



	<i>Year ended December 31</i>	
	<i>1966</i>	<i>1965</i>
Net sales	\$24,417,000	\$13,099,000
Income before provision for Federal and foreign income taxes	5,181,000	2,481,000
Net income after taxes	2,724,000	1,331,000
Net income per share (based upon average number of shares outstanding during year)	2.67	1.35
Depreciation expense	828,000	423,000
Research and development expense	1,454,000	747,000
Net working capital	8,738,000	1,977,000
Long-term debt	12,055,000	2,352,000
Shareholders' equity	6,673,000	3,909,000
Return on shareholders' equity (average during year)	51.5%	41.1%
Shares outstanding at year's end	1,036,891	1,004,016
Employees at year's end	918	442

Memorex Corporation manufactures precision magnetic tapes which are used for the recording and storage of information by computers and scientific instrumentation recorders, and the recording and reproduction of television pictures and sound by video tape recorders. Memorex has currently under development a diversification into the allied field of disc memory media.

The Company's products are sold world-wide to customers operating computers, commercial broadcast and closed-circuit television installations, and government agencies and private contractors in the missiles and space field.

This Annual Report is designed to be read in a few minutes and, in addition to the report of results for 1966, necessarily contains an abbreviated description of operations. More detailed information on the technology, markets and applications of Memorex's products is set forth in our 1965 Annual Report, copies of which are available from the Company.

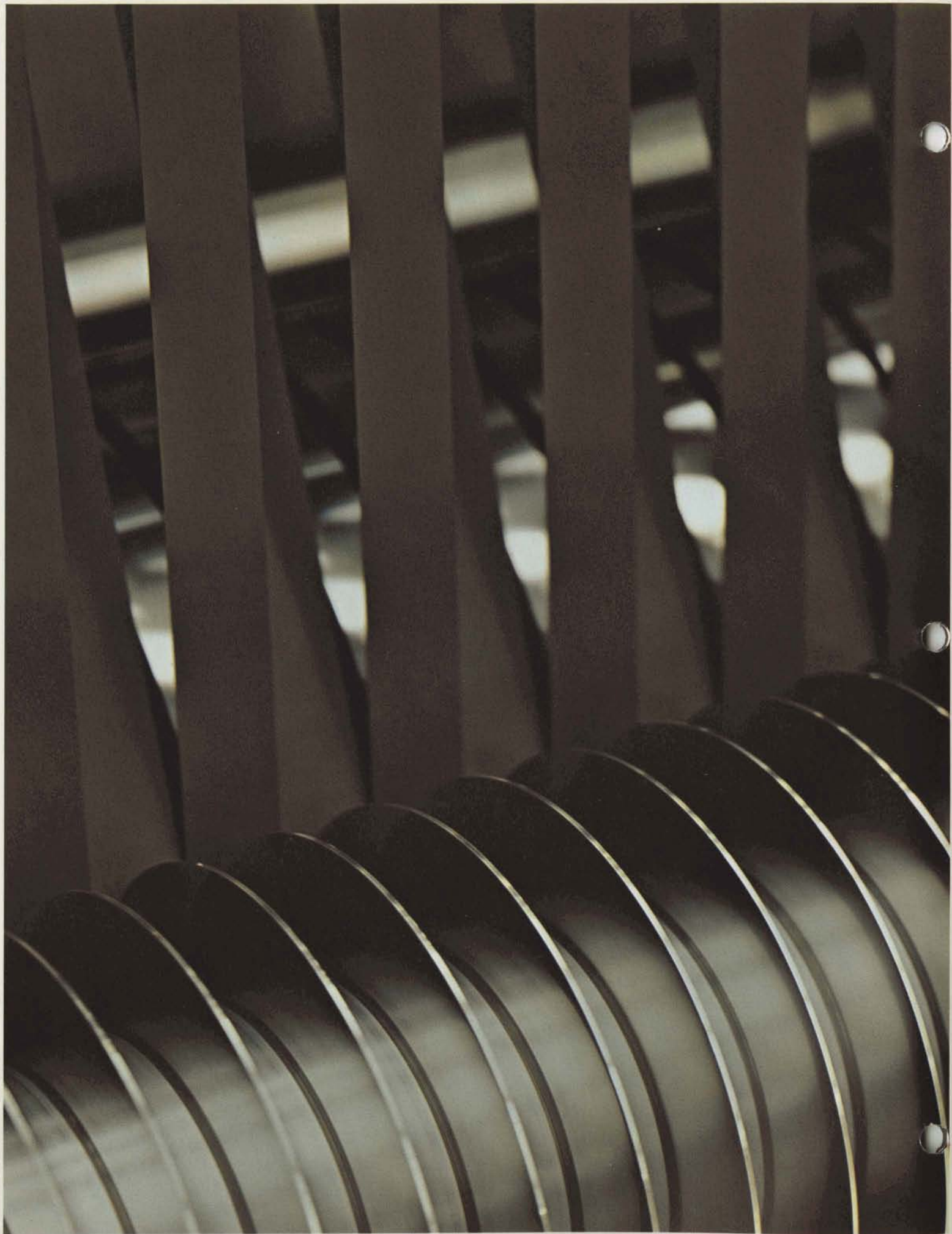


TO SHAREHOLDERS AND FRIENDS

To characterize the sixth year of Memorex business in a phrase, it was a year of high-level growth and maturation.

The summarized financial highlights of 1966 on the preceding page show the growth. For the fourth consecutive year, sales, net income, and earnings per share increased by sizable increments: 86%, 105% and 98%, respectively. Again in 1966, the Company maintained its ranking as one of the world's two leading developers and manufacturers of precision magnetic tapes. This last fact is true in terms of dollar sales, in terms of market share, and, perhaps most important, in terms of the endorsement of the excellent quality of Memorex products by the most critical magnetic tape users in the world.

The increasing figures of our financial statements—as important as they are to us all—are only one evidence of the growth and maturation of our business. To add another dimension to this record, we should like to tell you about seven significant achievements during 1966, each of which represents a basic improvement in our capabilities. We believe that these achievements provide a platform for further Memorex progress in 1967 and in the years to follow.



DOUBLED CAPACITY

One achievement of major significance in 1966 was that Memorex doubled its production capacity. Additions of new, highly-automated production lines were completed and brought on-stream by mid-year to end the production limitations on sales that had prevailed earlier.

Further expansion of capacity, including a project for construction of European manufacturing facilities, is being made in 1967.

Most of the equipment added in the doubling of our capacity is proprietary—designed, constructed and installed by the Memorex engineering staff.

The scope of the 1966 expansion is evidenced by the fact that more than 5,000 engineering drawings for equipment were prepared during the project.

The complexity and precision of Memorex manufacturing equipment result from its requirement to apply a chemically, physically and magnetically homogeneous coating less than a thousandth of an inch thick to a surface 25 inches wide and often over a mile long. The thickness of coating varies by less than 1/60th of that of a human hair, and this degree of precision is maintained for mile after mile of tape, day after day of round-the-clock production.

Production and quality control staffs were expanded during the year to handle the increased sales volume. To assure the uniformity of quality of Memorex products during 1966, notwithstanding the production expansion, the Company maintained a ratio of one person engaged in quality control activities for every person engaged in production work.



