     | July 2, 1988     | June 27, 1987    |
| U.S. Federal:                       |                  |                  |                  |
| Current . . . . .                   | \$136,331        | \$175,079        | \$264,966        |
| Deferred . . . . .                  | (6,775)          | (80,118)         | 32,118           |
| <b>Total . . . . .</b>              | <b>\$129,556</b> | <b>\$ 94,961</b> | <b>\$297,084</b> |
| Foreign:                            |                  |                  |                  |
| Current . . . . .                   | \$211,652        | \$259,246        | \$200,416        |
| Deferred . . . . .                  | (10,861)         | 31,483           | 5,346            |
| <b>Total . . . . .</b>              | <b>\$200,791</b> | <b>\$290,729</b> | <b>\$205,762</b> |
| State income taxes . . . . .        | \$ 17,718        | \$ 49,522        | \$ 48,672        |
| <b>Total income taxes . . . . .</b> | <b>\$348,065</b> | <b>\$435,212</b> | <b>\$551,518</b> |

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 differ-

ences in the years ended July 1, 1989, July 2, 1988 and June 27, 1987, and the tax effect of each were as follows:

| <i>(in thousands)</i>  | Year Ended         |                   |                 |
|--|--------------------|-------------------|-----------------|
|  | July 1, 1989       | July 2, 1988      | June 27, 1987   |
| Inventory related transactions . . . . .                                       | \$ (7,390)         | \$ 23,417         | \$ 6,943        |
| Installment sales, principally<br>intercompany, and financing leases . . . . . | (1,086)            | (79,317)          | 38,054          |
| Deferred warranty revenue . . . . .  | 14,687             | (99,510)          | (14,303)        |
| Depreciation . . . . .   | 3,670              | 12,648            | 4,957           |
| Capitalized software development costs . . . . .                               | 3,375              | 33,575            | 11,265          |
| Other . . . . .  | (30,892)           | 60,552            | (9,452)         |
| <b>Total . . . . .</b>   | <b>\$ (17,636)</b> | <b>\$(48,635)</b> | <b>\$37,464</b> |

In connection with its normal examinations of the Company's 1982 and 1983 tax returns, the Internal Revenue Service has proposed adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition, the Company believes any adjustments which might result would not have a material effect on the financial statements.

During December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes, SFAS No. 96, which will require the Company to adjust its deferred tax assets and liabilities.

The Company must adopt SFAS No. 96 no later than December 29, 1990. Management does not expect that the adoption of SFAS No. 96 will have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

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

**Note F – Cash Flow Statement**

In 1989, the Company adopted Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. Prior years' Statements of Changes in Financial Position have been restated for comparative purposes.

The Company considers all highly liquid temporary cash investments with low interest rate risk to be cash equivalents. Temporary cash investments are valued at cost plus accrued interest, which approximates market. None of the cash reflected on the balance sheet at July 1, 1989 and July 2, 1988 was required as compensating balances.

**Note G – Capitalized Computer Software Development Costs**

Unamortized computer software development costs which are included in Other assets, net on the balance sheet were \$90,395,000, and \$65,638,000 at July 1, 1989 and July 2, 1988, respectively. These costs are amortized over three years from

**Note H – Debt**

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

| <i>(in thousands)</i>  | <b>July 1, 1989</b> | July 2, 1988 |
|--|---------------------|--------------|
| Lease obligations payable 1991-2002 (5.4%-10.95%)(a) . . . . . | <b>\$ 17,083</b>    | \$ 15,185    |
| Notes due 1994 (12 <sup>5</sup> / <sub>8</sub> %)(b) . . . . . | <b>100,000</b>      | 100,000      |
| Other debt obligations . . . . .                               | <b>18,936</b>       | 8,739        |
|  | <b>\$136,019</b>    | \$123,924    |

Principal payments required during the next five fiscal years are as follows: 1990 – \$3,211,000; 1991 – \$2,900,000; 1992 – \$3,290,000; 1993 – \$3,403,000; 1994 – \$102,478,000.

Income taxes paid were \$451,460,000, \$307,785,000 and \$323,478,000 during the years ended July 1, 1989, July 2, 1988 and June 27, 1987, respectively.

Interest paid was \$40,902,000, \$38,182,000 and \$45,570,000 during the years ended July 1, 1989, July 2, 1988 and June 27, 1987, respectively.

the date the products are available for general release. Costs amortized were \$27,359,000, \$11,634,000 and \$1,431,000 for the years ended July 1, 1989, July 2, 1988 and June 27, 1987, respectively.

(a) Weighted average interest rate at July 1, 1989 and July 2, 1988 of 9.2% and 8.6%, respectively.

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

The Company has lines of credit available for short-term financing totaling \$602,079,000. Unused lines of credit totaled \$575,535,000 at July 1, 1989 and \$580,568,000 at July 2, 1988.

## Note I—Stock Plans

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

Information concerning activity during the three years ended July 1, 1989 was as follows:

|                     | Shares Reserved For Future Grants | Options Outstanding |                         |
|---------------------|-----------------------------------|---------------------|-------------------------|
|                     |                                   | Shares              | Average Price Per Share |
| June 28, 1986       | 17,937,700                        | 11,465,780          | \$30.24                 |
| Options Granted     | (2,805,620)                       | 2,805,620           | 56.00                   |
| Options Exercised   | —                                 | (1,036,517)         | 25.30                   |
| Options Cancelled   | 231,682                           | (231,682)           | 34.20                   |
| Options Terminated  | (198,132)                         | —                   | —                       |
| June 27, 1987       | 15,165,630                        | 13,003,201          | \$36.12                 |
| Options Granted     | (3,244,400)                       | 3,244,400           | 152.95                  |
| Options Exercised   | —                                 | (1,302,482)         | 28.67                   |
| Options Cancelled   | 182,896                           | (182,896)           | 52.68                   |
| Options Terminated  | (118,075)                         | —                   | —                       |
| July 2, 1988        | 11,986,051                        | 14,762,223          | \$62.25                 |
| Options Granted     | (3,491,580)                       | 3,491,580           | 73.00                   |
| Options Exercised   | —                                 | (1,081,871)         | 29.75                   |
| Options Cancelled   | 307,370                           | (307,370)           | 66.99                   |
| Options Terminated  | (142,472)                         | —                   | —                       |
| <b>July 1, 1989</b> | <b>8,659,369</b>                  | <b>16,864,562</b>   | <b>\$66.47</b>          |

At the time these options are exercised, the common stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to \$36,914,000, \$32,008,000 and \$20,653,000 in the years ended July 1, 1989, July 2, 1988 and June 27, 1987, respectively. The amounts deductible for Federal income taxes may differ from the amounts charged to income for book purposes. The Federal income tax effects of these differences are included in paid-in capital.

**Employee Stock Purchase Plans** □ Under the Company's Employee Stock Purchase Plans, all United States and certain international employees may be granted the opportunity to purchase common stock at 85% of market value on the first or last business day of the six month payment period, whichever is lower. On November 3, 1988, the Company's stockholders approved an increase of 9,000,000 shares of common stock to the 1968 Employee Stock Purchase Plan and 1,000,000 shares to the 1981 International Employee Stock Purchase Plan. Common stock reserved for future grants aggregated 9,682,268 shares at July 1, 1989 and 2,099,727 shares at July 2, 1988. There were 2,417,459 shares issued at an average price of \$78.87 per share during the year ended July 1, 1989 and 1,838,231 shares at \$93.25 per share during the year ended July 2, 1988. 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 J – Treasury Stock**

The Company purchased on the open market 8,247,000 shares of its common stock at an aggregate purchase price of \$814,958,000, or \$98.82 per share, during the year ended July 1, 1989; 3,000,000 shares at an aggregate purchase price of \$363,499,000, or \$121.17 per share, during the year ended July 2, 1988 and 5,000,000 shares at an aggregate purchase price of \$781,790,000, or \$156.36 per share, during the year ended

June 27, 1987. All of the acquired shares are held as common stock in treasury, less shares distributed to employees under the Employee Stock Purchase Plans and Restricted Stock Option Plans. The difference between the average acquisition cost of the shares and the proceeds from issuance is charged to retained earnings.

**Note K – Leases**

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

| Fiscal Years                           | (in thousands) |
|--|----------------|
| 1990 . . . . .                         | \$ 318,205     |
| 1991 . . . . .                         | 273,328        |
| 1992 . . . . .                         | 208,325        |
| 1993 . . . . .                         | 142,637        |
| 1994 . . . . .                         | 104,976        |
| Later years . . . . .                  | 644,513        |
| Total minimum lease payments . . . . . | \$1,691,984    |

Total rental expense for the years ended July 1, 1989, July 2, 1988 and June 27, 1987 amounted to \$452,078,000, \$406,376,000 and \$335,518,000, respectively.

## Supplementary Financial Information

### Quarterly Financial Data (unaudited)

Selected quarterly financial data for the years ended July 1, 1989 and July 2, 1988 is set forth below:

| <i>(in millions except per share data)</i> | Total<br>Operating<br>Revenues | Gross<br>Profit  | Income<br>Before<br>Income<br>Taxes | Net<br>Income    | Net<br>Income<br>Per Share <sup>1</sup> |
|--|--------------------------------|------------------|-------------------------------------|------------------|---|
| <b>1989</b>                                |                                |                  |                                     |                  |   |
| First Quarter . . . . .                    | \$ 2,941.8                     | \$1,492.5        | \$ 306.0                            | \$ 223.4         | \$1.71                                  |
| Second Quarter . . . . .                   | 3,179.5                        | 1,623.3          | 373.7                               | 279.6            | 2.20                                    |
| Third Quarter . . . . .                    | 3,125.8                        | 1,605.3          | 339.6                               | 256.4            | 2.05                                    |
| Fourth Quarter . . . . .                   | 3,494.9                        | 1,779.0          | 401.4                               | 313.2            | 2.51                                    |
| <b>Total Year . . . . .</b>                | <b>\$12,742.0</b>              | <b>\$6,500.1</b> | <b>\$1,420.7</b>                    | <b>\$1,072.6</b> | <b>\$8.45</b>                           |
| <b>1988</b>                                |                                |                  |                                     |                  |   |
| First Quarter . . . . .                    | \$ 2,529.8                     | \$1,333.9        | \$ 369.8                            | \$ 269.9         | \$2.03                                  |
| Second Quarter . . . . .                   | 2,782.2                        | 1,459.1          | 429.5                               | 329.5            | 2.48                                    |
| Third Quarter . . . . .                    | 2,824.0                        | 1,462.5          | 406.9                               | 305.1            | 2.33                                    |
| Fourth Quarter . . . . .                   | 3,339.4                        | 1,751.6          | 534.6                               | 401.1            | 3.08                                    |
| <b>Total Year . . . . .</b>                | <b>\$11,475.4</b>              | <b>\$6,007.1</b> | <b>\$1,740.8</b>                    | <b>\$1,305.6</b> | <b>\$9.90</b>                           |

<sup>1</sup>Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share in 1989 and 1988 does not equal the total for the year.

## Officers

Kenneth H. Olsen  
President and Director

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

John J. Shields  
Senior Vice President, Sales, Services,  
Marketing and International

John F. Smith  
Senior Vice President, Engineering, Manufacturing  
and Product Marketing

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

Don K. Busiek  
Vice President, Systems Integration and  
Professional Services

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

Henry J. Crouse  
Vice President, Strategic Relations

James G. Cudmore  
Vice President, Product Operations

William R. Demmer  
Vice President, Mid-Range Systems

Pier Carlo Falotti  
Vice President, President and  
Chief Executive Officer – Europe

Samuel H. Fuller  
Vice President, Research

Rose Ann Giordano  
Vice President, Public Sector/Consultant Marketing

Robert M. Glorioso  
Vice President, High Performance Systems

David W. Grainger  
Vice President, U.S. Sales and Services

William C. Hanson  
Vice President, Manufacturing Operations

William J. Heffner  
Vice President, Open Software/Business Software

Martin R. Hoffmann  
Vice President, General Counsel and Secretary

Robert C. Hughes  
Vice President, U.S. Sales and Marketing

Donato A. Infante, Jr.  
Vice President, Manufacturing/Engineering  
Information Management and Technology

Ilene B. Jacobs  
Vice President and Treasurer

William R. Johnson, Jr.  
Vice President, Distributed Systems Engineering/  
Marketing

John C. MacKeen  
Vice President, Telecommunications Industry Marketing  
and International Programs Office

Edward B. McDonough  
Vice President, GIA Operations

Kevin C. Melia  
Vice President, Corporate Distribution  
and Materials

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

James M. Osterhoff  
Vice President, Finance

Robert B. Palmer  
Vice President, Semiconductor and  
Interconnect Technology

Richard Poulsen  
Vice President, General International Area

Bruce J. Ryan  
Vice President and Corporate Controller

F. Grant Saviers  
Vice President, Storage and  
Information Management

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

John L. Sims  
Vice President, Strategic Resources

## Officers (continued)

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Peter J. Smith  
Vice President, Product Marketing

David L. Stone  
Vice President, International Engineering and  
Strategic Resources

William D. Strecker  
Vice President, Product Strategy and Architecture

Harvey L. Weiss  
Vice President, Government Systems Group

Richard H. Yen  
Vice President, GIA Manufacturing and Engineering

Donald P. Zereski  
Vice President, Customer Services

## Directors

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

Philip Caldwell  
Senior Managing Director of Shearson Lehman  
Hutton, Inc., and Director of several corporations

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

Robert R. Everett  
Retired President of The MITRE Corporation

William H. McLean  
Engineering consultant and Director of several  
corporations

Kenneth H. Olsen  
President, Digital Equipment Corporation

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

## Corporate Consulting Engineers

---

Fernando Colon-Osorio  
Corporate Consultant, High Performance Systems

Roger Heinen, Jr.  
Corporate Consultant, Software Systems

Richard I. Hustvedt  
Corporate Consultant, Operating Systems

Alan Kotok  
Corporate Consultant, Storage and Information  
Management

Butler W. Lampson  
Corporate Consultant, Corporate Research and  
Architecture

Richard Lary  
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Management

Anthony G. Lauck  
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Jesse Lipcon  
Corporate Consultant, Low End Systems

Mahendra R. Patel  
Corporate Consultant, Technical Director,  
Distributed Systems

Mike Riggle  
Senior Corporate Consultant, Storage and  
Information Management

John Shebell  
Corporate Consultant, Customer Service Systems  
Engineering

Robert E. Stewart  
Corporate Consultant, Mid-Range Systems

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Fax: 508-264-6854

Canadian Headquarters  
Digital Equipment of Canada, Ltd.  
100 Herzberg Road  
Kanata, Ontario, Canada K2K 2A6  
Telephone: (613) 592-5111  
Fax: 613-592-5111 Ext: X2375

## Investor Information

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

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

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

Unlisted trading privileges have been granted by the:

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

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

Correspondence may be directed to:

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

Requests for specific information are handled as follows:

Digital Equipment Corporation's Annual Report on Form 10-K for the fiscal year ended July 1, 1989, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Company's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Company and its products can be obtained by addressing:

Digital Equipment Corporation  
Inquiry Section  
444 Whitney Street NR02/H3  
Northboro, MA 01532-2599  
(508) 351-4401

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

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

**Investor Information** (continued)

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

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

Transfer Agent and Registrar  
for Common Stock

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

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

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

Customer Inquiries

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

Trustees and Registrars  
*For 12<sup>5</sup>/<sub>8</sub>% Notes due 1994*  
The Chase Manhattan Bank, N.A.  
1 New York Plaza  
New York, NY 10081

Auditors  
Coopers & Lybrand  
One International Place  
Boston, MA 02109  
(617) 574-5000

Legal Counsel  
Testa, Hurwitz & Thibault  
53 State Street  
Exchange Place  
Boston, MA 02109-2809  
(617) 367-7500

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