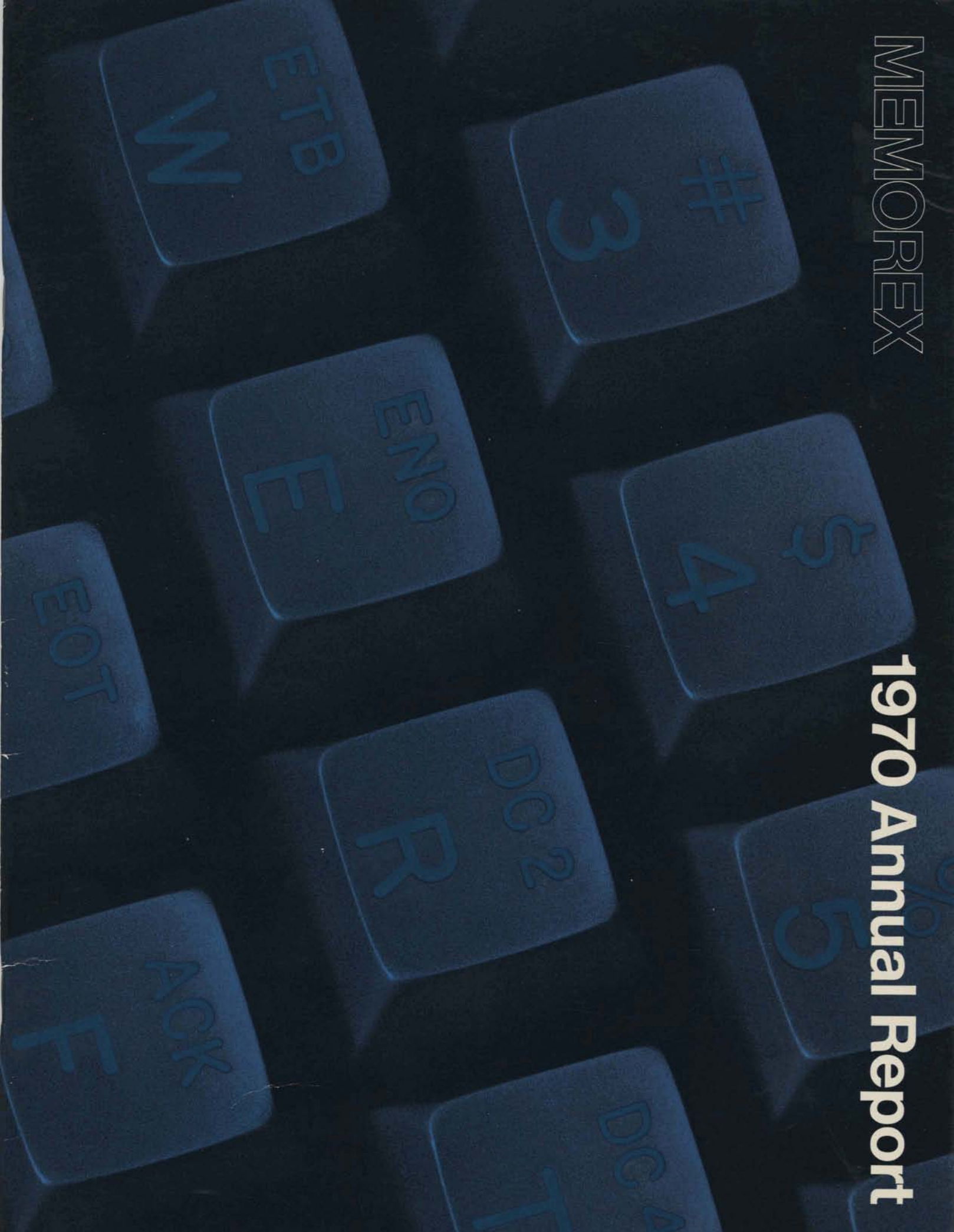


MEMMOREX

1970 Annual Report



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Cover: The Memorex 1240 Communication Terminal, a high speed input/output printing device for communication of information between terminal and computer, was the first of three new communication equipment products introduced in 1970.

Memorex Corporation

**Financial Highlights
for the years ended December 31, 1970 and 1969**

	1970 (1)	1969 (2)
Net sales and revenues (excluding \$42,345,000 billed to ILC in 1970)	\$ 78,997,000	\$74,067,000
Net income	3,183,000	6,902,000
Earnings per common share (3)83	1.85
Depreciation and amortization expense	11,314,000	5,860,000
Net additions to property, plant and equipment	36,987,000	11,901,000
Net additions of equipment for lease to others	37,901,000	7,441,000
Research and development expenditures:		
Expensed against net sales and revenues during the year (including amortization)	4,824,000	5,141,000
Capitalized as cost of equipment for lease to others (including amortization)	3,177,000	403,000
Subtotal: expenses and capitalized costs relating to products marketed	8,001,000	5,544,000
Capitalized as deferred research and development costs	8,141,000	3,683,000
Less: amortization of deferred research and development costs	(1,577,000)	(387,000)
Total research and development expenditures	14,565,000	8,840,000
 Financial Position:		
Working capital	35,355,000	16,127,000
Total assets	223,655,000	88,197,000
Long-term debt:		
ILC Peripherals Leasing Corporation	31,628,000	—
Memorex Corporation and Majority-Owned Subsidiaries —		
Bank credit and unsubordinated debt	26,873,000	22,354,000
Convertible subordinated debentures due 1990	75,040,000	65,000
Shareholders' equity	39,116,000	35,074,000
Average number of common shares outstanding	3,829,879	3,733,547
Number of employees at year's end	6,101	3,409
Number of shareholders at year's end	20,550	16,450

- (1) All information shown for 1970 is for Memorex Corporation and Majority-Owned Subsidiaries and ILC Peripherals Leasing Corporation as combined. Because of the transition of Memorex's business from one primarily engaged in the manufacture and sale of magnetic media products in 1969 to large-scale manufacturing and leasing of data processing equipment to computer users in 1970, prior year's data are not comparable.
- (2) 1969 adjusted to reflect consolidation of Memorex Leasing Corporation and acquisition of minority interests in subsidiaries as poolings of interests.
- (3) Based on weighted average number of shares outstanding.

Memorex experienced an excellent year of growth in 1970.

Growth was maximal in our computer peripheral equipment products business. This business is now the mainstay of Memorex and involves more manufacturing and marketing operations, more product development programs, and a larger application of financial resources than does Memorex's long established magnetic media products business.

Memorex's marketing of equipment products directly to computer users by leasing paced the growth of operations in 1970. Large scale leasing activity was made feasible by the organization and capitalization of ILC Peripherals Leasing Corporation ("ILC"), an independent leasing company which has contracted to purchase a major portion of the equipment-for-lease made and marketed in 1970-1972 by Memorex.

It is a consequence of Memorex's leasing activity that our growth of operations in 1970 is not measured by our accounting method or evident in our Statement of Income. Because of the startup of large-scale leasing activity and our use of "deferral accounting" for all of the equipment-for-lease business, I stress the following results for 1970 operations are not comparable to results for 1969 operations.

In 1970, combined (Memorex and ILC) net sales and revenues were \$79 million, excluding \$42 million billed to ILC for its purchases but including ILC's \$1.4 million rental revenue. Combined net income was \$3,183,000, or \$0.83 per Common Share. This result was based upon deferral accounting for most costs and expenses, as well as billings, in connection with ILC-owned equipment-for-lease (82% of all of the 1970 equipment-for-lease business), as well as for Memorex-owned equipment-for-lease (18%). None of the Company's interest

expense, including that allocated to facilities and operations relating to manufacture of equipment-for-lease, was deferred, thus diminishing the 1970 income result.

In 1969, Memorex's net sales and revenues were \$74 million. Net income was \$6,902,000, or \$1.85 per Common Share. In 1969, there was almost no computer peripheral equipment-for-lease business.

A comprehensive financial program is key to successful competition in the computer peripheral equipment industry. The compounding factors of the rapid growth projected for the industry and the large scale operations essential to profits make necessary our procurement of substantial external capital for expansion of facilities and working capital. Additionally, the equipment-for-lease must be financed either by Memorex's own capital investment or by sale of the equipment to a leasing company which has its own capitalization. In 1970, Memorex met both needs.

First, in April, Memorex tripled the amount of its permanently invested subordinated capital by public sale of \$75 million 5¼% Convertible Subordinated Debentures which mature in 1990. This financing provided funds for the investment in facilities, especially those relating to the product development and manufacturing operations of the Equipment Group, and for the working capital increases necessitated by the growth of operations.

Second, in December, Memorex and a group of commercial banks and institutional investors executed agreements pursuant to which ILC will be provided with \$142 million of capital in the years 1970-1972, inclusive. These capital funds, together with ILC's projected net cash flow from leasing, enable it to make purchases of computer equipment aggregating \$197 million from 1970 to 1972, inclusive. These purchases rep-

resent a steadily decreasing portion of all equipment-for-lease which Memorex plans to market in this timeframe.

Memorex's commitment to the capitalization of ILC is \$26.5 million, which includes the purchase of ILC common stock representing a minority equity interest. Details of the capitalization program and the various agreements between Memorex and the financial institutions and ILC are summarized in Note 2 to the Financial Statements and on page 12 of this Report.

In its agreements with ILC and with the institutions which own a majority equity interest in ILC, Memorex has achieved two prime financial objectives. It has developed cash flow from ILC's purchases (although Memorex's profits are deferred) to supplement cash flow from other net sales and revenues, which together should finance a substantial part of the projected growth of Memorex's operations. It has also obtained an option to acquire the majority equity interest in 1974, which, if exercised, will constitute ILC a wholly-owned subsidiary of Memorex. Obtaining this option is highly desirable, because Memorex's long term goal is to build its own base of installed equipment-for-lease whose rentals will cumulate to produce cash flow sufficient to meet the Company's ongoing capital needs for leasing without disposing of ownership of leased equipment.

Particularly noteworthy were the following accomplishments of 1970 operations: (1) Several new equipment products were completed in product development programs and brought into production. Initial customer shipments of the 1600 Computer Output Microfilm System commenced in April. Initial shipments of the 661 Disc File Storage Controller were made in June. During December, the first units of the 1240 Communication Terminal were manufactured and shipped.



(2) The value of computer equipment shipped in the fourth quarter was approximately five times greater than shipments in the first quarter of 1970, indicating the tremendous expansion of manufacturing operations which took place during the year. For the entire year, the value of physical output of computer equipment products was approximately \$60 million which, added to \$63 million of magnetic media products, brought the total physical output to approximately \$120 million. By comparison, the physical volume in 1969 was \$74 million and in 1968 \$53 million.

(3) Field sales and service capabilities grew at an even higher rate than manufacturing. At year-end 1970, our domestic marketing organization for computer equipment products exceeded 500 people, or seven times its size at year-end 1969. Salesmen and customer service engineers were located in the largest 34 metropolitan areas of the United States in which computer users are concentrated. In international markets, approximately 160 sales and service people were marketing equipment products in every country of West Europe, Japan, Canada, Australia, and Latin America. The combined marketing organizations for equipment and media products at year-end exceeded 1,400 on a world-wide count, an increase of about 300% over the year-earlier number.

(4) New facilities were constructed in a maximal program to support current

and future growth of operations. The Equipment Group's manufacturing, development, and administrative activities were consolidated in new facilities in Santa Clara, constructed at a cost of about \$15 million. Reductions achieved in unit costs of equipment products during 1970 were especially remarkable considering these relocations were also accompanied by expansions in output and employment. Smaller satellite manufacturing plants were placed in operation in Eau Claire, Wisconsin, and Nogales, Mexico.

This record of planned and well executed growth is a matter of pride to Memorex people because it was achieved in a year of a recessionary economy when many companies faltered.

The downturn of the United States economy did adversely affect sales of the 1600 Computer Output Microfilm System. The less-than-expected volume of orders in 1970, however, did not result from loss of business to competitors. Indeed, we estimate that we received one-half of all orders for COM equipment placed in the computer market. We continue to expect a high rate of long term growth for our COM product line, and we regard 1970's less-than-expected growth as due to a lack of budgets in data processing departments for new and supplementary systems for data storage.

The 1970 economic downturn also adversely affected our magnetic media business. Many U.S. customers postponed purchases of supplies and an excess of production capacity impelled price erosion of almost all products, especially during the last six months of the year. Hence, expected domestic sales growth did not occur. Increased sales in international markets were also affected by generally lower prices. As a result, net sales and revenues of media products in 1970 climbed modestly to \$63 million from \$59 million in 1969, and operating profits of media products were materially lower than in 1969.

A new member of the Board of Directors was elected: Benno C. Schmidt, managing partner of J. H. Whitney & Co., New York. Mr. Schmidt brings to our Board a wide experience in law, government, and business.

The hard work and creativity of more than 6,000 Memorex employees—a substantial increase over the year-earlier number of 3,400—produced these accomplishments of 1970. As the Company now progresses in a new phase of corporate development, with its manufacturing and marketing strengths and its resources of facilities and capital also substantially increased, we look to this spirited organization to continue the growth of Memorex.

Sincerely,

Laurence L. Spitters
President

April 14, 1971.



