

APRIL 9, 1965

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MEMOREX

REPORT OF ANNUAL MEETING

HIGHLIGHTS OF THE MEETING

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On April 9, 1965, the third Annual Meeting of Shareholders of Memorex Corporation was held at the Company's general offices and plant in Santa Clara, California.

At the Meeting, the following were elected Directors of the Company to serve for the ensuing year:

Alger Chaney

Chairman of the Board of Medford Corporation and Vice President, Baker, Fentress & Co.

W. Noel Eldred

Vice President, Marketing, Hewlett-Packard Company

Thomas E. Morris

Vice President, Blyth & Co., Inc.

T. Robert Sandberg

Vice President, Cutter Laboratories, Inc.

Fred M. van Eck

Partner, J. H. Whitney & Co.

Dr. Theodore Vermeulen

Professor of Chemical Engineering, University of California, Berkeley

Donald F. Eldridge

Vice President & Technical Director of the Company

W. L. Noon

Vice President, Manufacturing, of the Company

Laurence L. Spitters

President and Treasurer of the Company

Following election of Directors, Memorex's management discussed the business and reported results of operations of the Company, a summary of which follows:

**Laurence L. Spitters,
PRESIDENT**



We are pleased to talk to you about Memorex because ours is a story of high goals fixed, hard work done and significant achievement in every area of our business. This was certainly the case in 1964, as it was in the three earlier years of our corporate life. Moreover, every indication is

that it will be the case in 1965 and future years.

Since some of you are new shareholders and perhaps relatively unfamiliar with the growth of Memorex, it may be helpful to trace briefly our Company's history before reviewing the results of the past year. To enlarge your perspective, other members of management will then discuss specific areas of our business.

Four Years of Growth

It is interesting from an historical standpoint to be holding this shareholders' meeting today on April 9. It was on this same day, four years ago, that a contract was signed for the purchase of 4.8 acres of land on Shulman Avenue in Santa Clara. This land, which is our present plant site, was then a flourishing hay field. With that signing there began a series of events unparalleled in the magnetic tape industry.

Within two months, our first building was designed and the construction contract let. Within 90 days, site preparation was completed and construction underway. During the following 12 months, in rapid succession, our plant was built, a production line incorporating a number of processing innovations was put into operation, a sales organization established and, by mid-1962, Memorex's first product was on the market. All of this was accomplished in one-third the time normally needed in our industry for new plant start-up.

Our marketing activities began in mid-1962 from a base of zero — ours was an unknown product of unknown merit, produced under an unknown name. This wasn't the case for long, however. Within a year, Memorex's sales of computer and instrumentation tape were exceeded only by those companies which had been in the industry for 10 years or more. Within another 18 months — by the close of 1964 — we had achieved a position of marketing leadership: our products were acclaimed for their unsurpassed quality and our annual rate of sales of precision tape products was topped by only one competitor. Measured in volume

of sales as well as the number of new products introduced, our growth record since 1962 is unequalled in the precision magnetic tape industry.

A Reputation for Quality

Two basic characteristics have identified Memorex to our customers. First, our products are distinguished by their quality and performance advantages, and their competitive strength is based upon value, not price. Second, we are a research-minded Company with emphasis on the introduction of new products, whose quality at minimum is comparable to the best products otherwise available.

New products have been introduced since mid-1962 in a steady flow. Our initial product, a computer tape, was followed the same year by a broadband instrumentation tape. In the spring of 1963, we introduced an improved computer tape; in the fall of the same year, we produced a middle recording range instrumentation tape; in the spring of 1964, a video tape for closed circuit use; and, shortly thereafter, we marketed new configurations of computer tape. Most recently, in the fall of last year, we introduced an advanced broadband instrumentation product. This record pace of new products reflects the ability of Memorex's product development people and the marketing opportunities for the high quality products which our customers demand.

With this brief perspective of Memorex in the four years since its founding, we turn to results of operations of the Company in the year 1964.

1964: Record Growth

The year 1964 marked Memorex's emergence as a leader in its industry in terms of marketing and technical successes. It was also a year of great growth and prosperity measured by every statistical yardstick. Sales for the year amounted to \$8,042,000, an increase of 130% over volume in the previous year. Net profit before taxes was \$1,962,000—more than quadrupling the results of 1963. Net profit after provision for Federal income taxes was \$1,038,000.

Cash flow—that is, adding back depreciation and other non-cash charges to our profit—amounted to \$1,350,000 in 1964. Our investment in plant and equipment increased from \$1.5 million at the end of 1963 to over \$3 million at the close of last year. Production volume, measured in number of physical units produced, increased by 120% during the year. Employment rose from 136 people to 305 during the same period.

A summary of 1964 qualitative accomplishments is no less impressive than the quantitative results. We de-

signed and completed new construction totaling 30,000 square feet, approximately doubling our original plant and office building. This included the installation of a second production line, providing us with greatly increased manufacturing capacity, as well as vital stand-by insurance. This \$1.2 million project was completed precisely on schedule on October 1, without extraordinary start-up cost, notwithstanding substantial process improvements.

The Company's original 4.8-acre plant site was enlarged in September of last year with the purchase of two adjacent acres, providing us with space for future parking and other uses. In October, we purchased, at very reasonable cost, a neighboring 23,000-square-foot building to be used for this year's expanding warehousing requirements.

Among the important financial steps taken in 1964 was the purchase of our original plant site and facilities formerly occupied under lease. This allowed us to integrate the new building constructed last year with that built in 1962, and resulted in Memorex's becoming owner of all of its real estate facilities.

The two series of capital stock which had been outstanding in previous years were simplified during 1964 with a recapitalization which became effective in July. The Company obtained bank financing in mid-summer in excess of \$2 million to enable us to carry increased inventories, make property additions and otherwise carry out the substantial expansion of our business. Outstanding debt in the form of promissory notes was converted at year-end, increasing the Company's equity base and improving its credit.

Product Base Expanded

In achieving the marketing gains already mentioned, Memorex's selling organization increased its size in 1964 by nearly 50%. Throughout several months of a condition of oversold production, this outstanding group of sales engineers successfully established for Memorex a reputation for service that is the envy of our industry.

Our 1964 marketing programs were materially aided by several new products. These included video tape for closed-circuit use, computer tapes for RCA and Univac configurations, full-track certified computer tape for the IBM 360 system and, last fall, improved broadband instrumentation tape.

Instrumental to the expansion of our product base were achievements of our manufacturing and engineering staffs. While increasing the volume and variety of production, they concurrently implemented new manufacturing techniques and processing improvements to produce a steady increase in operating efficiency and product quality.

Now, to provide a better understanding of Memorex's participation in the precision tape industry, I should like to call upon the three officers who are responsible for Manufacturing, Sales and Research, respectively, to describe their areas of activity.

W. L. Noon,
VICE PRESIDENT, MANUFACTURING



The challenge to the Manufacturing Division today is essentially the same as that which it faced when Memorex was first formed: to produce a continuing succession of top quality products, manufactured at a reasonable cost with a high yield, and to maintain a rapid response time to

the changing requirements of our customers.

To meet this challenge through periods of further growth, Manufacturing must be uncompromising in its insistence upon top caliber personnel and increased sophistication of equipment. Through careful training and selection, we continue to build a production force second to none in our industry. Through stringent specifications, coupled with no small amount of engineering improvisation and invention, we continue to provide the facilities needed to assure the high quality of our products.

Underlying all of our Manufacturing activities is the quality control of production which is the basis of much of Memorex's success. We have a penetrating, extremely critical Quality Control Department, which extends its activities even into the plants of our suppliers in demanding the utmost in performance. When Memorex products leave the plant, the continuing responsibility of Quality Control is exercised by the Product Technical Service Section, which works closely with customers in resolving technical problems, handling special requirements, and relaying immediately to the design and production departments changes in operating conditions.

This keen sensitivity to customer requirements calls for many disciplines and talents in the Manufacturing Division. It requires close integration of mechanical engineering, chemical engineering, industrial engineering, as well as many other skills used both in the plant and in the field.

To say that in Manufacturing we require professional skills and attitudes is probably an understatement. Our approach has been called pharmaceutical in its discipline and precision. The term reflects our deep determination to avoid errors at all costs and to provide our customers with unsurpassed quality and variety of products, and the service to back it up.

Edward S. Seaman,
VICE PRESIDENT, SALES



The Company's principal product is Type 22 computer tape which is manufactured in numerous configurations and is employed by virtually all makes of computers in use today, including the most advanced. In addition to direct sales to computer users, we are suppliers to some of

the nation's leading computer manufacturers for resale to their customers.

Memorex is also an important supplier of the highest quality instrumentation tape in use today, Type 62 broadband tape. This product has found special use by NASA in several applications, including the Nimbus and Tyros weather satellite programs. With the recording of scientific information constituting an increasingly vital part in the nation's missiles and space programs, and with precision magnetic tape providing the only acceptable method of mass data recording, further growth of this segment of Memorex's business is assured.

A third market in which Memorex will become increasingly active is the video tape field. Our Type 75 video tape is used exclusively in closed-circuit television equipment of a number of manufacturers. We look for growth in this market as further price reductions of television recording equipment increase the scope of closed-circuit television use. We also expect in the immediate future to make significant sales of the recently introduced Type 77 video tape for broadcasting of television by networks and commercial stations.

Our computer and instrumentation products are sold directly to customers by Memorex sales engineers. Our emphasis is upon responsiveness to customers' needs and establishing on a technical basis the merits of our products and their superior price/performance value. We have also developed a fine reputation for assisting customers with their operating problems. When a customer has a problem, he need only call a nearby Memorex branch office to obtain immediate technical service. Memorex sales offices are located in New York, Washington, D.C., Atlanta, Chicago, Dallas, San Francisco, and Los Angeles. Additional offices will soon be established in four other principal cities.

I hope you will consider it more than pardonable pride when we claim that Memorex products are the finest available today. That this is no idle claim is evident from our customer lists. Our Type 22 computer tape is used by hundreds of customers including banks, insurance companies, utilities, merchandising and manufacturing companies, and civilian and defense-related government data processing centers. Of the ten largest corporations in the United States, seven are

users of Memorex computer tape. Mention has been made to the special use of Memorex instrumentation tape in several NASA programs.

The most striking evidence of the outstanding quality of Memorex products occurred recently in the dramatic picture-taking of the surface of the moon by NASA's Ranger spacecraft. Memorex video tape was used to record the picture messages sent from the spacecraft to the tracking station. Selection of our tape for this extremely critical use was made after extensive testing and evaluation of every precision tape product available, and no greater testimonial to our quality is possible.

Donald F. Eldridge,
VICE PRESIDENT AND TECHNICAL DIRECTOR



One of the exciting things about research and development at Memorex Corporation is the diversity of technical and scientific skills they bring together. Chemical, electrical and mechanical engineers, physicists, chemists and other specialists are focusing their talents on developing

new and better magnetic tape products.

Specifically, our R & D is centered around three categories of work: improvement of existing products; the development of new products using existing technology; and the creation of new products which require the development of new technology for their manufacture.

To accomplish these functions requires in-depth study of the nature of magnetic tape and the magnetic tape recording processes. In our research we use such sophisticated tools as the electron microscope, spectrophotometers, magnetometers, profilometers and many more precision instruments, some of which we have developed ourselves, which are not commercially available.

In the new product development area we carry on programs of research in both processes and materials. Studies in the former area cover chemical, mechanical and physical processes in all stages. Materials research covers all the known materials used in the manufacture of magnetic tape, as well as the search for new materials. In the area of binding materials, for example, our chemists are working to produce tougher, smoother and higher temperature precision magnetic tapes. To improve the magnetic characteristics of tapes, we are testing new oxides with potential advantages beyond those now in use. Our Product Engineering Department is charged with the responsibility for combining the results of these several R & D programs with manufac-

turing capabilities to design specific products to fill marketing requirements.

It should be noted that our R & D efforts are currently undergoing some shift of emphasis. To date we have developed improved products to fill existing needs in marketing areas which have not always been adequately satisfied by other companies in the industry. We shall certainly continue to research and develop products to fill existing needs better. However, research activity is now also being directed to the development of new products which by advancing the art of magnetic tape recording will create additional markets which do not presently exist.

Mr. Spitters

The Manufacturing, Sales and Research activities just described are carried on successfully by alert and enthusiastic employees who are proud of their abilities and accomplishments. We are psychologically "winners"—unwilling to settle for a second-best position. Memorex enjoys good relations with its employees who at all levels have achieved a high degree of identity of objectives and interests. This circumstance exists because our corporate success has been reflected in the rewards our employees have enjoyed. In 1964, 98% of our hourly employees received payroll increases. Fifty-three persons — nearly one-third of our people — were promoted during the year into positions of increased responsibility, reflecting a policy of promoting from within the Company wherever possible. New or improved employee benefits, including increased overtime provisions, a new group insurance plan that rates as the most beneficial of its kind anywhere in our area, and other benefits were also adopted in 1964; by year-end, our employee fringe benefits amounted to 29% of the average production worker's direct wages. To enable all employees to participate directly in the growth of the Company, we inaugurated a profit sharing plan at the start of this year.

A gratifying evidence of common interests of Memorex employees was seen in our recent stock offering, when some 80% of our total work force became shareholding owners of the Company as well as partners in its work.

Insight to Future

In conclusion, four observations may provide a meaningful insight into the future of Memorex.

First, Memorex exists to serve customers in two of the most dynamic growth areas of the American economy: data processing, and missiles and space exploration.

Second, Memorex is now an established marketing and technical leader in an industry which itself is con-

ductive to growth and profit. The precision magnetic tape industry is today characterized by relatively few competitors because of increasing technical complexity and higher entry costs. We expect new competition, but we don't anticipate the shoestring, often irresponsible type that impedes progress in many other fields. Our industry is fortunately one of high value products which, when efficiently produced, yield attractive profits and a high return on investment. These are circumstances which we enjoy at Memorex and which help make of us a formidable competitor.

Third, Memorex is a quality-oriented company whose every employee is cognizant of his responsibility to contribute to the quality of our products. Of course, price is always important in the sale of any product, but in our industry the demand is increasingly for greater quality and reliability—specifications at which we excel.

Finally, Memorex is managed by youthful people who joined the Company because it is at the same time a highly demanding and rewarding place to work. They are vital and ambitious. The average age of the 14 top management and senior technical people is 39 years. Each of them believes that his best achievements lie immediately before him.

As we look to Memorex's future, we see many promising things: excellent opportunities for growth, a company with a strong competitive standing, a quality-oriented manufacturer in a quality-demanding business, with plentiful resources of money, facilities and, above all, people. We think these augur well for Memorex's performance in 1965 and future years.

New Expansion Plans

I began this discussion by telling you of the purchase in 1961 of the original 4.8-acre plant site. This purchase, which exceeded apparent requirements, was considered imprudent at the time by some because we were a company then without an organization, without a product, without a profit. We had nothing but a vision of the kind of company Memorex would become, given the right people to exploit the opportunities which to us were obvious. The right people came, and they continue to come to us today, forming an ever-broadening base for the Company's growth.

Presently, we are completing the design of a three-story addition to our existing plant and office building which we expect to make during 1965. As further evidence of our optimism, we wish to announce that today, just four years from that original "imprudent" purchase, our Company is acquiring an additional 16 acres of land, adjoining our present plant site, to be used for future expansion. I trust that the utilization of this new plant area, which triples the size of our present property, will parallel that of the original purchase.

Following the foregoing presentation, questions by shareholders were directed to the Company officers. The questions and their answers are summarized below:

- Q.** Do you anticipate that sales and earnings will increase in the future as they have in the past?
- A.** While we expect sales and earnings to show significant increases from year to year, it is unlikely that the percentage increases will continue at the past and current rates. In the past and currently, Memorex growth benefits from both an increasing share of the markets in which it sells and the increasing demands for products in the markets. However, in time the share of market factors will tend to stabilize and our growth then will be limited to and more closely approximate the growth of the markets we serve.
- Q.** Would you care to comment upon the statement made in the recent prospectus that the ratio of net profits to sales in 1965 will be lower than in 1964?
- A.** Because of the increased size and complexity of our operations, and the intensifying competitive situation in marketing as well as in product development, we expect to make substantial increases in Marketing, Administration, and Research activities in 1965. To the extent that these increases in expenses precede higher levels of sales, profit margins will be lower than last year. However, we believe these increases in vital activities will lay a sound foundation for Memorex's future. May I add that earnings and profit rates in 1965 may fluctuate from quarter to quarter, as the expansions occur at irregular intervals and in unequal increments.
- Q.** On what basis will you issue interim financial reports?
- A.** Quarterly.
- Q.** When and where will it be possible to find market price quotations for Memorex Common Stock?
- A.** We are now taking steps to have our stock included in the National Daily List published by the National Association of Securities Dealers. This list is published in all editions of the Wall Street Journal and is available to other financial publications and newspapers. Where there is a sufficient concentration of Memorex shareholders in specific localities, we shall work with local dealers to have the stock included in the quotation lists of their newspapers.

Q. Your recent prospectus stated that the precision tape industry is about \$100 million in total, but I am interested in the size of the computer, instrumentation and video tape segments of the industry and Memorex's share in each?

A. Unfortunately, there are no reliable statistics on industry sales or a breakdown of the estimated \$100 million total industry sales. Of course, we believe we know our relative standing in the several segments of the industry and we direct our marketing activities accordingly. For competitive reasons we are unwilling to disclose a more detailed breakdown of Memorex sales than was set forth in the prospectus, our ideas about our relative share of each market, or our marketing emphasis, and I hope you will agree that it is prudent not to do so.

Q. Will magnetic tape be obsoleted in the future by some other type of memory device? I have in mind particularly the magnetic coated discs.

A. No, other memory devices, such as coated discs and drums, punched paper tape and cards, and similar devices, are and will continue to be supplementary to, rather than substitutes for, magnetic tape memories.

Q. Do you have diversification plans?

A. No, we have no immediate plans for diversification because all of our resources and energies will be taxed by our opportunities in the magnetic tape industry. Obviously, our technology and capabilities suggest other businesses in which Memorex may enter, but this must be deferred for the present.

Q. Has there been a resolution of the discussions regarding the Ampex patent claims on a formulation similar to that used by Memorex?

A. No, discussions with Ampex are continuing in a friendly manner, but we continue to maintain the position, based upon the opinions of technical experts and patent lawyers, that the Ampex patent is invalid and unenforceable. We have not discontinued use of our own formulation because we have been advised by patent counsel that its further use represents minimum business risk. Finally, please note that Memorex began production of its formulation in mid-1962, after 18 months of development work. (We did not patent the Memorex formulation because its details are best protected as a trade secret.) The Ampex patent was applied for in October 1962, and Ampex itself did not manufacture a product employing its formulation until nearly a year later.

Q. How does Memorex expect to keep its principal technical and management people?

A. We expect to continue to offer them monetary rewards which are more than competitive with salaries otherwise paid in our industry. But, more important, Memorex is uniquely able because of its expansive programs to provide them with excellent opportunities for self-fulfillment. Memorex also provides the best of facilities and support to enable them to exercise their talents and enjoy the exhilaration of success. I know of no other company better able to do so.

Q. Will you be selling video tape for home television recorders?

A. Although a number of manufacturers have demonstrated home video recorders, it appears that wide scale commercialization is still some time off. We are working with some of these firms to produce tape for the machines, and, when the time comes, we expect to be an important supplier to the market.

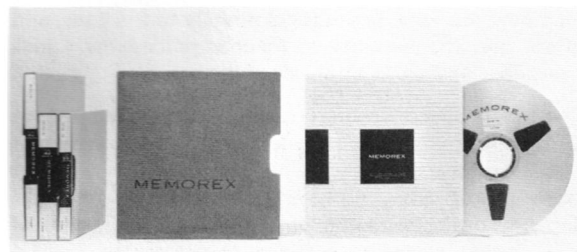
Q. How do you expect to finance your expansion projects during 1965?

A. All capital requirements for fixed asset additions, as well as for increased working capital needs, will be satisfied by internal cash sources, debt and lease financing not involving common stock.

A specific tape for each requirement

Because Memorex produces a wide range of precision tapes, the user need never compromise because of unusual tape performance needs. Four basic types of precision tapes (sixteen individual subtypes) insure availability of the proper coating, backing thickness, and performance characteristics for every tape application.

Memorex supplies tape in the complete range of lengths, widths, reel configurations, and packaging to meet all known commercial requirements.



	TYPE	APPLICATION
22 Heavy-Duty Computer Tape	800 BPI 556 BPI 100% Certified	For IBM, RCA, GE, NCR, UNIVAC, Burroughs, CDC, Honeywell and similar digital computers
42 High-Resolution Instrumentation Tape	42J 1-mil 370 μ -inch 42K 1-mil 270 μ -inch 42L 1-mil 170 μ -inch 42J 1½-mil 370 μ -inch 42K 1½-mil 270 μ -inch 42L 1½-mil 170 μ -inch	For instrumentation recorders operating down to 250 μ -inch wave lengths or less (250 kc or more at 60 ips).
62 Ultra-Performance Broadband Instrumentation Tape	62J 1-mil 370 μ -inch 62K 1-mil 270 μ -inch 62L 1-mil 170 μ -inch 62J 1½-mil 370 μ -inch 62K 1½-mil 270 μ -inch 62L 1½-mil 170 μ -inch	For broadband recorders operating down to 80 μ -inch wavelengths or less (1.5 mc or more at 120 ips).
75 Precision Television Recording Tape	75P 1-mil 450 μ -inch <hr/> 75V 1-mil 450 μ -inch	For helical-scan video recorders requiring 1-inch wide tape. <hr/> For helical-scan video recorders requiring 2-inch wide tape.
77 Precision Television Recording Tape	77V 1-mil 450 μ -inch	For broadcast video recorders requiring 2-inch wide tape.

The right tape, at the right time, in the right place

Memorex markets its products directly to the user, and offers him the benefits of flexible procedures, quick decisions, and close attention to his needs.

Sales engineers operating from Memorex branch offices are highly trained professionals, intimately conversant with tape and tape recording problems. Also, senior research and production staff members lend technical support to efforts in the field, making the benefits of their broad experience available to customers.

MEMOREX BRANCH OFFICES

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WASHINGTON
ATLANTA
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LOS ANGELES
SAN FRANCISCO
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MEMOREX CORPORATION
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