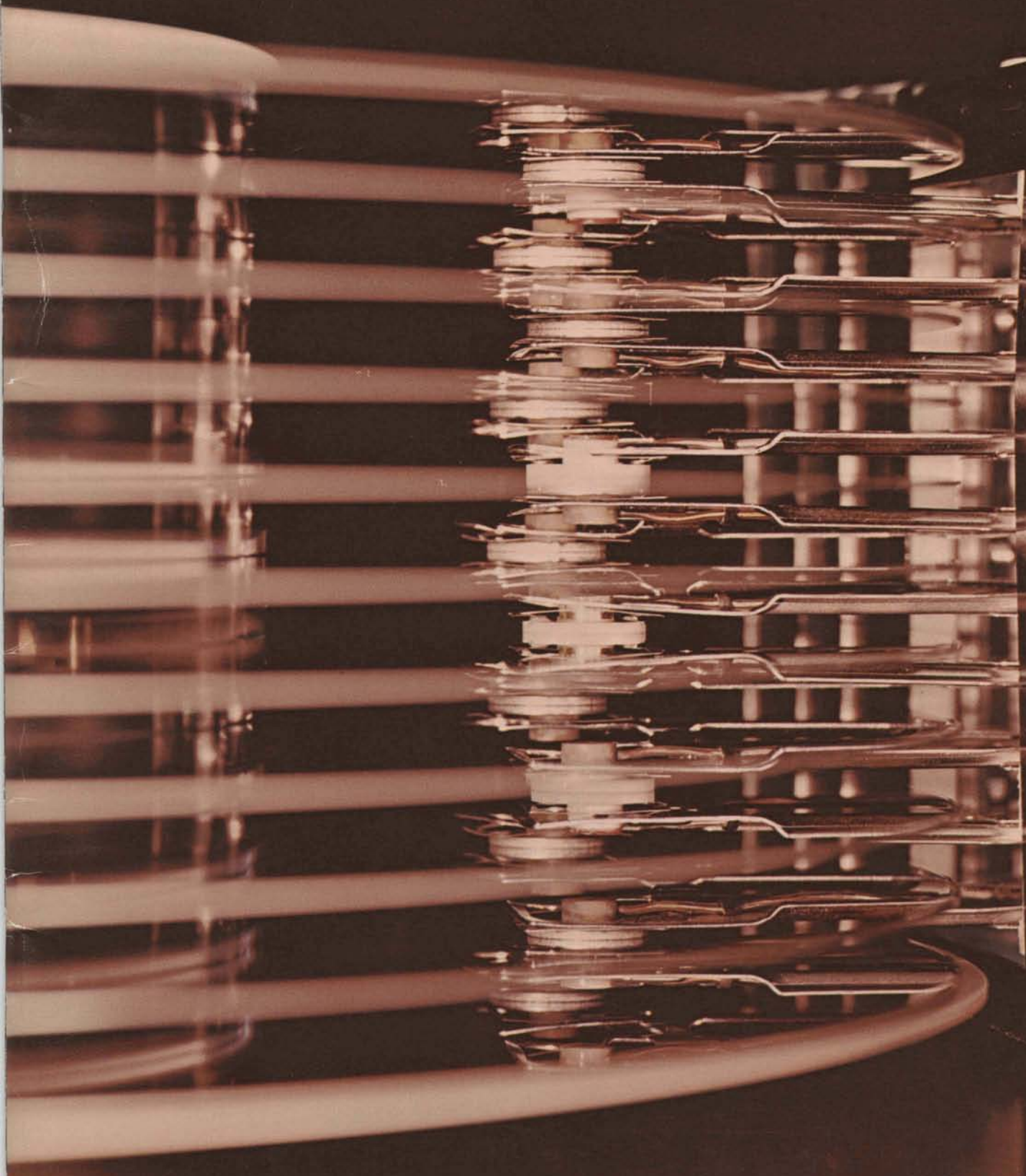


MEMORREX

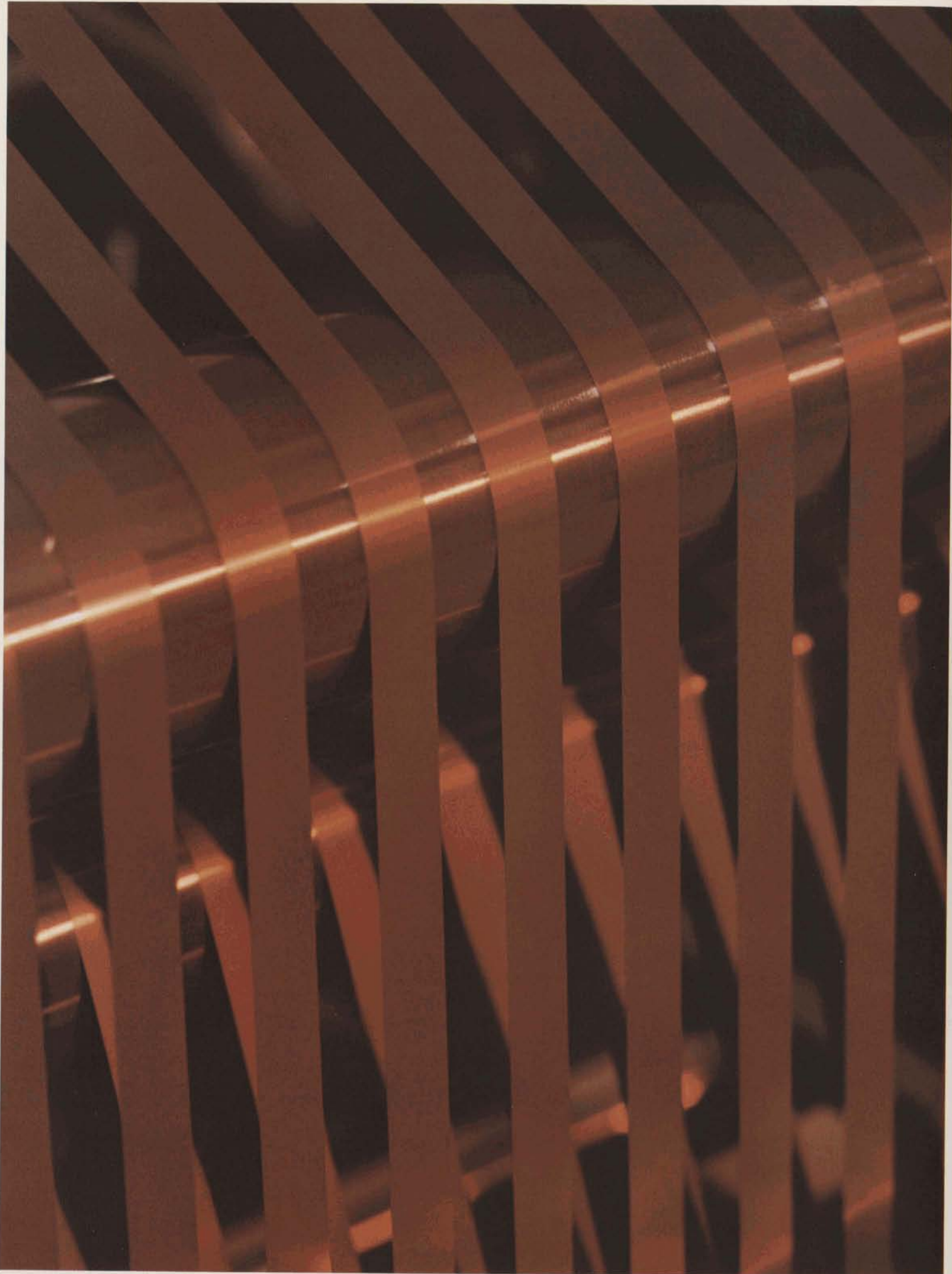
1968 Annual Report



Cover: Twenty recording heads of the Memorex 660 Disc Drive search for data recorded in concentric tracks on the 20 surfaces of the Mark VI Disc Pack media. The heads "fly" at an average distance of 80 millionths of an inch from the disc surfaces, while the discs rotate at 2,400 revolutions per minute. Average access time to an information record at any location is approximately 50 thousandths of a second.

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Memorex Corporation is in the user-oriented information handling systems media and equipment business. The Company manufactures magnetic tapes and disc packs used in computers for mass data storage media and direct access memory media, respectively, and other precision magnetic tapes for the recording and reproduction of scientific data and television pictures and sound. In 1968, Memorex also inaugurated the manufacture of magnetic disc recording equipment which utilizes disc packs for its media.



Financial Highlights
for the years ended December 31, 1968 and 1967

Memorex Corporation

	1968	1967
Net sales	\$58,295,000	\$34,232,000
Income before provision for Federal and foreign income taxes	10,084,000	6,765,000
Net income after taxes	4,939,000	3,576,000
Net income per share*	1.35	1.06
Depreciation and amortization expense	2,651,000	1,681,000
Research and development expense	3,798,000	2,377,000
Working capital	7,239,000	7,508,000
Long-term debt	4,289,000	6,816,000
Shareholders' equity	27,295,000	15,485,000
Total capitalization	31,584,000	22,301,000
Return on total capitalization (average during year)	18.3%	17.4%
Shares outstanding (average during year)*	3,663,010	3,120,120
Number of employees at year's end	1,916	1,304
Number of shareholders at year's end	17,050	6,850

*Based on weighted average number of shares outstanding during the year after giving retroactive effect to the 3-for-1 stock split-up and the conversion of debentures.

To Shareholders:

Growth in business, record earnings, and substantial progress in corporate development made the year 1968 an excellent one for Memorex.

Net sales rose to more than \$58 million, compared to \$34 million in 1967, a 70% increase.

Net income after taxes was \$4,939,000, compared to \$3,576,000 in 1967, a 38% increase. Earnings per share were \$1.35 in 1968 and \$1.06 in 1967. The 1968 figures reflect the 10% Federal income tax surcharge, which amounted to 9¢ per share.

Three other indices of growth during the year were significant:

- Research and development expenditures, including those capitalized, aggregated \$5.3 million. This level of R&D was an increase of nearly 70% from 1967's. R&D expenses charged against revenues were \$3.8 million, or 6.5% of sales.
- Increased investment in capital assets totalled \$7.8 million, bringing the Company's total plant, property, and equipment account to \$25.4 million.
- A 46% increase in employment was assimilated into our organization, with the year-end personnel count in excess of 1,900.

Important corporate development occurred in 1968 with the commercialization of Memorex's first equipment product line. The new product line effected a change of Memorex's corporate interests, from which has emanated a program for building a computer peripheral equipment business, described in the next section of this Report.

In the years prior to 1968, the Company had concentrated its business in the field of precision magnetic tapes for mass storage of data and the recording of television, and in the field of disc pack devices for direct-access data storage of computers. During the year, our subsidiary, Peripheral Systems Corporation, achieved an important diversification by beginning volume production of the Memorex Model 630 Disc Drive. This computer peripheral equipment, which had been under development since 1966, is the direct access equipment which utilizes disc pack devices for data storage media.

The technical success of PSC's development is evident in the performance specifications of the Model 630 and of the follow-on Model 660, volume production of which will begin in mid-1969, which exceed those of the IBM 2311 and 2314 counterpart equipments. The success of PSC's manufacturing is confirmed by customers' acceptance of several hundred units which have been delivered and which are operating more reliably and with less maintenance requirement than competitive equipments. The success of the total PSC program is evident in the \$30 million of orders received for deliveries in 1969 and 1970, its current contribution to our net profit, and the establishment of a cornerstone upon which to build other equipment product lines.

In pursuit of this objective, in June 1968, Memorex formed an optical technology subsidiary, Image Products Corporation. Its development of a computer output microfilm printer, which remains speculative, is progressing satisfactorily. More detail of this subsidiary's activities is set forth in another part of this Report.

Growth of disc pack sales accelerated during 1968 as a result of intensified marketing of this product line.

The prolonged shortage of disc packs, at the time of introduction of our Mark I product a year earlier, had induced Memorex to enter the market without advertising, adequate additions to our field sales staff, and aggressive marketing. The elimination of the shortage, during the first quarter 1968, compelled us to revamp our marketing.

By mid-year, disc packs were intensively promoted; we accelerated the expansion and training of the sales force; all manufacturing of finished packs was concentrated at a single, more efficient Santa Clara plant. We hastened the development of the Mark VI product, the higher-density data storage disc pack for IBM 2314 drives, and placed it in volume production in September. These vigorous actions resulted in steadily rising, profitable sales during the second half of 1968. Memorex's sales of disc packs at year-end exceeded the combined volume of all other competition excluding IBM. Because of these actions, we were also better able to sustain the 25% price reduction in Mark I packs, late in 1968, which was a required response to lower competitive prices.

The Company's precision magnetic tape sales increased substantially during the year. Because of expanded selling efforts, our share of market in the computer tape product line was maintained notwithstanding severe price competition for large volume contracts. Share of market of video tape products, broadcast and closed-circuit, was improved. Video products suffered less price deterioration because of the greater sensitivity of video tape users to the premium quality offered by our products. The instrumentation tape product line received only minimal marketing effort during the year because of continued depressed prices and profit

margins. The net result was that sales of precision tape products produced satisfactory earnings in 1968, despite overall price degradation which lowered tape's ratio of profit to sales.

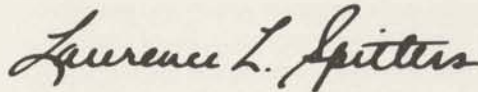
Expansion of field selling capacity in the United States was benefited by staffing 14 additional sales offices, making a total of 37 domestic offices. A Memorex sales office was located in Canada. Other foreign sales subsidiaries were organized in Mexico, Denmark, and Finland, bringing the total number of such organizations to 15. In Japan, the Company entered a marketing joint venture with the Japanese trading company which previously was our sales representative. Technical centers for support of international customers were established in London, Paris, Liege, Munich and Tokyo. In recognition of Memorex's international marketing activities, the Company was the recipient of President Lyndon Johnson's Export "E" Award in May, 1968.

At year-end 1968, Memorex's bank borrowings had increased to in excess of \$15 million. Of this amount, \$4.3 million were overseas term loans to finance construction of a tape manufacturing plant in Liege, Belgium. Short-term loans from U.S. banks produced the balance of borrowed capital. We expect additional bank loans will meet all external capital needs during 1969.

A milestone in corporate history occurred in June 1968, when Memorex Common Stock was listed for trading on the New York Stock Exchange. The listing gave to our shares a broader exposure to investors, resulting in the increase of our shareholders to more than 17,000.

In 1968, the Company's ambitious objectives materialized because of the commitment of Memorex people at all levels of our organization, their pride, hard work and ingenuity. The results are the successes described in this Report, which provide employees greater job security because of our enhanced competitive strength, better opportunities for promotion through growth, and, by profit-sharing, a participation with shareholders in improved net profits. In 1969, Memorex people aspire to achieve results which should be no less satisfying to shareholders.

Sincerely,



Laurence L. Spitters
President



