



MEMOREX CORPORATION FINANCIAL HIGHLIGHTS

	Year ended December 31
	1967 (Pro Forma)*
Net sales	\$34,232,000
Income before provision for Federal and foreign income taxes	7,205,000
Net income after taxes	3,805,000
Net income per share (based upon average number of shares outstanding during year and the 3-for-1 stock split-up)	1.06
Depreciation expense	1,681,000
Research and development expense	2,377,000
Working capital	7,653,000
Long-term debt	4,000
Shareholders' equity	22,271,000
Total capitalization	22,275,000
Return on total capitalization (average during year)	18.7%
Shares outstanding at year's end**	3,625,620
Employees at year's end	1,304
Shareholders at year's end	6,850

* See Notes to Financial Statements.

** Adjusted for 3-for-1 stock split-up.

Memorex Corporation manufactures magnetic tapes and disc packs used in computers for mass data storage media and direct access memory media, respectively. Other magnetic media products include precision magnetic tapes for the recording and reproduction of scientific data and television pictures and sound. In 1968, Memorex has also inaugurated the manufacture of the magnetic disc recording equipment which utilizes disc packs for its media.

This Annual Report discusses primarily the results of the Company's operations for the year 1967. Readers interested in a full description of the Company's capabilities and operations will find it in the brochure enclosed by the back cover of this Report.

COVER: The new Memorex Mark I Disc Pack (shown 1.5 times actual size) illustrates the Company's 1967 diversifications within the field of magnetic recording media and equipment.

TO SHAREHOLDERS AND FRIENDS

Three significant successes were achieved by hardworking and resourceful Memorex employees in 1967: growth of sales and earnings of our precision magnetic tape operations; the broadening of the Company's business by diversifications of product lines; and the strengthening of management.

The effect has been a significant change in Memorex's character and outlook.

In consequence of 1967's successes, the Board of Directors took action at year-end to convert the Company's previously outstanding Convertible Subordinated Debentures due 1986 into shareholders' equity and a simultaneous 3-for-1 stock split-up. This action, which more than tripled the number of Memorex common shares outstanding and strengthened our capitalization, is reflected in the pro forma financial data for 1967 shown opposite.

GROWTH

Growth achieved in 1967, shown by the figures opposite, was substantial. With it, Memorex firmed its position as the precision tape industry's second largest volume producer by gaining relatively on the largest volume tape maker, and also widened the gap between itself and the third largest competitor.

Sales increased 40% to \$34-million. Research and development expenses were \$2.4-million, a 63% increase over 1966's R&D spending. Net profit after taxes rose 31% to \$3.6-million and \$1.15 per share. Comparable pro forma net profit was \$3.8-million and \$1.06 per share, giving retroactive effect to the reduction of interest expense and the increase in number of shares outstanding which resulted from conversion of the debentures.

Growth of operations in 1967 is shown by the approximate 50% increases in the size of the Company's facilities to 410,000 square feet and in the number of employees to more than 1,300. The size of these 1967 increases was greater than Memorex's total facilities and manpower at the end of 1964.

This growth was achieved despite the most intensive competition in the precision tape industry in recent years. Foremost factor in this competition was the apparent change of strategy of the industry's largest volume producer. In earlier years, this competitor had largely restricted its sales of computer tape to manufacturers of computers for their resale to end-users; in 1967 it sought to capture a greater segment of the end-user market by aggressive pricing and promotion. Other tape producers, intent upon maintaining their positions, heightened the price competition.



The financial results of 1967 were a convincing demonstration of Memorex's ability to meet this competition while maintaining a satisfactory ratio of net profit to sales. Moreover, the Company achieved this record while increasing its share of the markets for computer and video tape products. This record supports the conclusion that Memorex is better able than at any prior time in its history to contend with competition, despite its intensity—and this ability becomes even stronger with the diversifications of our product lines, discussed later.

Memorex was successful in competition during 1967 while maintaining good profitability because of a variety of successful programs. Computer and video tape products were improved to justify premium prices to quality-oriented users. Service to customers was improved by enlarging our marketing organization and increasing the number of sales offices in the United States and in Europe and Japan. Manufacturing costs were lowered by programs which improved production yields, mechanized the handling of materials, reduced raw material costs and raised their utilization, and increased the in-house production of tape reels and cases. The product-mix of sales was improved by concentrating our marketing efforts upon our computer and video tape products and by expanding our international sales to approximately 25% of total volume.

Yet, the year 1967 was not without its disappointments. Earnings during the first and third quarters were adversely affected when the planned levels of sales did not materialize and operating expenses were not in proper balance with volume. Construction of the European manufacturing plant at Liege, Belgium, was temporarily postponed when its originally planned scale could not be economically justified. Necessary modifications were made to our plans, and the project is now being prepared for competitive bid by construction contractors whose work is scheduled to begin in April, 1968. Introduction of the new disc pack product line was delayed several months to the fall of 1967, and an improved broadband instrumentation tape introduction suffered a six-month delay to January, 1968. That Memorex experienced these disappointments and still reported substantial sales and earnings gains for the year is

Belgian officials confer with Memorex representatives concerning construction of the European manufacturing plant. Engineering for the project was substantially completed in 1967.

Memorex technical managers at the Color Video Tape Evaluation Laboratory (left to right): John Mandle, Manager of Quality Control; Roland Jang, Director of Engineering; Eric Daniel, Director of Research; and Dr. Gordon MacBeth, Director of Chemical Development.



significant of the competitive strength, diversity, and balance of operations which the Company has attained.

DIVERSIFICATION

A broader base of business was established by Memorex during 1967 by two diversifications within the field of magnetic recording media and equipment. Their effect has been to change materially the charter and course of Memorex's future development. No longer is Memorex characterized simply as a tape company.

A new product line of disc packs was mass produced and marketed to computer users in September, 1967, culminating nearly two years of research and development. This event was several months later than planned, with consequent penalty to earnings, but when the Memorex Mark I Disc Pack was released for sale, the market's response exceeded our expectations. By year-end 1967, thousands of Memorex packs were in use in computer installations in the United States and Europe. Their quality is excellent. This excellence is assured by the IBM System 360 computer which the Company uses to test each pack before delivery. It is confirmed in customers' use—the Mark I Disc Pack has enjoyed the lowest incidence of problems of all products ever introduced by Memorex.

The extent of diversification achieved by Memorex's disc pack product line is not obvious because of the apparent similarity of computer tape and disc pack coatings. The chemistry problems of the two products differ, however, because the disc drive's recording heads move upon an air film and are not in direct contact with the coated surface as in tape recording. Thus, requirements for surface durability and smoothness are different.

Preparation of substrate materials before coating differs because the disc pack uses finely polished aluminum discs and tape uses a plastic film base. Coating, curing, and surface-finishing processes and equipment differ because discs must necessarily be processed individually while tape is produced in long and wide rolls. Product testing also differs in equipment and techniques. The best evidence of the extent of diversification is the fact that to date, apart from Memorex, no other magnetic tape producer has demonstrated the capacity to reproducibly manufacture high-quality disc packs in commercial quantities in competition with IBM.

To make this diversification more understandable to readers unfamiliar with computer devices, the nature and use of disc packs and drives can be explained quite simply. A disc pack is an array of six magnetic-coated discs (shown on the cover photograph at 1.5 times actual size) which are



