MEMOREX BUSINESS AND MANAGEMENT OVERVIEW

GENERAL OUTLINE

MEMOREX BUSINESS AND MANAGEMENT OVERVIEW

1. GENERAL BUSINESS CONSIDERATIONS

In preparing this overview, the following assumptions have been made:

1. The reputation of Memorex products currently in the market has not been seriously affected by the events of the last 12 months.

2. Market share position in many product areas has been either lost or is in danger of being lost to competition, thus requiring immediate action in both marketing and product management. Restoration of market share will demand considerable management dedication and action.

3. Certain technical capabilities within the company have been effected during the last 12 months and unusual effort will be required to reestablish technical excellence in these areas.

4. In general, all development programs will need to be evaluated with special consideration given to the overall company business strategy, the status of technology in the product area, and the potential return on investment of each program. Such an evaluation will probably indicate some major shifts in emphasis and priorities.

5. Per unit manufacturing costs for many products are higher than competition and a major effort must be undertaken to reduce costs to a more favorable level. This effort may require some additional investments in cost reducing equipment and processes, but it will surely include the rapid resolution of the Liege, Belgium and Santa Clara underutilization of plant problems.

6. The service function has not deteriorated substantially in quality although higher than average turnover could cause such deterioration if not quickly checked. The service function will need redirection and reemphasis.

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FEBRUARY 28, 1974

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6. The service function has not deteriorated substantially in quality although higher than average turnover could cause such deterioration if not quickly checked. The service function will need redirection and reemphasis.

7. The general morale of employees has been lowered and much of their energy has been dissipated by the events of the last 12 months. It will take time and effort to rebuild a solid team of creative and dedicated people.

8. Since much of management's effort has been focused on the immediate financial problems of the company, not enough attention has been given to the ongoing business aspects of the enterprise. Almost all senior management areas will require critical evaluation and some degree of upgrading. Most of the senior positions are now filled with men who have recently been promoted to their new positions and have very little experience in their job.

9. The specific list of top priority management actions that appear to be required are included in the Appendix. The urgency of completing many of the items can be underscored by the critical cash problems facing the company.

1.1 BUSINESS OBJECTIVES

The overall business objectives for the new management team must include rebuilding the company into an economically viable leading world supplier of its various products while continuing to examine new growth opportunities. This is, of course, very easy to state but far from easy to achieve. The new management must first, identify those primary markets in which it will concentrate; second, determine the company's present product/market position in each area; third, chart the best product/market strategy for achieving each goal; and fourth, make the strategy work.

In summary, the problems facing Memorex management are these:

1. Heavy debt structure with its corresponding interest charges
2. Sizable negative net worth
3. Expensive marketing/distribution structure
4. Loss and/or potential loss in market share
5. Poor attitudes
6. Lack of product and strategic planning
7. Non competitive cost structure in many areas
8. No clear delegation of authority within the organization
9. Lack of cash
10. Lack of leadership
11. Lack of direction

On the other hand, Memorex presents interesting opportunities

1. Increase volume and margin in the Media business
2. Expansion based on service capabilities
3. Product expansion based on marketing capabilities
4. Streamline organization - reduce expenses
5.
6. Lease portfolio

1.2 ORGANIZATION AUTHORITY AND RESPONSIBILITY

In order to achieve the business objectives outlined, the Chief Executive Officer of the company must have very broad authority and responsibility. It is proposed that only the following levels of commitment be submitted for Board of Directors' approval:

1. Bids and proposals to customers--over $25,000,000 per proposal.
2. Purchase of normal inventory items--over $10,000,000 per purchase commitment.
3. Establishment of Annual Capital Equipment Budget.
4. Establishing any non officer employee salary above $60,000 per year.
5. Establishment of or changing any approved employee bonus and/or stock option plan.
6. Appointment of all company officers and establishing all officers' salaries.
7. Establishment of all short term and/or long term levels of credit authority.
8. Establishment of all bank accounts.
9. Commitment of any mortgage or security interest in any company asset other than in the normal course of operating the leasing business of the firm.
10. Sales of assets other than inventory--over $1,000,000.
11. Acquisitions, mergers, and joint ventures--over $1,000,000.
12. Issuance of any company preferred and/or common stocks other than that available for issuance under the various options and credit agreements outstanding.
13. Changes in the rights or features of any company securities outstanding.
14. Declaration of dividends on any company security outstanding.
15. Selection of the company auditors.

1.3 BOARD OF DIRECTORS

In order to add further credibility to the company's future potential, its Board of Directors should include at least one senior representative from the Bank of America, one representative from J. H. Whitney and Company, and perhaps one representative from the ILC creditors. Specifically, it is suggested that Mr. Albert Rice and Mr. Benno Schmidt be elected on the newly constituted Board of Directors. Further additions to the Board of Directors should be considered from among other candidates who would provide national and international assistance to the company.

2. FINANCIAL PROPOSAL

2.1 GENERAL OBJECTIVES OF THE PROPOSAL

The following proposal attempts to financially restructure the company within these objectives:

1. Creation of positive shareholders equity of approximately $25 million within twelve months;

2. A liability structure than can be serviced by anticipated internal cash flow or by further conversion of debts to equity should projected revenue levels not be achieved;

3. A financial structure than can support a success oriented business plan;

4. A financial structure that will provide an optimal opportunity for recovery by the present creditors of their total investments;

5. Recovery of as much of the loss carryforward as possible to offset future tax liabilities;

6. Elimination of unproductive restrictions and covenants in future loan agreements; and

7. Securing the relisting of the company securities on the New York Stock Exchange as quickly as possible.

2.2 SPECIFIC PROPOSAL CONCERNING SENIOR BANK OBLIGATIONS

Following is the specific proposal for the Bank of America and its foreign banking affiliates (the Bank) that collectively hold approximately $152 million in various Memorex obligations:

1. The Bank would agree to underwrite the conversion of at least $90 million in Memorex principal obligations to equity within the next 12 months.

   a. The Bank would match $1.00 in principal conversion per each $1.00 of subordinated debentures (face value) converted to equity either through an exchange of securities, purchase for cash at a discount (the discount being considered as converted to equity) and/or some combination of these methods. These conversions would occur at the time of such subordinated debenture conversions.

   b. At the end of twelve months (March 31, 1975) the Bank would agree to convert to equity the difference between $90 million and the following:

      (1) Any principal obligation amounts the Bank had previously converted to equity;

      (2) Any face amounts of subordinated debentures converted to equity;

      (3) Any amounts of ILC obligations converted to equity; and

      (4) Any amounts of other Memorex obligations converted to equity.

   c. All such conversions to equity by the Bank under this paragraph shall be for a new Senior Preferred Stock at its face value and with the following features:

      (1) Par value and liquidating value of $100.00;

      (2) $4.00 dividend commencing January 1978;

      (3) Annual retirement fund in equal amounts 1983 - 1992;

      (4) Liquidation preference over any other preferred stock and/or common stock of the company;

      (5) Each share shall be entitled to five (5) votes in any matter requiring Memorex shareholders approval.

2.2 SPECIFIC PROPOSAL CONCERNING SENIOR BANK OBLIGATIONS (Continued)

d. In addition to the preferred stock, the Bank shall receive a ten year Warrant to purchase 3 1/3 shares of Memorex Common Stock for each $100 in principal amount so converted. The Warrant shall have the following features:

(1) Exercise price and timing:

Time	Price Per Common Share
1974 - 1975	$10.00
1976 - 1977	12.50
1978 - 1979	15.00
1980 - 1981	17.50
1982 - 1983	20.00

(2) Normal unit adjustment of common stock splits or stock dividends increase the number of common shares outstanding by more than ten percent (10%) within any twenty-four (24) month period.

2. Interest on all Bank obligations shall be reduced to four (4) percent retroactively to September 1, 1973 and shall remain at that rate until January 1, 1978 at which time the rate shall be set at prime. All such accrued Bank interest from September 1, 1973 through May 31, 1974 shall be immediately converted into a new Convertible Preferred Stock and all future interest through December 31, 1978 ~~may,~~ at the Chief Executive Officer's request, be converted into the same security with the following features:

(1) Par value and liquidation value of $100.00;

(2) $4.00 dividend commencing January 1978;

(3) Annual retirement fund in equal amounts 1983 - 1992;

(4) Liquidation preference over any common stock but junior to the Senior Preferred stock;

(5) Voting rights of five (5) votes for any matter requiring Memorex shareholder approval;

(6) Convertible into common stock at the following prices:

Time	Price per Common Share
1974 - 1975	$10.00
1976 - 1977	12.50
1978 - 1979	15.00
1980 - 1981	17.50
After 1981	20.00

2.2 SPECIFIC PROPOSAL CONCERNING SENIOR BANK OBLIGATIONS (Continued)

(7) Normal conversion price adjustment if common stock splits or stock dividends increase the number of common shares outstanding by more than ten percent (10%) within any twenty-four (24) month period.

For purposes of all such exchanges, the Convertible Preferred Stock shall be valued at its par value.

3. Principal payments for all Bank obligations, excluding future lease equipment lines of credits, shall be $750,000 per month commencing July 1, 1974 until present ILC creditors are fully repaid at which time the principal repayment schedule shall increase to $2,250,000 per month until fully repaid.

4. The Bank, either directly or through one of its affiliate companies, shall provide Memorex with a $35 million leased equipment line of credit with the following provisions:

a. The maximum line shall be through December 31, 1979, then liquidated by December 31, 1982.

b. Products financed under the line of credit must be covered by a twelve (12) month or longer lease at the time of transfer.

c. Financing will not exceed the lower of fifty percent (50%) of the total payments set forth in the lease or sixteen (16) times the average monthly lease payment net of service.

d. Life expectancy of the product must be at least two years longer than the lease.

e. Interest shall be at prime and monthly principal repayments shall follow the lease payment schedule, but shall not exceed seventy-five percent (75%) of the monthly lease payments.

f. Outstanding balances under the line of credit shall not exceed the following:

Year	Maximum Balance
1974	$ 6,000,000
1975	15,000,000
1976	25,000,000
1977 - 1979	35,000,000
1980	25,000,000
1981	15,000,000
1982	5,000,000

2.3 SPECIFIC PROPOSAL CONCERNING ILC MAJOR CREDITORS

Following is the specific proposal concerning the ILC major creditors who hold approximately $69 million in ILC obligations.

1. The ILC major creditors would convert $15 million of ILC obligations into Memorex Senior Preferred Stock, with features as previously described. The exchange shall be at the face value for the ILC Notes and the par value for the Senior Preferred Stock.

2. The ILC major creditors shall receive a ten year warrant to purchase 3 1/3 shares of Memorex Common Stock for each $100 in principal amount so converted. The warrants shall have the same features as previously described.

3. The ILC major creditors would convert the remaining $54 million ($69 million less $15 million) into a Senior ILC Note repayable at the rate of $3, 000, 000 principal per month commencing July 1, 1974 and continuing through the December 1, 1975 payment, at which time the monthly note will be reduced to $1, 500, 000. Interest shall be payable quarterly and reduced to four percent (4%) per year retroactively to September 1, 1973.

4. The ILC major creditors would continue to finance $1, 500, 000 per month in company leases through December 31, 1975. Repayment of these advances would be at the rate of $1, 500, 000 principal per month plus interest payable quarterly at the rate of four percent (4%) per year. The first principal payment would commence on the first day of the first month following the full amortization of the $54 million note described above.

5. ILC shall continue to purchase equipment for lease from Memorex at prices equal to twenty-four (24) times the monthly rental rates of the equipment to be leased.

6. Monies received by ILC each month shall be applied in the following manner:

   a. Net principal reduction on the Note (Initially $3, 000, 000 less $1, 500, 000 in new advances through December 31, 1975.)

   b. Purchase of New Equipment from Memorex $1, 500, 000 per month through December 31, 1975.

   c. $150, 000 per month to be set aside as a reserve for future principal payments until a fund of $1, 500, 000 has been established.

   d. Balance to Memorex for product, service, maintenance, remarketing and administrative support, but not to exceed forty percent (40%) of ILC monthly income.

   e. Any balances remaining after "d" above plus any income derived from the sale of ILC leased equipment shall be used to purchase new equipment from Memorex and shall be in addition to the initial $1, 500, 000 monthly amount described in "4" above.

7. All accrued ILC interest from September 1, 1973 through May 31, 1974 shall be immediately converted to Convertible Preferred Stock with features as already described and all future interest through December 31, 1977 may, at the Chief Executive Officer's request, be also so converted. For purposes of all such exchanges, the Convertible Preferred Stock shall be valued at its par value.

2.4 SPECIFIC PROPOSAL CONCERNING SUBORDINATE DEBENTURES

Recognizing that the Subordinated Debentures are widely held and that a commitment from the holders can not be obtained prior to a management change, it is therefore proposed that the Bank of America and the ILC major creditors agree that as soon as an SEC filing can be made a tender offer for up to $40 million in face value of Memorex Subordinated Debentures be submitted to the holders. The specific terms of the tender offer shall be established with the assistance of an investment banker. It is contemplated that the tender offer would be either for cash or some combination of cash and Convertible Preferred Stock. For example, $15.00 cash and $50.00 in par value of the Convertible Preferred Stock for each $100.00 in face value tendered may be within the appropriate range.

Management should be authorized to do the following:

1. Submit such a tender offer at prices up to $40.00 per $100.00 in face value for the Subordinated Debentures.

2. Purchase on the open market or from individual holders at prices up to $40.00.

3. Accept any or all debentures so tendered, even if the amount exceeds $40,000,000 in face value.

4. Use company cash to complete this project. At the request of the Chief Executive Officer, both the Bank and the ILC creditors agree that they will allow up to two months of regularly scheduled principal payments due them to be postponed to the end of their notes in order to fund this program.

2.5 COVENANTS AND RESTRICTIONS

Covenants and restrictions under the various Bank and ILC obligations should provide Memorex management with ample opportunity to manage the company in a recovery and growth mode. It should be recognized that normal financial ratios, investment restraints, tests for liquidity etc. can not be applied at this time. Management must be allowed considerable flexibility if the company is to achieve early financial recovery.

3. MANAGEMENT COMPENSATION AND INCENTIVES

3.1 GENERAL OBJECTIVES

Obtaining and motivating key management personnel will be the major key in achieving the successful turnaround of Memorex; therefore, a compensation and incentive program that amply rewards management for its performance must be available. The thrust of the incentive program must be tied to profits which, of course, are essential for the liquidation of present obligations as well as providing an economic base for further expansion.

3.2 CHIEF EXECUTIVE OFFICER MANAGEMENT CONTRACT

It is proposed that the Chief Executive Officer be given a five (5) year employement contract with the following financial features:

1. Base salary set at $200, 000 per year with annual cost of living adjustments based on BLS cost of living index.

2. A twenty percent (20%) participation in the Profit Bonus Plan set forth in paragraph 3. 3 of this review divided into a) an annual bonus of ten percent (10%) and b) deferred compensation of ten percent (10%) paid over a reasonable time period.

3. A fully funded retirement annuity program that will equal the provisions of the retirement plan he will be giving up at his present employment.

4. Insurance coverage at least equal to that he will be giving up at his present employment.

5. An initial stock grant of 50, 000 shares of Memorex Common Stock.

6. Five year qualified stock options for 200, 000 shares of Memorex Common Stock at the current market price of $2. 75 - $3. 00 per share. Rights to be vested as of the effective date of employment agreement.

7. Unrecovered stock options for rights to acquire shares of present employer.

8. A termination provision providing that if in the event the Board of Directors terminates the employment of the Chief Executive Officer, he shall be paid the salary balance due him under the contract, plus any awarded but not paid bonuses under the Profit Bonus Plan. Such payments shall be made within thirty (30) days of his termination by the Board of Directors.

9. Normal benefits for a Chief Executive Officer of a company of similar size, i.e., automobile, annual physical, club membership.

10. All moving expenses including real estate commissions, travel, transportation, shipping, etc.

11. All financial payments set forth in the employment contract to be guaranteed by the Bank of America.

It is contemplated that similar employment contracts may be required for recruiting selected new management personnel. The Chief Executive Officer shall be granted the authority to negotiate such contracts containing terms and conditions as he determines appropriate.

3.3 PROFIT BONUS INCENTIVE PLAN

The following annual Profit Bonus Incentive Plan is proposed:

Total consolidated net earnings before taxes		XXX
Beginning shareholders equity--including Preferred Stock and Common Stock	XXX	
Plus ending shareholders equity--including Preferred Stock and Common Stock	XXX	
Total	XXX	
Average shareholders equity (total/2) or $20.0 million, whichever is higher	XXX	
Less 5% average shareholders equity		XXX
Subtotal		XXX
Annual Profit Bonus		
10% of First $10.0 Million of Subtotal	XXX	
8% of Second $10.0 Million of Subtotal	XXX	
6% thereafter	XXX	
Total Annual Profit Bonus		XXX

For example ($ millions)

Total consolidated net earnings before taxes		10.00
Beginning shareholders equity	(75.00)	
Plus ending shareholders equity	20.00	
Total	(55.00)	
Average shareholders equity or $20.0 Million, whichever is higher	20.0	
Less 5% average shareholders equity		1.00
Subtotal		9.00
Annual Profit Bonus (10% of first $10.0 Million)		.90

The Profit Bonus Plan would be available to a key management group of approximately 12 - 15 individuals and larger group of 30 - 40 key second and third tier individuals. Allocations would be based on individual performance and total contribution with bonus possibilities equal to 50 - 100 percent of annual salaries in the first group and 10 - 50 percent in the second group. As indicated in paragraph 3.2 above, the Chief Executive Officer would be granted an ongoing twenty percent (20%) participation in the pool. Payments of the Annual Profit Bonus shall be within sixty (60) days of the closing of each fiscal year.

3.4 STOCK OPTION PROGRAM

It is proposed that the company make available a stock option plan for key employees to the extent of 500,000 shares to be granted at the market price when issued. In addition to this plan, it is proposed that the Chief Executive Officer be granted an immediate five year option for 200,000 shares and a grant of 50,000 shares as set forth in paragraph 3.2

4. SUMMARY

Memorex is a very difficult business situation that will require outstanding management performance to a) recover the investments already made in the company, and b) restore the company to a positive growth posture. It would be very easy for all the present parties to lose most of their investment of money, time and energy through the development of an unrealistic financial and management plan. Any plan that does not provide adequate tools to run the business without the continuous pressure of possible liquidation, serious creditor problems and/or ongoing organizational problems is obviously unrealistic. Management must be relatively free to concentrate on building a viable business and not solely directed to the financial and management problems created in the past.

On the other hand, as a going business, properly structured financially and adequately managed, Memorex should be capable of a gradual but dramatic turnaround.

5. APPENDIX

5.1 TOP PRIORITY MANAGEMENT ACTIONS REQUIRED

In summary, the top priority objectives for the new Memorex management should include the following:

1. Upgrade attitudes and relationships

   a. Employee
   b. Creditor
   c. Customer
   d. Press
   e. Investment Fraternity

2. Conservation of cash

3. Improve orders

4. Reduce costs--improve profit

5. Establish strategic plans

The following five (5) pages identify the specific actions and time urgency required to help achieve the above objectives.

5.1 MEMOREX - TOP PRIORITY MANAGEMENT ACTIONS REQUIRED

Classification A - Must be Completed Within 90-120 Days

1. Documentation of New Management Agreement including refinancing proposal, incentive compensation and operating plan.

2. Completion of New Management changes.

3. Completion of New Financing plan.

   a. Basic agreement of plan approved by Bank, ILC creditors.
   b. Documentation completed.
   c. Approvals from shareholders, creditors, Board of Directors.
   d. Phase I completed - Bank, ILC creditors, new lines, etc.

4. Establishment of internal authority levels, statement of responsibilities, roles and missions within the new organizational structure.

5. Statement of basic company philosophy, general goals, objectives.

6. Determination of temporary product (equipment) strategy including domestic and international marketing (sales, OEM and lease) pricing, servicing, customer financing, production and product development -

   a. For 1974
   b. For 1975 - 1976

7. In regards to company organization:

   a. Review McKinsey recommendations
   b. Interview all senior level managers
   c. Phase I reorganization
   d. Phase II reorganization

8. Initial reorganization of the Board of Directors:

   a. New Management appointments
   b. Additions to the Board of Directors

9. Determination of temporary product (Media) strategy including domestic and international marketing (sales, OEM and lease) pricing, servicing, customer financing, production and product development -

   a. For 1974
   b. For 1975 - 1976

10. Determine best strategy for solving under utilization of plant capacity at Santa Clara equipment plant including the evaluation of the following possibilities:

    a. New product development
    b. OEM contracts
    c. Licensing joint venture programs designed to bring into Memorex outside products for production and marketing
    d. Subleasing of the plant or parts thereof
    e. Disposal of the plant

11. Restructure and refocus internal financial reporting procedures to provide timely reports covering the real issues.

    a. Domestic
    b. International

12. Restructure internal planning efforts to avoid duplication of activity.

13. Establish procedures (reporting and management) to reduce foreign currency exchange exposure.

14. In regards to present lease portfolio:

    a. Develop plan to reduce "off rent" status of equipment
    b. Determine strategy for proper management of the portfolio

15. Establish programs to improve asset efficiencies:

    a. Cash Float management - particularly international
    b. Inventory turnover
    c. Strategic parts, materials, chemicals etc. - establish emergency procedures to make certain that these things will be available when needed.
    d. Accounts Receivable - collection reporting for improved turnover - particularly international
    e. - Determine excess equipment, plants and other assets that may be redeployed or disposed of through sale, etc.

16. Evaluate possible cost savings in the following:

    a. Make/buy decisions, i.e. PCB's, plastic components
    b. Employee car rentals
    c. Security (guard) systems
    d. Labor efficiency
    e. Material purchasing, invoicing procedures
    f. Data processing procedures

17. Develop meaningful New Management-employee communication procedures.

Classification B - Must be Completed Within 6 - 8 Months

1. Determination of product (equipment and media) strategy, including domestic and international marketing (sales, OEM and lease) pricing, servicing, customer financing, production and product development:

    a. 1975 - 1976
    b. 1977 - 1979

2. Execution of plans established and initiated by Classification A items:

    a. Determine tender offer specific terms and conditions for subordinated debentures.
    b. Completion of tender offer.
    c. Add internationally known businessman to Memorex Board of Directors.
    c. Complete joint ventures with Telex, Transamerica, Ampex and other large lease equipment holders to manage their portfolios for service revenue, part of cash flow for re-investments and participation in profits

        i. First venture
        ii. Second venture
        iii. Third venture

    d. Complete OEM product programs with Burroughs, NCR and/or Nixdorf, in Disk Drives and other peripheral areas.

        i. First venture
        ii. Second venture

e. Complete joint ventures with smaller equipment companies to manufacture/service/market specific items of their equipment to round out Memorex lines.

   i. First venture
   ii. Second venture
   iii. Third venture

f. Complete structuring of first participating off balance sheet lease financing program - execution of program in 1975.

g. Redeployment of specific assets determined to be excess, including property, plant, equipment, inventory, etc.

3. Evaluate and determine best solution concerning Liege,Belgium plant, including possibilities of:

   a. Closing the plant.
   b. Subleasing.
   c. Selling the plant.
   d. Renegotiation of commitments with Belgium government.
   e. Joint venture with European company.

4. Evaluate and determine best solution to Minneapolis plant lease.

5. Restore normal credit relations with major suppliers.

6. Evaluate loss/marginal product lines to determine best solution:

   a. Terminal equipment
   b. Microfilm equipment
   c. Copier products
   d. Audio tape business

7. Establish international pricing strategy to control foreign taxes.

8. Evaluate internal accounting procedures with assistance from Arthur Anderson -

   a. Prepare recommended changes
   b. Commence change program

9.

10.

11. Evaluate and implement cost savings program in the following areas:

    a. Employee transportation and travel.
    b. Freight and transportation of products, i.e., air freight vs. surface, quantity shipments and warehousing vs. smaller shipments, etc.
    c. Rationalization of product/media marketing activities, i.e., shotgun vs. rifle approaches, manning, goals, supervision.
    d. Rationalization of service activities, i.e. coverage commitments, geographic distribution, warranty coverage, etc.
    e. Product development, i.e., product life, cost oriented development strategy to balance present quality oriented development.
    f. Coordination of companywide purchasing activity.
    g. Conversion of salary commitments to base salary plus bonus plan.

MEMOREX CORPORATION

Income Forecast 1974 - 1979

(In $ Millions)

Appendix 5.2

	1974	1975	1976	1977	1978	1979
Lease Income	100.0	115.0	133.1	153.7	177.4	205.0
Sales Revenue						
Equipment	20.0	21.0	23.1	27.7	34.7	43.1
Media	80.0	84.0	92.4	101.6	116.9	134.4
Total Sales Revenue	100.0	105.0	115.5	129.3	151.6	177.5
Total Revenue	200.0	220.0	248.6	283.0	329.0	382.5
Gross Margin						
Lease Income	37.5	47.3	57.8	67.5	79.1	94.4
Sales Revenue - Equipment	8.0	8.6	9.7	11.9	14.9	19.0
Sales Revenue - Media	26.6	28.6	32.3	36.6	43.3	50.4
Total Gross Margin	72.1	84.5	99.8	116.0	137.3	163.8
Less Underutilization of Plant Costs - Not included in Cost of Sales	2.1	1.8	1.5	1.2	.9	.7
Net Gross Margin	70.0	82.7	98.3	114.8	136.4	163.1
Operating Expenses						
Marketing						
Lease	19.0	21.2	23.9	26.9	31.0	35.9
Sales & Media	12.5	13.0	14.1	15.5	18.2	21.3
Total Marketing	31.5	34.2	38.0	42.4	49.2	57.2
Development						
Equipment	6.0	6.0	6.0	6.0	6.0	6.0
Media	1.5	2.0	2.5	2.5	2.5	2.5
New Products Including Purchased Technology	1.5	7.0	6.5	6.5	9.0	10.0
Total Development	9.0	15.0	15.0	15.0	17.5	18.5
General & Administrative	10.0	9.9	9.9	10.8	11.8	13.8
Contingency & Misc. Expenses	4.0	5.5	7.5	9.9	13.2	15.3
Total Operating	54.5	64.6	70.4	78.1	91.7	104.8
Profit Before Interest, Bonus & Taxes	15.5	18.1	27.9	36.7	44.7	59.0
Interest	11.5	8.7	9.2	10.0	11.2	14.3
Profit Before Bonus & Taxes	4.0	9.4	18.7	26.7	33.5	44.7
Bonus	.3	.8	1.5	2.0	2.3	2.9
Profit Before Taxes	3.7	8.6	17.2	24.7	31.2	41.8
Taxes	.5	1.6	2.2	3.7	5.2	21.7
Profit After Taxes	3.2	7.0	15.0	21.0	26.0	20.1

MEMOREX CORPORATION

Year Ending Balance Sheet - 1974 - 1979

(In $ Millions)

Appendix 5.2

	Beginning	1974	1975	1976	1977	1978	1979
Assets:							
Operating Cash	4.5	4.5	5.0	5.6	6.4	7.4	8.6
Accounts Receivable	39.9	38.4	39.2	42.2	48.1	51.4	57.6
Inventories	62.7	62.5	64.7	69.1	74.4	82.3	91.1
Other Current Assets	4.0	4.0	4.4	4.9	5.7	6.6	7.7
Total Current Assets	111.1	109.4	113.3	121.8	134.6	147.7	165.0
Leased Equipment	96.3	100.3	112.1	125.2	140.7	160.0	180.7
Property Plant & Equipment	45.4	43.4	43.3	43.3	44.1	45.3	46.7
Other Fixed Assets	3.3	3.3	3.3	3.7	4.2	4.9	5.7
Total	256.1	246.4	272.0	294.0	323.6	357.9	398.1
Liabilities:							
Accounts Payable	22.0	28.1	35.6	41.5	48.4	57.6	68.3
Other Payables & Current Liabilities	12.5	14.0	16.5	19.9	23.2	27.3	32.1
Total Current Liabilities	34.5	42.1	52.1	61.4	71.6	84.9	100.4
Bank Senior Notes	151.6	102.1	93.1	84.1	66.1	39.1	12.1
Bank Leased Equipment Line of Credit	-	6.0	15.0	25.0	35.0	25.0	15.0
ILC Major Creditors	69.0	45.0	27.0	9.0	-	-	-
Subordinated Debentures	75.0	45.0	45.0	45.0	45.0	45.0	45.0
Other Obligations Necessary to Balance Cash Requirements	-	(8.9)	2.4	12.9	25.2	57.2	98.8
Total Liabilities	330.1	231.3	234.6	237.4	242.9	251.2	271.3
Equity:							
Preferred Stock	-	60.0	60.0	60.0	60.0	60.0	60.0
Convertible Preferred Stock	-	25.4	30.7	34.9	38.0	38.0	38.0
Common	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Retained Earnings	(95.0)	(81.3)	(74.3)	(59.3)	(38.3)	(12.3)	7.8
Total Equity	(74.0)	25.1	37.4	56.6	80.7	106.7	126.8
Total Liabilities and Equity	256.1	256.4	272.0	294.0	323.6	357.9	398.1

MEMOREX CORPORATION

Source & Application of Funds 1974 - 1979

(In $ Millions)

Appendix 5.2

	1974	1975	1976	1977	1978	1979
Source of Funds:						
Profit Before Interest, Bonus & Taxes	15.5	18.1	27.9	36.7	44.7	59.0
Depreciation of Leased Equipment	30.0	31.7	34.7	39.1	43.6	50.1
Depreciation of Plant & Equipment	7.0	6.6	6.8	6.9	7.5	7.7
Bank - Leased Equipment Line of Credit	6.0	9.0	10.0	10.0	(10.0)	(10.0)
ILC - Leased Equipment Line of Credit	9.0	18.0	-	-	-	-
Accounts Payable	6.1	7.5	5.9	6.9	9.2	10.7
Other Current Liabilities	1.5	2.5	3.4	3.3	4.1	4.8
Additional Borrowings	(8.9)	11.3	10.5	12.3	32.0	41.6
Conversion of Debt to Equity						
Bank Conversion to Preferred Stock	45.0	-	-	-	-	-
ILC Creditors Conversion to Preferred Stock	15.0	-	-	-	-	-
Subordinate Debenture Conversion Convertible Preferred Stock	15.0	-	-	-	-	-
Conversion of Interest Charges to Equity						
Bank	5.1	3.9	3.5	3.0	-	-
ILC Creditors	2.4	1.4	.7	.1	-	-
1973 Carryforward	2.9	-	-	-	-	-
Gain on Subordinate Debenture Tender Offer	10.5	-	-	-	-	-
Total Sources of Funds	162.1	110.0	103.4	118.3	131.1	163.9
Application of Funds:						
Bank - Principal Reductions	49.5	9.0	9.0	18.0	27.0	27.0
ILC - Principal Reductions	33.0	36.0	18.0	9.0	-	-
Subordinated Debentures - Principal Reduction	30.0	-	-	-	-	-
Interest	11.5	8.7	9.2	10.0	11.2	14.3
Profit Bonus Plan	.3	.8	1.5	2.0	2.3	2.9
Taxes	.5	1.6	2.2	3.7	5.2	21.7
Operating Cash	-	.5	.6	.8	1.0	1.2
Accounts Receivable	(1.5)	.8	3.0	5.9	3.3	6.2
Inventories	(.2)	2.2	4.4	5.3	7.9	8.8
Other Current Assets	-	.4	.5	.8	.9	1.1
Leased Equipment	34.0	43.5	47.8	54.6	62.9	70.8
Equipment	5.0	6.5	6.8	7.7	8.7	9.1
Other Fixed Assets	-	-	.4	.5	.7	.8
Total Application of Funds	162.1	110.0	103.4	118.3	131.1	163.9