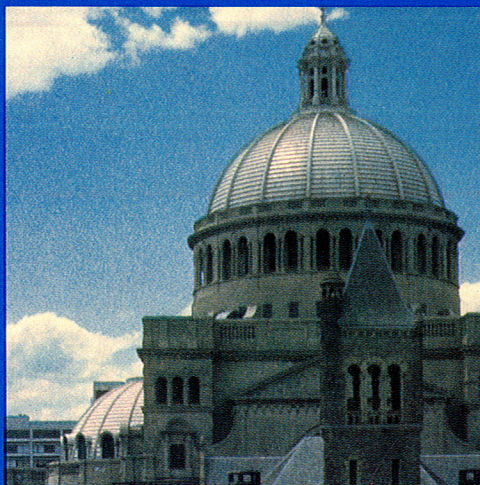
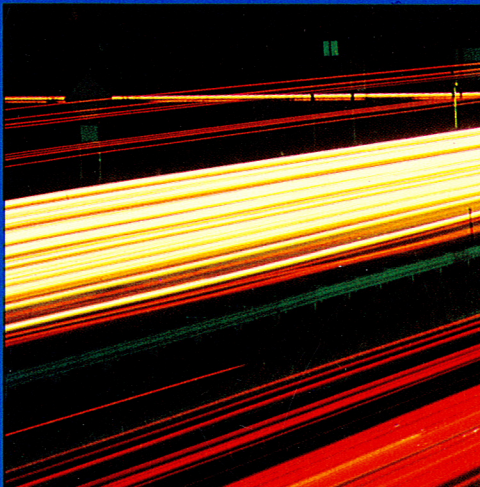
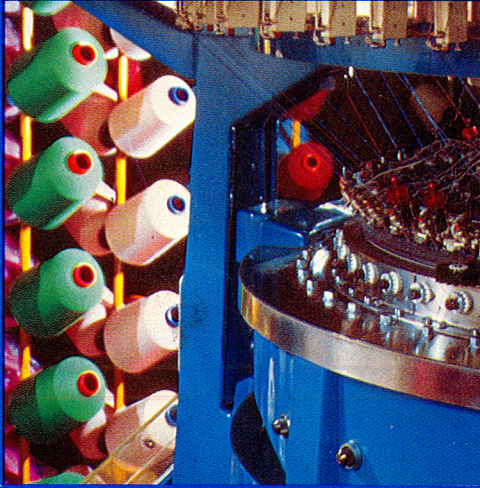


digital

DIGITAL EQUIPMENT CORPORATION ANNUAL REPORT 1973



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FINANCIAL HIGHLIGHTS

	1973	1972
Total operating revenues	\$265,469,000	\$187,553,000
Income before federal and foreign income taxes	\$ 37,200,000	\$ 25,100,000
Net income	\$ 23,500,000	\$ 15,300,000
Net income per common share	\$2.16	\$1.49
Working capital	\$152,724,000	\$ 87,156,000
Current ratio	3.4:1	2.8:1
Property, plant and equipment, less accumulated depreciation	\$ 65,563,000	\$ 46,959,000
Depreciation expense	\$ 8,032,000	\$ 5,053,000
Expenditures for research and engineering	\$ 24,933,000	\$ 20,137,000
Retained earnings	\$ 88,286,000	\$ 64,786,000
Total stockholders' equity	\$223,546,000	\$144,807,000
Common shares outstanding	11,078,755	10,342,771
Stockholders' equity per share	\$20.18	\$14.00
Number of stockholders	14,226	15,430
Number of employees	13,000	7,800

The Annual Meeting of Shareholders will be held at 11:00 A.M., Tuesday, October 30, 1973 at the Dorothy Quincy Suite, John Hancock Mutual Life Insurance Company, 180 Berkeley Street, Boston, Massachusetts.

President's Letter

August 29, 1973

To Our Shareholders:

As we complete our 16th year, I am pleased to report that Digital Equipment Corporation achieved its highest sales, earnings, and employment during the fiscal year that ended in June, 1973. Revenues during the year were \$265,469,000, compared to \$187,553,000 for the preceding fiscal year, an increase of 42 percent. Net income for the year was \$23,500,000, compared to \$15,300,000 during fiscal year 1972, an increase of 54 percent. Earnings per share were \$2.16, compared to \$1.49 of last year, an increase of 45 percent.

During the past recession, we continued to build manufacturing plants, enlarge our sales force and proceed with our product development program, but even so we were not ready for the large demand we experienced as the economy turned around a year ago. Many of our customers are dependent on us, and we felt a very definite obligation to do everything possible to fulfill their needs for our computers.

We grew during the year from about 7,800 people to 13,000 people and increased our manufacturing space in Massachusetts by more than one-half million square feet. We also completed a 130,000-square-foot building in Ireland and a core memory stringing plant in Taiwan that now employs

approximately 1,000 people. The demand for our equipment is still growing, and we have started to double our capacity in Puerto Rico and have agreed to purchase the RCA Corporation computer manufacturing and office facility in Marlboro, Massachusetts.

Our manufacturing costs continue to go down as the efficiency of our employees increases. We are building good equipment that takes less people to assemble and maintain. We plan to continue reducing the price of our equipment and enlarging the market for minicomputers.

We have continued to expand worldwide with sales operations now in 24 countries. Growing demand for our products will dictate our expansion into new geographic areas.

Digital continues to move forward in a number of areas of social concern. Our manufacturing facility in Springfield, Massachusetts, primarily managed and staffed by minorities, has been quite successful. In addition, we have an aggressive minority recruitment program. We have also initiated a cooperative education program with minority colleges and universities.

As we enter our 17th year, we are enthusiastic about the company's future. We will continue to develop better products and the organization to deliver and support them.



Kenneth H. Olsen
President



Major Product Groups

Minicomputers

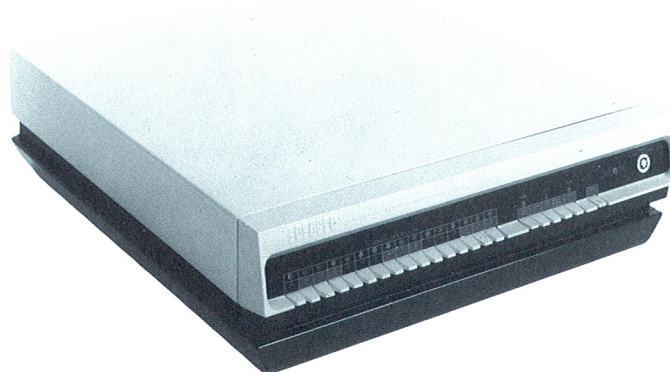
Digital's two minicomputer families, the PDP®-8 and PDP-11, continued as the most popular available. At the end of the fiscal year, over 18,000 PDP-8s and 7,000 PDP-11s had been shipped, bringing the total of these shipments to over 25,000 machines.

We offer the user a wide range of computing tools. Our hardware includes a full range of peripheral devices, such as magnetic disk memories and tape drives, line printers, data terminals, communications options and market-customized options. We now offer a wide range of software operating systems or sets of instructions that enable users to write their programs in symbology closely resembling the English language. This reduces the need for understanding the inner workings of a computer.

The applications of minicomputers range from controlling simple machines making automobile parts to large and complex timesharing and industrial systems that do many things simultaneously.

Our minicomputers will continue to be used to cut factory manufacturing costs, process goods, teach our children, improve the environment, perform scientific and engineering experiments, improve telephone service, aid the banking and insurance communities, and in general move and process data in many useful ways, some of which are yet unknown to us.

*PDP (Programmed Data Processor) is a registered trademark of Digital Equipment Corporation.



Medium-Scale Computers

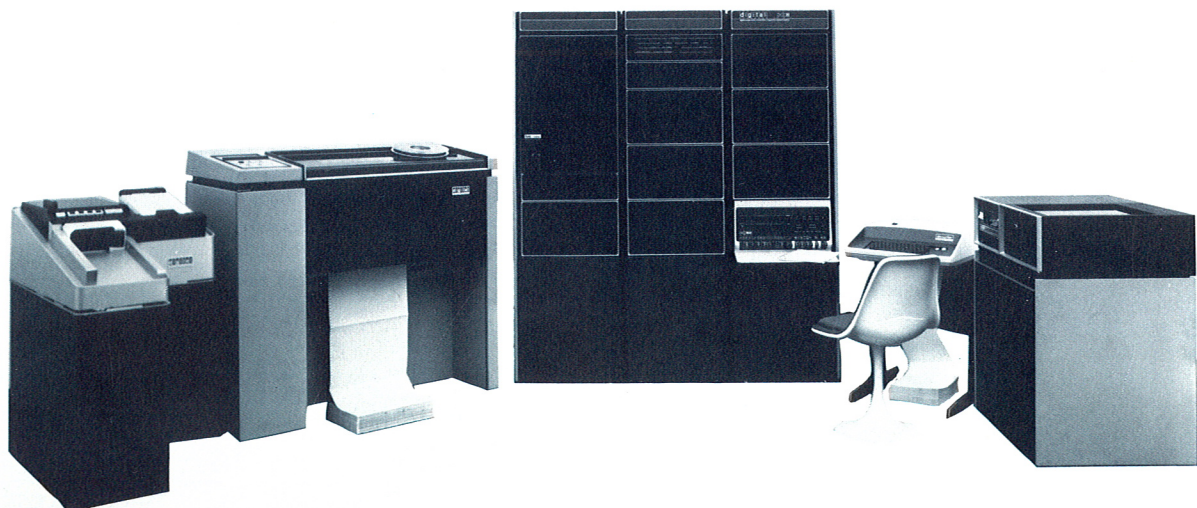
Our newest medium-scale computer, the PDP-11/45, has had extremely rapid growth in sales and shipments this past year. It is the fastest machine in its price range and has many of the characteristics of a large computer but with prices starting at less than \$20,000.

The PDP-11/45 is the only low-cost computer that makes use of three different types of primary memory: core, metallic-oxide semiconductor and bipolar semiconductor. It also features a memory management scheme that provides efficient memory utilization. The multiple memory capabilities of the system, combined with its other features, have made it a particularly cost-effective choice in the medium-scale market.

Important software additions were developed during the year for the PDP-11/45, including (1) RSTS/E, a timesharing system for education and computation center environments, (2) RSX-11D, a real-time system for on-line data acquisition, monitoring and control, and (3) a substantially improved FORTRAN system.

The PDP-11/45 has proven popular with end-users as an alternative to large-scale computers. It has also won acceptance by OEM's who require excellent system performance and flexibility. Installations passed 750 at year's end.

The second machine in our medium-scale computer group is the PDP-15, which is built on more than 10 years of software development and field experience with its direct predecessors. The latest advancement of the PDP-15 family is the PDP-15/76 computer system with UNICHANNEL-15; this system is a dual-processor configuration combining a PDP-11/05 minicomputer with a PDP-15. RSX-Plus III, the newest real-time operating system for PDP-15, was also introduced during the year. More than 650 PDP-15s are now in service.



Large-Scale Computers

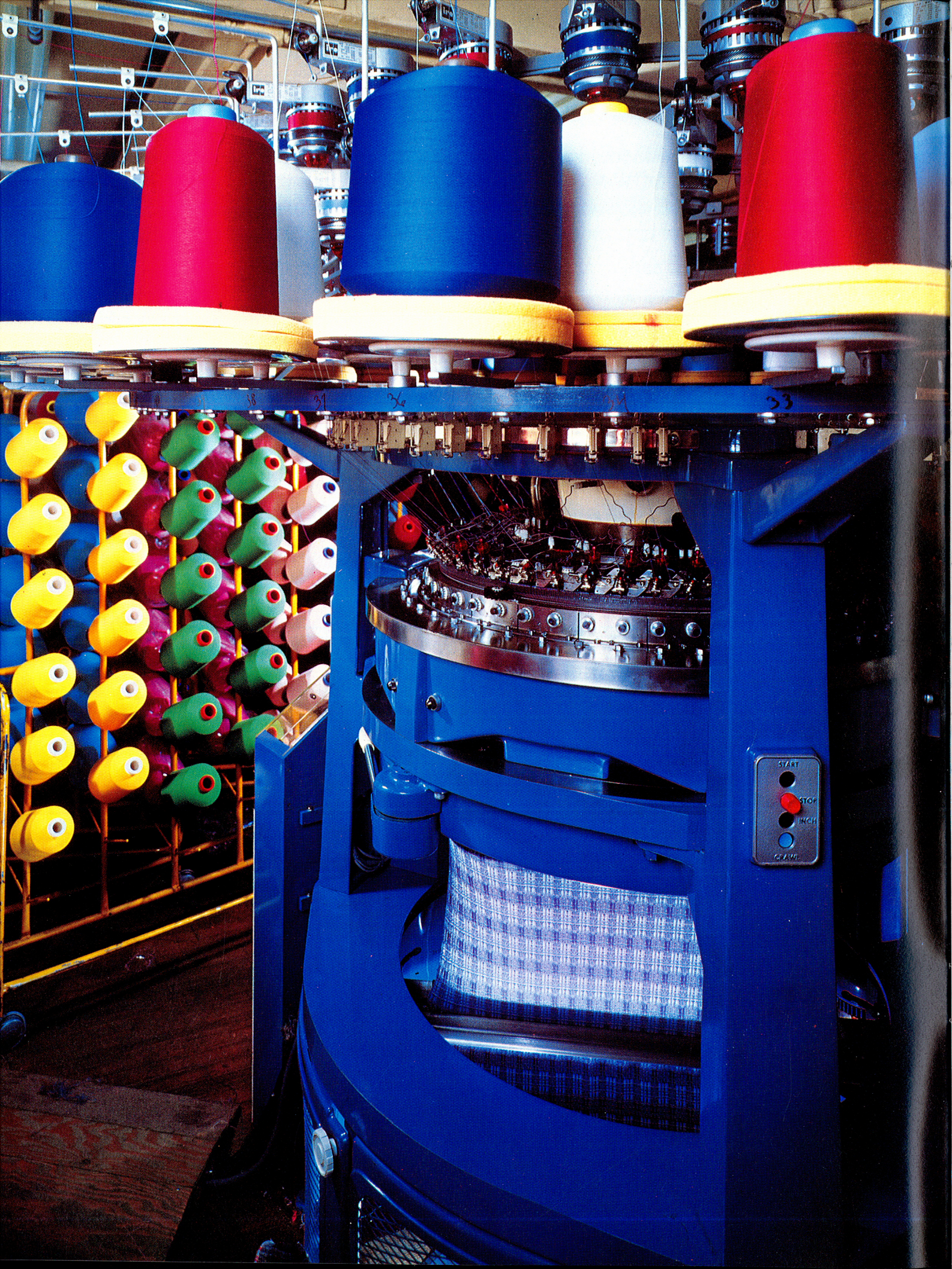
Digital became a leader in computer timesharing with the introduction of the PDP-6 in 1964. We now have over 280 PDP-6s, and the succeeding PDP-10s and DECsystem-10s, installed. These systems represent an installed base of approximately \$150 million. The DECsystem-10 ranges in price from \$400,000 to over \$1.2 million.

DECsystem-10s play a major role in timesharing computer utilities and in university research and computation centers. Continuing success in commercial and industrial applications indicates a further opportunity for this product. During the year, new memories, software and peripheral equipment were introduced, allowing significant price reductions. The DECsystem-10 is the industry leader in a growing trend toward the timesharing use of large computers and in distributed computing networks consisting of a host management computer that communicates with dedicated minicomputers.

The range of applications for the DECsystem-10 is diverse and some typical installations made during the year included:

1. Timesharing
 - Compu-Serv Network, Inc., Columbus, Ohio
 - On-Line Systems, Inc., Pittsburgh, Pennsylvania
 - First Data Corp., Waltham, Massachusetts
 - Tymshare, Inc., Palo Alto, California
2. University
 - Harvard Business School, Boston, Massachusetts
 - University of Campinas, Sao Paulo, Brazil
 - Newport-Mesa Unified School District, Orange County, California
 - University of Furtwangen, West Germany
 - Tufts University, Medford, Massachusetts
3. Commercial and Industrial
 - Ramada Inns, Inc., Phoenix, Arizona
 - First Church of Christ, Scientist, Boston, Massachusetts
 - Powell-Duffryn, United Kingdom
 - Abbott Laboratories, North Chicago, Illinois





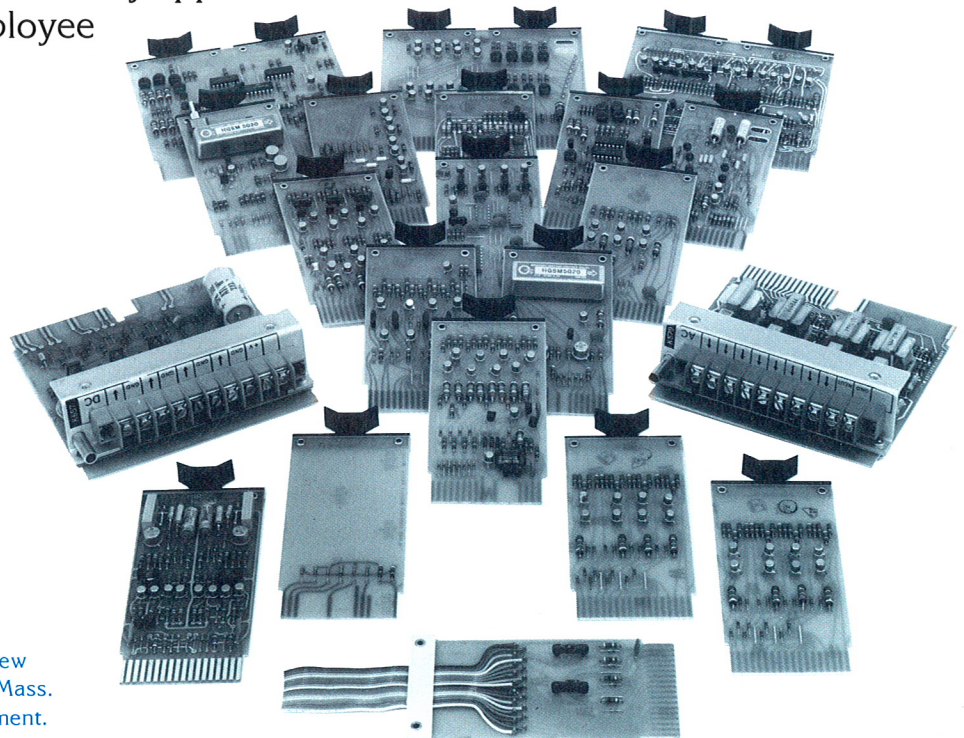
Logic Products

Logic-circuit modules were Digital's first products. They save engineering design time for our customers by serving as easy-to-use electronic-system building blocks. Each module is a self-contained package of the latest electronic components (such as integrated circuits, or "ICs"), assembled to perform a specific logic function.

These modules are communication links or interfaces between computers and machines and instrumentation.

We offer a number of logic kits that further simplify interfacing problems. Each kit contains modules needed to interface equipment in the most cost-effective manner, even by customers with limited knowledge of computers.

Digital also offers a variety of ready-to-use terminals for data entry and collection. These terminals typically have typewriter-like keyboards for entering data and a television-like screen for instantaneous display of this information. Our latest terminal is a badge reader. It can be used in industrial security applications for verifying employee identification.



The textile industry is automating much of its new machinery. Uxbridge Knitting Mills, Uxbridge, Mass. incorporates a PDP-11 in its double-knit equipment.

Peripherals and Memory

Digital puts considerable effort into the development of peripheral equipment or devices for communication with computers. We offer a full line of peripherals including tele-typewriters and data storage equipment that we manufacture in high volume.

The Corporation has also successfully integrated the manufacture of core memory, so that almost all corporate needs for memory products are now supplied from internal sources.

We now make and string 300 million cores per month, and we anticipate substantially increasing this amount in the coming months.



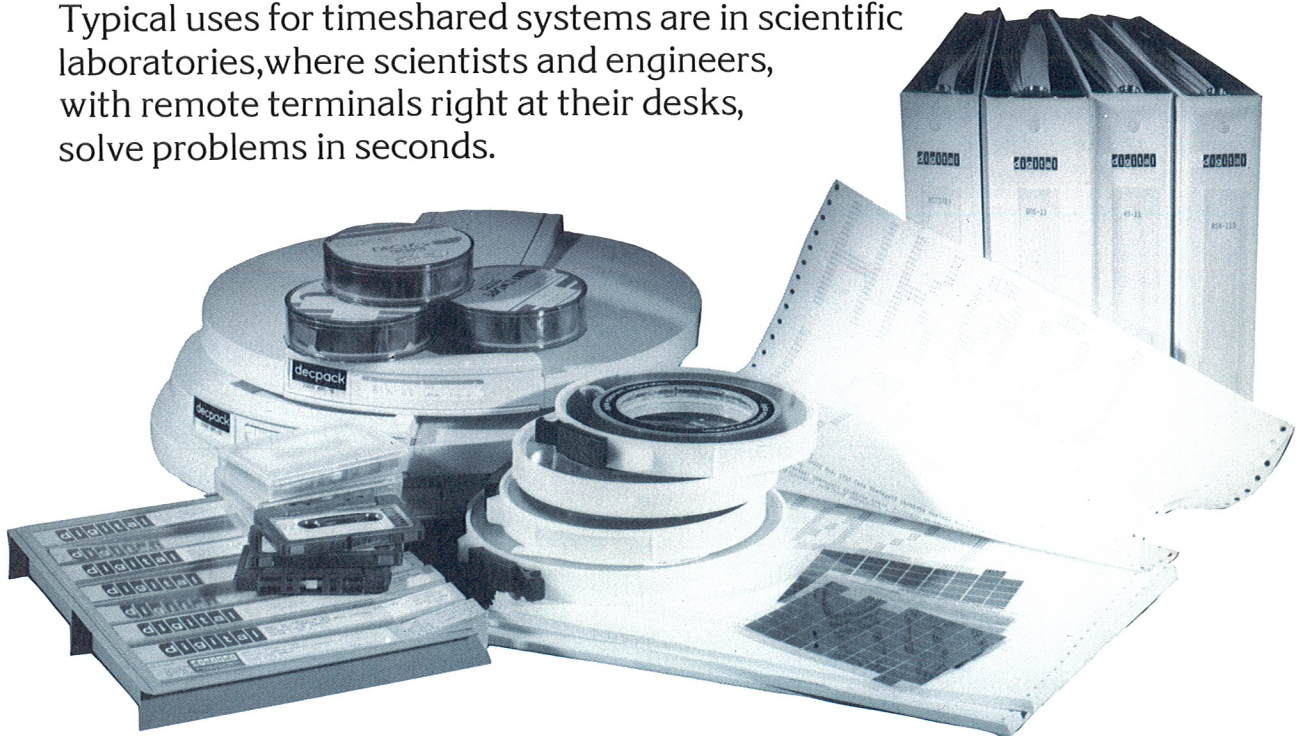
Software

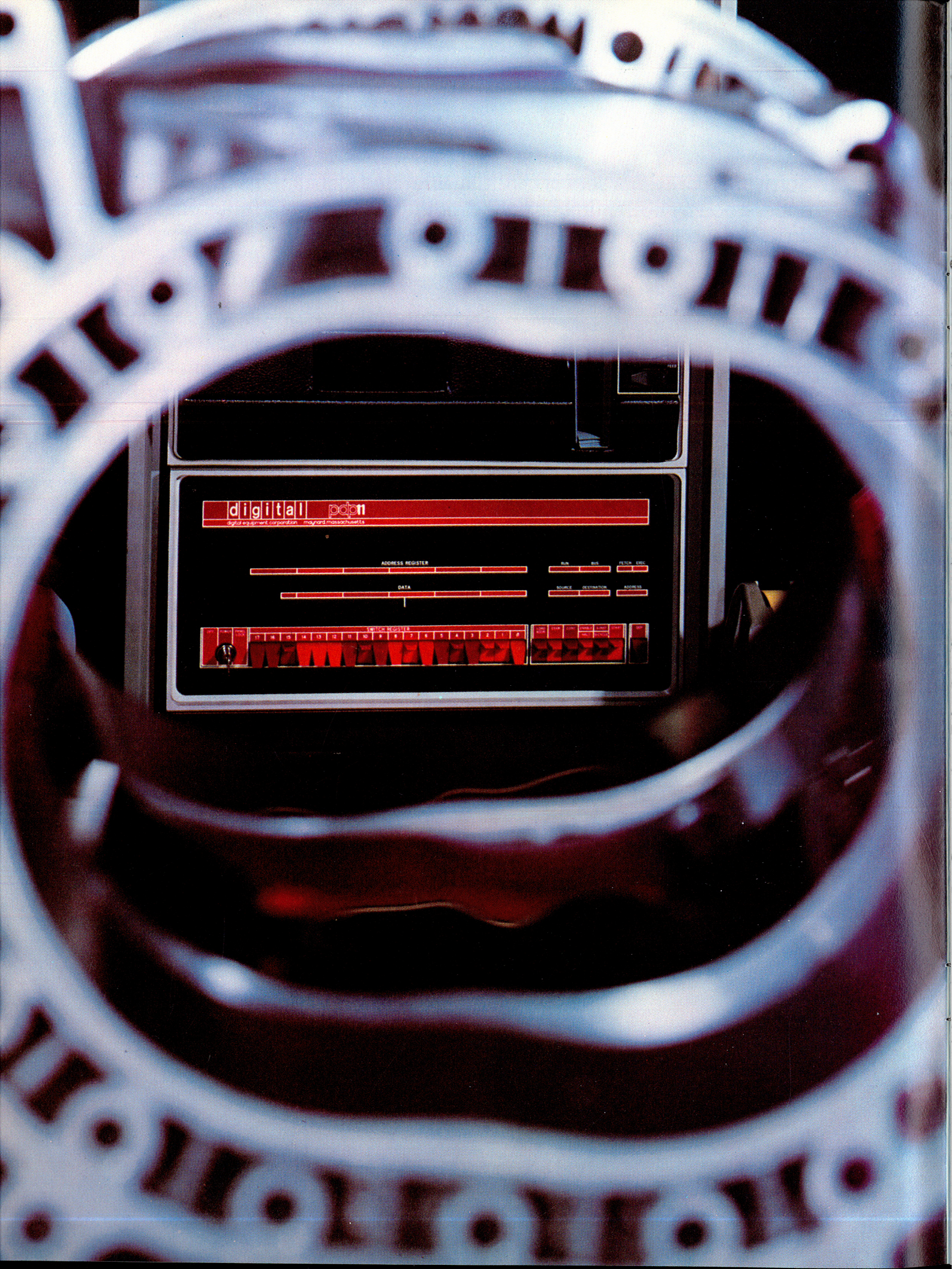
Software represents sets of carefully arranged instructions (programs), understood by both humans and computers, which make any computer do useful work. For this reason, approximately one-half of our development investment goes into software to permit better utilization of our computers.

Software efficiency is a major factor in determining computer operating costs. It heavily depends on intimate knowledge of the associated computers and their uses. Our software is almost entirely developed by Digital personnel, who have unlimited access to the company's technical, marketing and application information.

More than 60 new software products were introduced during the year—twice as many as in the preceding fiscal year. Noteworthy among them are RSX-11D and the RSTS/E software systems for the larger PDP-11 computers. The RSX-11D system has met with considerable success operating PDP-11 machines in large industrial control applications. Essential to this success is the ability of the RSX-11D system to operate in real-time to solve many problems simultaneously without human intervention and, to react to expected and unexpected events taking place in the controlled process or machine.

The RSTS/E software system operates larger PDP-11 computers in a timeshared mode in which several operators work with the computer simultaneously, solving unrelated problems. Typical uses for timeshared systems are in scientific laboratories, where scientists and engineers, with remote terminals right at their desks, solve problems in seconds.





digital **pdp-11**
digital equipment corporation maynard, massachusetts

ADDRESS REGISTER

RUN BUS FETCH EXEC

DATA

SOURCE DESTINATION ADDRESS

17 16 15 14 13 12 11 10 9 8 7 6 5 4 3 2 1 0

Major Market Groups

To be more responsive to specific customer and market needs, Digital has a number of separate groups, each serving a distinct market. Every one of these markets has its own unique characteristics, so that our organization ensures better understanding of customer requirements in each area. These markets are briefly highlighted.

Original Equipment Manufacturer (OEM) Market

The term Original Equipment Manufacturers, or OEMs, defines industrial and commercial concerns that incorporate our computers into their products for subsequent resale to their customers. For instance, a typical machine-tool builder designing a computer-controlled machine tool (a lathe, a punch press, a milling machine, etc.), purchases his control computer from a computer manufacturer.

We increased our market share in this highly competitive and important area during the past year. Today, we have approximately 450 OEM customers that rely on Digital as a primary supplier. We will continue to grow in this area by developing large and small systems tailored to meet a wider range of OEM needs.



Industrial Market

In terms of applications—computerized control of machines and processes—the industrial market is quite similar to the OEM market. In the industrial market we group customers known as end users, i.e., companies that purchase our products for their own use, rather than resale. Rapidly increasing familiarity with computer control on the part of customers and increasing field experience by Digital's sales engineers are escalating demand for our products in this area. By the end of fiscal 1973, the cumulative number of industrial installations exceeded 1,000.

Laboratory Market

With over 4,000 computer installations in scientific and medical laboratories, Digital remains a leading supplier to the researcher. Logic and computer products from this group aid researchers by relieving them of laborious and tedious chores of manually recording experimental data, as well as the analysis of it. In a typical case, a suitable Digital computer system will conduct an experiment, record and sort the experimental results, and often analyze these data at the same time.

Typical of our new product efforts is the introduction of the LPS-11, a laboratory interfacing system that is used with a number of software modules (separate programs). Depending on the nature of his work, the scientist can select only those programs he needs to work with his LPS-11 hardware. Should the scope of his work change or increase or should he add new hardware modules, he can append the required programs with ease.



Education Market

Digital has long been active in promoting the use of computers in schools, including those on the secondary level, where approximately 500 minicomputers are being used in computer education programs.

The education market group has continued to develop and market customer aids to help the teacher use our computers more effectively. During the year, Digital was selected as exclusive publisher of the Huntington II computer project materials. These materials consist of a series of programs for simulating experiments in biology, chemistry, earth science and social studies for high school and college students. These simulations speed the learning process because a computer is used to create real experimental data, eliminating the need for actually running the experiment.

Data Communications Market

Since every computer operation depends on efficient information flow between computer and its user, the data communications group develops and sells hardware and software products to all of the company's markets. Data communications is one of our fastest growing market segments.

This group markets the PDP-11 and related equipment for general data communications applications for both end-users and OEMs.

During the year a dedicated marketing, engineering and field service operation was established to support and service Digital products in the telephone industry. In this area our computer systems are primarily used for monitoring and maintenance of message switching equipment. Digital serves this market by selling directly to the end-user and OEM.





Business Data Processing Market

There is a steadily increasing demand for our business computer systems from both small and large companies for their accounting and data processing needs.

While many customer requirements will be met by OEMs who have developed specialized application packages, Digital is also developing an in-depth knowledge of specific customer requirements in a number of application areas. Special attention is given to customers requiring distributed processing capability, i.e., where many minicomputers, remotely located, satisfy local data processing needs and transmit information to a large central computer.

Our smallest business system—Datasytem-300, based on a PDP-8—can accommodate up to four terminals simultaneously. Another example of the group's thorough knowledge of customer needs is in the area of interactive data processing—a mode where operators talk back and forth with the computer using suitable terminals, making decisions on the basis of answers from the computer.

Larger companies with heavy data-processing requirements often rely on Datasytem-500, based on the PDP-11. It can operate independently with up to 32 users running multiple tasks simultaneously.



Graphic Arts Market

Significant growth opportunities are offered by the growing acceptance of automated typesetting systems by the commercial printing and newspaper publishing industry. Digital continues to offer new products to this market: the VT-20 system that offers the user capability to convert rough draft material into fully edited text using an interactive terminal; the DECset 8000 that provides data storage and editing capability for newspapers and commercial publishers; and Classified Ad III that provides the user with storage and editing capabilities when preparing classified advertisements. This is an application where speed and accuracy are of crucial importance. Recently, our largest computer system, the DECsystem-10, has been selected for use by major newspapers to automate their publishing needs.

Customer Services

Educational Services

Digital's educational services department offers 70 software and hardware courses to our customers. Our main training center in Maynard, European headquarters in Geneva, Switzerland, and 12 regional training centers throughout the world trained approximately 20,000 customers during the year.

New facilities, using such advanced equipment as a closed-circuit TV system, have been added to enhance our training capability. The use of television, for instance, permits students to preview equipment operation before they begin their actual hands-on part of the course.



Field Service

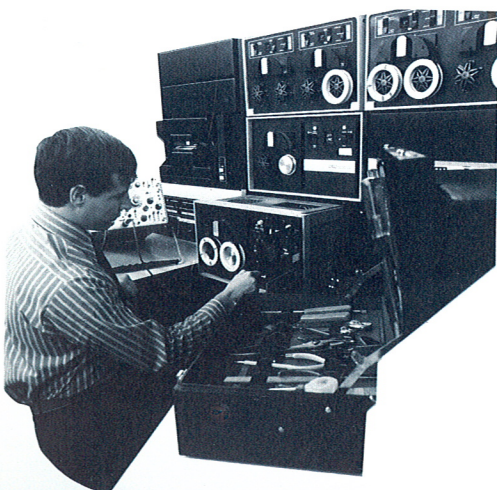
Digital increased its field service organization to more than 2,000 professionals worldwide. More than 180 field service offices are located in the United States and in 28 other countries around the globe. Many of these offices offer around-the-clock customer assistance.

Software Services

Reflecting Digital's view that efficient software is the key to fuller computer utilization, Digital now has a large group of programming specialists offering personalized assistance to customers in the use of our software. To

enable customers to take full advantage of information on software uses, a subscription service was introduced during the year.

Aware that providing the required software services at a reasonable cost is a challenging problem in the computer industry as a whole, we will continue to develop new ways to meet this challenge.



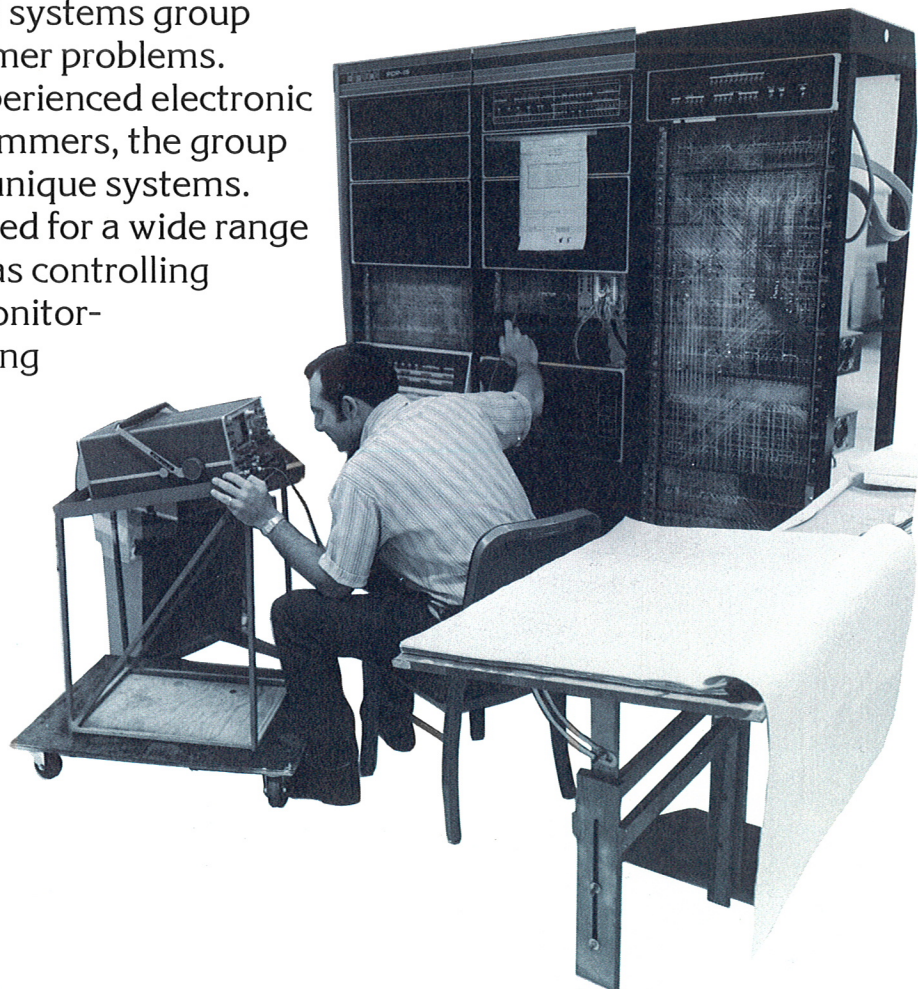
DECUS

With membership of 16,500 (3,500 members were added during the last year), the Digital Equipment Computer Users Society continues as the world's largest and most active computer users society. A truly multinational organization with members in more than 40 countries, DECUS established formal chapters in Canada and Australia during the year.

Acting as a clearing house for user-created application programs, the society distributed approximately 40,000 programs from the DECUS library during fiscal 1972. A total of 500 new programs were added to this library during the year. Better information exchange among the members is enhanced by semiannual seminars in the United States, typically attended by approximately 1,000 users.

Computer Special Systems

The computer special systems group solves unusual customer problems. Pooling talents of experienced electronic engineers and programmers, the group has built a variety of unique systems. These systems are used for a wide range of applications, such as controlling power generation, monitoring telephone switching exchanges, and for environmental monitoring.





Sales

Digital hired 125 extremely well qualified salesmen during the year, who go through a rigorous program of management, technical and product instruction prior to actual customer contact.

Digital's sales organization grew to nearly 500 salesmen and more than 200 software specialists in 88 offices around the world. As part of an overall program to address customer problems more closely in his language, a realignment of sales personnel from strictly product to computer market orientation continued during the year. The company also established a national accounts program to provide better service to large, multi-divisional United States companies.

Manufacturing

Production capability more than doubled during the past year to meet the broad-based demand for all of Digital's major product lines. Two major production facilities, in Westfield and Westminister, Mass., reflect this expansion. At Westfield, our peripheral equipment manufacturing facility was doubled to 520,000 square feet; at the 520,000 square foot final minicomputer assembly and testing facility in Westminister, expansion was completed.

Other major physical expansion included:

- The addition of a core stringing facility in Tachi, Taiwan, adding 73,000 square feet to capacity;
- Completion of a 130,000-square foot computer manufacturing facility in Galway, Ireland;
- Planned construction of a new 130,000-square foot plant in Aguadilla, Puerto Rico, to supplement the existing San German operation, where modules and minicomputers are manufactured.



Worldwide Operations

Digital is a worldwide concern with sales facilities in 24 countries. In addition to the United States and Canada, manufacturing is done in Ireland, Puerto Rico and Taiwan. The Corporation also has computer special systems manufacturing facilities in England, Germany and the United States.

Digital sales and field service offices dot the globe. The Corporation has an extensive customer base throughout Western Europe and has experienced dynamic growth in Australia, Japan, Canada and South America. Digital actively sells its products in other parts of the world including Eastern Europe and the Far East.

Reflecting Digital's strength outside the United States, sales were \$94,038,000. This compares with \$65,036,000 last year. These sales account for about 35 percent of the Corporation's total net sales, remaining relatively stable.

Europe

During its tenth year of operation, Digital/Europe continued its outstanding growth. It now has 23 full-service offices and 1,600 employees. To meet the particular needs of customers who require the design and application of special systems, Digital/Europe increased computer special systems operations to six offices in six countries. Nearly 1,700 computers were installed this year, bringing total European installations to more than 5,000.

Typical installations this year included:

- United Kingdom: —A DECsystem-10 for the first full business-oriented application of its kind; PDP-11s for the new computer-controlled stock exchange; PDP-8s and PDP-11s as the heart of Reuter's new data communication service.
- Scandinavia: —DECsystem-10 for simultaneous processing of military and civilian research projects; PDP-15 for flight simulation at a circuit manufacturing plant.
- Germany: —PDP-11s to control flight trainers for an airline company; DECsystem-10 and a PDP-11 installed at a major university.
- Austria: —PDP-11s for a data communication system at a major railway.
- Belgium: —A MUMPS-11 system, the first in Europe, for banking operations in Brussels.
- Italy: —A PDP-15/76, used by an automobile manufacturer in advanced computer-aided design.



Worldwide Operations (continued)

- France: —Dual processor PDP-11/45 system, installed by one of the world's largest automobile manufacturers to monitor production in its new manufacturing complex.
- Switzerland: —PDP-14 programmable controllers, installed by one of this country's largest companies to control production lines.

Japan

Digital has been active in Japan since 1963. The Corporation currently has sales and field service operations in Tokyo and Osaka. We continue to grow steadily here and plan to meet the future demand for our products and services.

Typical installations this year included:

- PDP-11 at Osaka Broadcasting System Television Network, used to schedule and quote prices for commercials; PDP-8/E at a major automobile manufacturer to test exhaust emission levels of new cars; PDP-15s at Zim Shipping Company and Mitsui Shipbuilding Company for inventory, dispatch and control of containerized cargo; Typeset-11 at the Mainichi Daily News for complete typesetting operations.

Canada

Digital services customers from six sales offices and field service centers across Canada. During the year, a new 68,000-square-foot plant and regional headquarters at Kanata, Ontario, was fully occupied. More than 400 people are now employed here.

Typical installations this year included:

- PDP-11s used by Alberta Government Telephone Company for provincial and interprovincial circuit testing at the new Data Test Center, Calgary; Typeset-10 installed at the London Free Press, London, Ontario; PDP-11 used for process control at the Aluminum Company of Canada, Ltd., Arvida, Quebec; PDP-8s for monitoring and controlling gas pipelines for Alberta Gas Trunk Lines.

Australia and New Zealand

In the rapidly growing computer market in both of these countries, Digital now has six sales and field service offices. At the end of the fiscal year several hundred Digital computers had been installed.

Typical installations this year included:

- PDP-11/45 system for control of an electric generating plant, Queensland; PDP-11 for process control at a North Queensland sugar mill; PDP-11/05s in an order entry system, New Zealand; PDP-11 systems in a communications network across Australia for a government agency.

DIGITAL EQUIPMENT CORPORATION

FIVE YEAR FINANCIAL SUMMARY

	1973	1972	1971	1970	1969
OPERATIONS					
Total operating revenues	\$265,469,000	\$187,553,000	\$146,849,000	\$135,408,000	\$ 91,244,000
Income before income taxes:	\$ 37,200,000	\$ 25,100,000	\$ 18,000,000	\$ 25,500,000	\$ 17,300,000
As a percentage of net sales	14.0%	13.4%	12.3%	18.8%	19.0%
Federal and foreign income taxes	\$ 13,700,000	\$ 9,800,000	\$ 7,400,000	\$ 11,100,000	\$ 7,900,000
Net income:	\$ 23,500,000	\$ 15,300,000	\$ 10,600,000	\$ 14,400,000	\$ 9,400,000
Per common share	\$ 2.16	\$1.49	\$ 1.06	\$1.51	\$1.04
FINANCIAL POSITION					
Current assets	\$216,575,000	\$134,765,000	\$110,865,000	\$ 94,535,000	\$ 55,081,000
Short-term debt	\$ 7,823,000	\$ 14,416,000	—	\$ 20,217,000	\$ 5,601,000
Other current liabilities	\$ 56,028,000	\$ 33,193,000	\$ 24,288,000	\$ 18,260,000	\$ 11,315,000
Working capital	\$152,724,000	\$ 87,156,000	\$ 86,577,000	\$ 56,058,000	\$ 38,165,000
Current ratio	3.4:1	2.8:1	4.6:1	2.5:1	3.3:1
Property, plant and equipment—net	\$ 65,563,000	\$ 46,959,000	\$ 29,727,000	\$ 20,286,000	\$ 7,223,000
Total stockholders' equity	\$223,546,000	\$144,807,000	\$125,854,000	\$ 76,344,000	\$ 45,389,000
GENERAL					
Additions to property, plant and equipment	\$ 31,810,000	\$ 27,714,000	\$ 18,393,000	\$ 14,938,000	\$ 5,533,000
Depreciation	\$ 8,032,000	\$ 5,053,000	\$ 2,941,000	\$ 1,876,000	\$ 1,226,000
Common shares outstanding	11,078,755	10,342,771	10,238,569	9,672,892	9,215,971
Stockholders' equity per share at year end	\$20.18	\$14.00	\$12.29	\$7.89	\$4.93
Shareholders at year end	14,226	15,430	7,420	6,460	3,586
Employees at year end	13,000	7,800	6,200	5,800	4,360

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended	
	June 30, 1973	July 1, 1972
REVENUES (Note A)		
Net sales	\$229,051,000	\$166,262,000
Service and other revenues	36,418,000	21,291,000
TOTAL OPERATING REVENUES	265,469,000	187,553,000
COSTS AND EXPENSES		
Cost of sales, service and other revenues	142,616,000	98,199,000
Research and engineering expenses (Note A)	24,933,000	20,137,000
Selling, general and administrative expenses	61,174,000	44,301,000
Interest income (net of interest expense of \$718,000 and \$546,000)	(454,000)	(184,000)
TOTAL COSTS AND EXPENSES	228,269,000	162,453,000
Income before federal and foreign income taxes	37,200,000	25,100,000
Provision for income taxes (Notes B and C):		
Federal	9,100,000	8,000,000
Foreign	4,600,000	1,800,000
	13,700,000	9,800,000
NET INCOME	\$ 23,500,000	\$ 15,300,000
Net income per common share, based on average number of common shares outstanding	\$2.16	\$1.49

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

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended	
	June 30, 1973	July 1, 1972
SOURCE OF FUNDS		
From operations:		
Net income	\$ 23,500,000	\$ 15,300,000
Add—expenses not requiring working capital in the current period:		
Depreciation (Note D)	8,032,000	5,053,000
Book value of computer systems sold (Note D)	5,174,000	5,429,000
Restricted stock plan—charge to operations (Note F)	563,000	435,000
	<u>37,269,000</u>	<u>26,217,000</u>
Restricted stock plan—excess federal income tax benefits (Note F)	700,000	475,000
Sale of common stock	50,329,000	
Cost of marketable securities sold	5,433,000	
Common stock issued under option plans—net of repurchases (Note F)	3,501,000	2,606,000
Other	146,000	137,000
	<u>97,378,000</u>	<u>29,435,000</u>
USE OF FUNDS		
Investment in marketable securities		1,142,000
Additions to property, plant and equipment	31,810,000	27,714,000
	<u>31,810,000</u>	<u>28,856,000</u>
INCREASE IN WORKING CAPITAL	<u>\$ 65,568,000</u>	<u>\$ 579,000</u>
CHANGES IN WORKING CAPITAL		
Cash	\$ 1,568,000	\$ (2,006,000)
Marketable securities		(10,315,000)
Accounts receivable	38,872,000	18,455,000
Inventories	40,626,000	17,676,000
Prepaid expenses	744,000	90,000
TOTAL CURRENT ASSETS	<u>81,810,000</u>	<u>23,900,000</u>
Loans payable to banks	793,000	(8,616,000)
Commercial paper payable	5,800,000	(5,800,000)
Federal, foreign and state income taxes	(924,000)	(2,895,000)
Accounts payable	(12,406,000)	(942,000)
Other current liabilities—net	(9,505,000)	(5,068,000)
TOTAL CURRENT LIABILITIES	<u>(16,242,000)</u>	<u>(23,321,000)</u>
	<u>\$ 65,568,000</u>	<u>\$ 579,000</u>

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

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	Year Ended	
	June 30, 1973	July 1, 1972
CURRENT ASSETS		
Cash	\$ 4,960,000	\$ 3,392,000
Accounts receivable net of allowances of \$3,017,000 and \$1,768,000	107,239,000	68,367,000
Inventories at lower of cost (first-in, first-out) or market:		
Raw materials	27,315,000	12,011,000
Work-in-process	37,650,000	26,259,000
Finished goods	37,778,000	23,847,000
	<u>102,743,000</u>	<u>62,117,000</u>
Prepaid expenses	1,633,000	889,000
TOTAL CURRENT ASSETS	<u>216,575,000</u>	<u>134,765,000</u>
INVESTMENTS (Note C)		
Marketable securities, at cost which approximates market	5,259,000	10,692,000
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	3,334,000	2,451,000
Buildings	27,739,000	14,271,000
Leasehold improvements	4,601,000	3,747,000
Machinery and equipment	40,694,000	30,469,000
Computer systems	7,574,000	7,997,000
	<u>83,942,000</u>	<u>58,935,000</u>
Less accumulated depreciation (Note D)	18,379,000	11,976,000
	<u>65,563,000</u>	<u>46,959,000</u>
	<u><u>\$287,397,000</u></u>	<u><u>\$192,416,000</u></u>

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	Year Ended	
	June 30, 1973	July 1, 1972
CURRENT LIABILITIES		
Loans payable to banks	\$ 7,823,000	\$ 8,616,000
Commercial paper payable		5,800,000
Accounts payable	21,206,000	8,800,000
Federal, foreign and state income taxes	13,133,000	12,209,000
Salaries, wages and related items	8,204,000	5,310,000
Customer advances	7,895,000	3,909,000
Other current liabilities	5,590,000	2,965,000
TOTAL CURRENT LIABILITIES	63,851,000	47,609,000
 STOCKHOLDERS' EQUITY (Note F)		
Common stock, \$1.00 par value, authorized 36,000,000 shares; issued and outstanding 11,078,755 and 10,342,771 shares	11,079,000	10,343,000
Additional paid-in capital	124,181,000	69,678,000
Retained earnings	88,286,000	64,786,000
TOTAL STOCKHOLDERS' EQUITY	223,546,000	144,807,000
	\$287,397,000	\$192,416,000

DIGITAL EQUIPMENT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended June 30, 1973 and July 1, 1972

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
July 3, 1971	\$ 10,239,000	\$ 66,129,000	\$ 49,486,000	\$125,854,000
Shares issued under stock option plans— net of repurchases (Note F)	104,000	2,502,000		2,606,000
Restricted stock plan (Note F):				
Charge to operations		435,000		435,000
Excess federal income tax benefits		475,000		475,000
Other		137,000		137,000
Net income—1972			15,300,000	15,300,000
July 1, 1972	<u>10,343,000</u>	<u>69,678,000</u>	<u>64,786,000</u>	<u>144,807,000</u>
Sale of common stock	600,000	49,729,000		50,329,000
Shares issued under stock option plans— net of repurchases (Note F)	136,000	3,365,000		3,501,000
Restricted stock plan (Note F):				
Charge to operations		563,000		563,000
Excess federal income tax benefits		700,000		700,000
Other		146,000		146,000
Net income—1973			23,500,000	23,500,000
June 30, 1973	<u>\$ 11,079,000</u>	<u>\$124,181,000</u>	<u>\$ 88,286,000</u>	<u>\$223,546,000</u>

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

DIGITAL EQUIPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

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

Translation of Foreign Currencies:

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

Revenue Recognition:

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

Research and Engineering and Warranty Costs:

Research and engineering costs and warranty costs are expensed as incurred.

Other significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are set forth in the following footnotes:

Note C—Foreign and Domestic Subsidiaries

Note D—Depreciation

Note F—Stock Option Plans

NOTE B—INCOME TAXES

The effective rates of the provision for income taxes for fiscal years 1973 and 1972 are less than the United States federal statutory rates due principally to the tax exempt status of the Company's domestic manufacturing subsidiary in Puerto Rico, differences between United States and foreign income tax rates, federal investment tax credits (which have been credited directly to income) and tax exempt interest income.

The decline in the effective rate from 1972 to 1973 is due to the increased contribution to consolidated operating income of the Company's Puerto Rican operations. The federal income tax benefits attributable to the Puerto Rican operations in fiscal years 1973 and 1972 were \$2,600,000 and \$1,600,000, respectively, yielding a tax benefit per common share of \$.24 and \$.16, respectively. See Note C which follows for further explanation of the Company's income tax accounting policies.

NOTE C—FOREIGN AND DOMESTIC SUBSIDIARIES

a. Foreign Subsidiaries

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

	ASSETS	
	June 30, 1973	July 1, 1972
Current assets	\$61,145,000	\$30,356,000
Property, plant and equipment—net	7,981,000	4,129,000
	<u>\$69,126,000</u>	<u>\$34,485,000</u>
	LIABILITIES AND STOCKHOLDER'S EQUITY	
Current liabilities	\$23,778,000	\$15,131,000
Intercompany obligations	27,292,000	9,491,000
Capital stock	927,000	912,000
Retained earnings (unremitted)	17,129,000	8,951,000
	<u>\$69,126,000</u>	<u>\$34,485,000</u>

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

b. Domestic Subsidiary

Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico. Under an exemption which expires in 1981, (for years 1982 through 1988 income is partially exempt), the income of this subsidiary is not subject to Puerto Rican income taxes. Earnings of this subsidiary included in consolidated retained earnings aggregated approximately \$15,000,000 at June 30, 1973. These earnings, if partially or fully repatriated under certain circumstances, may be subject to United States federal income taxes at normal rates. These earnings have been retained in Puerto Rico and in part invested in marketable securities. The parent company has not made any provision for federal income taxes with respect to these earnings because it has no current plans to repatriate these earnings.

NOTE D—DEPRECIATION

Depreciation expense is computed principally on the following bases:

Classification	Depreciation Lives and Methods
Buildings	33 years (straight-line)
Leasehold improvements	Life of asset or term of lease, whichever is shorter (straight-line)
Machinery and equipment	8 and 10 years (sum-of-years), 4 and 5 years (double-declining balance)
Computer systems (1)	No depreciation is provided because the systems are sold at prices in excess of cost

(1) Represents the cost of computer systems manufactured by the Company and used, generally for short periods, in its manufacturing, sales, engineering and marketing departments prior to being sold to customers. Where it is evident that systems will not be sold within a short period, such systems are capitalized and depreciated as machinery and equipment.

NOTE E—PENSIONS

The Company has several noncontributory pension plans covering substantially all employees. Pension costs which are charged to income and funded currently were \$1,750,000 in 1973 and \$1,200,000 in 1972.

NOTE F—STOCK OPTIONS

Qualified Stock Options

Under its 1965 Qualified Stock Option Plan, the Company has granted certain officers and key employees options to purchase common stock within five years from the grant date at 100% of market price on the grant date. Of the 118,796 options outstanding at June 30, 1973, 52,041 shares are presently exercisable, 25,063 shares become exercisable in fiscal 1974, 25,061 shares in fiscal 1975, 16,506 shares in fiscal 1976 and 125 shares in fiscal 1977.

Information concerning activity during fiscal 1973 follows.

	Shares Reserved for Future Grants	Options Outstanding	
		Shares	Average Price Per Share
July 1, 1972	145,230	153,186	\$64.53
Options granted	(500)	500	82.13
Options exercised		(31,065)	46.51
Options cancelled	3,825	(3,825)	66.56
June 30, 1973	<u>148,555</u>	<u>118,796</u>	69.25

Restricted Stock Options

Under its 1968 Restricted Stock Purchase Plan, the Company has granted certain officers and key employees options to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plan are generally subject to repurchase options and restrictions on sales which lapse equally over a ten year period.

Information concerning activity during fiscal 1973 follows.

	Shares Reserved for Future Grants	Options Outstanding	
		Shares	Average Price Per Share
July 1, 1972	153,280	154,605	\$11.87
Options granted	(116,980)	116,980	14.00
Options exercised		(101,450)	11.82
Options cancelled	6,495	(6,495)	11.68
June 30, 1973	<u>42,795</u>	<u>163,640</u>	13.44

At the time these options are exercised, the common stock account is increased by the par value (\$1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value (as adjusted for the restrictions for options granted before January 1, 1973) of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to \$563,000 in fiscal 1973 and \$435,000 in fiscal 1972. The amount actually deductible for federal income taxes exceeds the amount charged to income for book purposes; the federal income tax benefits relating to this difference (\$700,000 in fiscal 1973 and \$475,000 in fiscal 1972) have been credited to additional paid-in capital.

Employee Stock Purchase Plan

Under the Company's 1968 Stock Purchase Plan, all United States and Canadian employees may be granted options to purchase common stock at 85% of market value on the grant date or on the first business day six months preceding the grant date, whichever is lower. 203,834 unissued shares of common stock were reserved at June 30, 1973 for options to be granted. 12,749 shares were issued in fiscal 1973 at an average price of \$73.70.

NOTE G—LEASES

Minimum annual rentals for the current and next five years under non-cancellable leases which are principally for leased regional sales offices and manufacturing space are as follows: 1973—\$1,900,000, 1974—\$2,000,000, 1975—\$1,800,000, 1976—\$1,500,000, 1977—\$1,200,000 and 1978—\$600,000.

NOTE H—COMMITMENTS

In August 1973, the Company agreed to purchase land and buildings containing approximately 700,000 square feet of manufacturing and office space located in Marlboro, Massachusetts. The purchase price involves payment of \$2,800,000 in cash and the assumption of \$10,000,000 principal amount of secured long-term obligations maturing serially to 1993 with a weighted average interest rate of 5.3%.

NOTE I—SUBSEQUENT EVENT

In September 1973, the Company sold 750,000 shares of its common stock in a public offering. The net proceeds of approximately \$64,500,000 from this sale will be used to repay the Company's outstanding domestic bank borrowings and the balance will be added to working capital to be used to finance receivables, inventories, property, plant and equipment and other general corporate purposes.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Directors
Digital Equipment Corporation

We have examined the consolidated balance sheet of Digital Equipment Corporation as at June 30, 1973 and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements for the fiscal year ended July 1, 1972.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Digital Equipment Corporation at June 30, 1973 and July 1, 1972, the consolidated results of its operations and the consolidated changes in its financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



COOPERS & LYBRAND

Boston, Massachusetts
August 14, 1973, except for Note I
as to which the date is September 12, 1973.

BOARD OF DIRECTORS

Vernon R. Alden
Chairman of the Board
The Boston Company, Inc.

William H. Congleton
General Partner
The Palmer Organization

Georges F. Doriot
Chairman of the Board
American Research and Development
Corporation

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

William H. McLean
President
Stevens Institute of Technology

Kenneth H. Olsen
President
Digital Equipment Corporation

Dorothy E. Rowe
Senior Vice President, Treasurer
and Secretary
American Research and Development
Corporation

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Morgan Guaranty Trust Company of New York
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REGISTRARS:

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President

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Vice President, Engineering

Alfred M. Bertocchi
Vice President, Finance and Treasurer

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

Theodore G. Johnson
Vice President, Sales and Service

Peter J. Kaufmann
Vice President, Manufacturing

Andrew C. Knowles
Vice President, Group Manager

Stanley C. Olsen
Vice President, Group Manager

Edward A. Schwartz
Secretary and General Counsel

CERTIFIED PUBLIC ACCOUNTANTS:

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SHARES TRADED:

New York Stock Exchange
(Ticker Symbol "DEC")

UNLISTED TRADING:

Boston Stock Exchange
Midwest Stock Exchange
PBW Stock Exchange

Additional information about Digital and its
products can be obtained by addressing:

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

DIGITAL EQUIPMENT CORPORATION CORPORATE HEADQUARTERS

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SPRINGFIELD

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Springfield, Massachusetts 01109

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Westfield, Massachusetts 01085

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Westminster, Massachusetts 01473

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Galway Industrial Estate
Galway, Ireland

TAIWAN

Digital Equipment Taiwan Limited
Tachi, Taiwan

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