PROSPECTUS

Edward S. Seaman
11519 Arroyo Oaks
Los Altos Hills, CA 94024

Memorex Corporation

Common Stock
($1 Par Value)

This Prospectus covers:

1. 67,677 shares reserved for issuance upon exercise of Qualified Stock Options, 42,677 shares of which are subject to outstanding options, and 25,000 shares of which are reserved for issuance pursuant to options which may be granted in the future. (See "Stock Option Plans").

2. 8,250 shares reserved for issuance upon exercise of outstanding Restricted Stock Options. (See "Stock Option Plans").

3. 40,000 shares which may be offered from time to time by certain shareholders who may be deemed to be "controlling persons" of the Company. (See "Selling Shareholders").

4. 33,687 shares which may be offered from time to time by individuals who have heretofore received shares upon exercise of stock options. (See "Stock Option Plans").

It is anticipated that the Selling Shareholders referred to above, and the individual optionees who have heretofore received shares upon exercise of stock options, may from time to time make sales of all or part of the shares of stock covered by this Prospectus, in each case by sales on the over-the-counter market or by private transactions. Such transactions will be made without the payment of any underwriting commissions or discounts, other than broker's fees normally paid in connection with normal brokerage transactions. In the event of such transactions, the sellers might be considered to be statutory underwriters, as defined by the Securities Act of 1933.

On September 8, 1967, the reported high bid and low asked prices for the Common Stock in the over-the-counter market were $201 and $203, respectively.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURTIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is September 15, 1967

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offers contained herein, and if given or made, such information or representation must not be relied upon as having been authorized by the Company. This Prospectus does not constitute an offer to sell or a solicitation of offer to buy by any person in any state to any person to whom it is unlawful to make such offer or solicitation in such state. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

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Until October 25, 1967 all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

THE COMPANY

Memorex Corporation designs, develops, manufactures and sells precision magnetic tape products. The Company was incorporated February 9, 1961, under the laws of the State of California. Principal offices, laboratories, and production facilities are located at 1180 Shulman Avenue, Santa Clara, California 95052. Unless the context otherwise indicates, the terms "Memorex" and the "Company" as used herein mean Memorex Corporation and its consolidated subsidiaries.

Precision magnetic tape consists of a chemical formulation of magnetic oxide, polymer resins, solvents and other raw materials which are processed and coated upon a continuous web of film base material. The precision character of the Company's products results from the precise requirements of the formulation, the intricacy of manufacturing processes, the high degree of quality control exercised, and the electronic and physical specifications of the end-products.

Precision magnetic tape is used in mass data recording, storage and reproduction by computers and other digital and analog data systems. It is also used in closed circuit and commercial television installations for the recording and reproduction of television pictures and sound. Precision magnetic tape does not encompass audio or sound recording tape, which is a non-precision product involving an industry of considerably less technology, personnel, and physical facilities.

For discussion regarding the Company's entry into markets for other than magnetic tape products, see "Recent Developments".

USE OF PROCEEDS

The Company will receive the proceeds from the sale of shares issued upon exercise of stock options. (See "Stock Option Plans"). It is not possible to ascertain the total amount of such proceeds at this time as the amount of proceeds will depend on whether options will be exercised and the option prices of any future options which may be granted. Through July 24, 1967, the Company has received a total of $213,264 upon exercise of options. Such proceeds as the Company has received and will receive have been and will be used for general corporate purposes. The Company will not receive any of the proceeds from sales by optionees or by the Selling Shareholders. (See "Selling Shareholders").

DIVIDEND POLICY

The Company has not paid or declared any dividends since its organization. It is the Company's policy to retain earnings, since capital requirements are expected to be significant as its business continues to expand. Accordingly, the Company has no present intention to pay cash dividends on its Common Stock. See "Description of Common Stock" for limitations on dividends under the terms of the Company's 5% Convertible Subordinated Debentures. Under these restrictions, earnings of $3,081,000 (accrued since June 30, 1966) would be available for cash dividends on the Common Stock.

CONSOLIDATED STATEMENTS OF INCOME

The following consolidated statements of income of the Company and subsidiaries for the five years ended December 31, 1966, have been examined by Arthur Andersen & Co., independent public accountants, as set forth in their opinion included elsewhere in this Prospectus. The consolidated statements of income for the six-month periods ended June 30, 1966 and 1967 including the related notes, not examined by independent public accountants, reflect, in the opinion of the Company, all adjustments necessary to present fairly the earnings for such periods. These statements should be read in conjunction with the financial statements and related notes included elsewhere in this Prospectus.

	Year Ended December 31,					Six Months Ended June 30, (Unaudited)	
	1962	1963	1964	1965	1966	1966	1967
	(000's Omitted)						
Net Sales	$ 475	$3,486	$8,042	$13,099	$24,417	$10,582	$15,017
Operating Costs and Expenses:							
Preproduction expenses	357	—	—	—	—	—	—
Cost of sales	497	2,181	4,679	7,751	13,604	5,765	7,936
Research and development	101	288	452	747	1,454	566	1,227
Marketing and advertising	130	366	571	1,030	1,929	879	1,355
General and administrative	36	123	260	678	1,401	709	839
Profit sharing expense	—	—	—	280	575	260	336
	1,121	2,958	5,962	10,486	18,963	8,179	11,693
Income (loss) from operations	(646)	528	2,080	2,613	5,454	2,403	3,324
Interest expense	48	74	118	132	370	102	301
Net income (loss) before Federal and foreign income taxes	(694)	454	1,962	2,481	5,084	2,301	3,023
Provision for income taxes:							
Federal	—	236	960	1,117	2,135	988	1,256
Foreign	—	—	—	33	225	97	195
Net income (loss)	(694)	218	1,002	1,331	2,724	1,216	1,572
Special item*	—	236	277	—	—	—	—
Net income (loss) including special item	(694)	454	1,279	1,331	2,724	1,216	1,572
Per share of common stock③:							
Net income (loss), including special item	(.85)	.52②	1.37②	1.35	2.67	1.21	1.53
Less: special item	—	(.25)	(.29)	—	—	—	—
Net income (loss)	(.85)	.27②	1.08②	1.35	2.67	1.21	1.53
Pro forma net income per share, assuming conversion of subordinated debentures and exercise of outstanding stock options④					2.67	1.19	1.43

*Reduction of Federal income tax arising from loss carryforward.

NOTES TO CONSOLIDATED STATEMENTS OF INCOME

(Including notes applicable to unaudited periods)

① The provision for Federal income taxes includes deferred taxes resulting from differences in reporting certain expenses (principally depreciation) in the tax returns from those recorded in the books as follows: 1964—$114,000; 1965—$118,000; 1966—$384,000; June 30, 1967—$162,000.

It is the Company's policy to amortize the investment tax credit over the life of the related assets. The annual investment tax credits have been classified in this prospectus as a reduction in the provision for Federal income taxes and an increase in cost of sales with no change in net income. The annual investment tax credits were: 1964—$40,000; 1965—$26,000; 1966—$97,000.

The investment tax credit has not been similarly classified in the 1966 annual report to shareholders. Therefore, in the annual report cost of sales was reduced and the provision for Federal income taxes was increased by $97,000, with no change in net income.

② The 6% Convertible Subordinated Promissory Notes in the principal amount of $1,208,000 previously outstanding were converted on December 26, 1964, into 382,650 shares of the Company's common stock (after reflecting the thirty-for-one stock split approved by the shareholders and effected on December 31, 1964).

If the promissory notes had been originally issued as common stock, interest expense in both 1963 and 1964 would have been reduced by $36,240 (net of applicable Federal income taxes). Net income per share (before and after reduction of Federal income taxes arising from loss carryforward) in 1963 and 1964 has been adjusted accordingly.

③ Net income (loss) per share has been computed on the basis of the average number of shares outstanding during each period excluding shares held in treasury, and gives effect retroactively to the conversion of the promissory notes and the thirty-for-one stock split in 1964. The average number of shares outstanding excluding treasury shares on this basis was:

	Number of Shares
Year Ended December 31,	
1962	817,770
1963	955,650
1964	964,050
1965	978,590
1966	1,020,745
Six Months Ended June 30,	
1966	1,004,619
1967	1,028,800

④ The pro forma net income per share amounts are based on the assumption that at the beginning of the respective periods (1) all of the outstanding Convertible Subordinated Debentures due August 1, 1986, were converted into common stock and (2) all of the outstanding stock options were exercised. In each of the respective periods, net income for computing pro forma per share data has been adjusted to give effect to the elimination of the debenture interest expense, net of income tax.

CAPITALIZATION

The capitalization of the Company at June 30, 1967 is set forth in the table below. Outstanding shares of Common Stock do not include 76,314 shares initially reserved for issuance upon exercise of options under the Company's stock option plans (see "Stock Option Plans"), 158,032 shares initially reserved for issuance upon conversion of the 5% Convertible Subordinated Debentures, or 10,000 shares held in the Company's treasury.

Title	Authorized	Outstanding
5% Convertible Subordinated Debentures due 1986	—	$11,378,000
Indebtedness (6% Interest)①	—	$ 110,000
Preferred Stock② ($100 Par Value)	200,000 shs.	—
Common Stock ($1 Par Value)	5,000,000 shs.	1,043,836 shs.

① See Note 5 to Consolidated Financial Statement.

② An amendment to the Articles of Incorporation of the Company was approved by shareholders on April 21, 1967. The formal amendment, creating the Preferred Stock was filed with the California Secretary of State on May 8, 1967.

Information concerning Memorex's obligations under leases is found under "Description of Business—Properties" and in Note 6 to the Consolidated Financial Statements.

MARKET PRICE RANGE OF COMMON STOCK

The Common Stock of the Company has been traded in the over-the-counter market since March 3, 1965. The following table shows the high and low bid prices for the Common Stock for the periods indicated as compiled from sources published by the National Quotation Bureau, Inc. These bids are those quoted by dealers to each other in the over-the-counter market, do not include retail markup, markdown or commission and may not represent actual transactions.

Period	High Bid	Low Bid
1965:		
1st Quarter (from Mar. 3)	33	29⅛
2nd Quarter	37⅛	23½
3rd Quarter	29¼	23¾
4th Quarter	33½	25
1966:		
1st Quarter	44½	30¾
2nd Quarter	54¾	42
3rd Quarter	65¼	50
4th Quarter	73	41
1967:		
1st Quarter	97	63½
2nd Quarter	163	88¼
3rd Quarter through September 8	201	149

For more recent information on the price of common stock, see the cover page of this Prospectus.

DESCRIPTION OF BUSINESS

Markets and Customers

The Company's products are "supply" items which are typically sold when customers acquire data processing and recording equipment or television recording equipment, expand the scope of usage of such equipment, or replace their existing libraries of tape because of wear or technological obsolescence. Thus demand for precision tape products is related to the growth of installations and the degree of utilization of computers and other data recording systems, as well as stabilized by the continuing requirements of established users. The Company's product is compatible for use on substantially all of the major makes and types of digital and analog recording and computing systems in general use.

Memorex's sales of precision tape for use in computers and other digital and analog data recording systems amounted to 82% of its total sales volume during the first six months of 1967. About 84% of sales in 1966 and in excess of 95% of all sales prior to 1966 were in this category. Sales for use in television recording amounted to 18% of total sales volume during the first six months of 1967 and about 16% in 1966. Of sales during the first six months of 1967, 16% were sales to civilian, space and defense agencies of the United States Government, 12% to manufacturers of digital and analog data processing equipment, and 72% to several hundred industrial and commercial businesses, banks, insurance companies, educational and scientific institutions. In 1966 the breakdown was 26%, 14%, and 60%, respectively. The National Aeronautics and Space Administration (NASA) accounted for 3% of total sales during the first six months of 1967 and 10% during the year 1966. No other customer accounted for more than 10% of sales during either period. The profitability of sales to all major customer groups referred to above is substantially the same.

Future sales to government customers could be adversely affected by any substantial general curtailment of spending for space and defense activities. Government contracts are subject to cancellation at the convenience of the government and pursuant to the renegotiation laws may be subject to renegotiation and/or price redetermination.

At June 30, 1967, the Company's backlog of unfilled orders was approximately $3,201,000, compared with $3,400,000 a year earlier. Of its backlog of unfilled orders approximately $250,000 were orders for delivery in 1968 and the balance is for delivery in 1967. Orders received are normally cancellable without significant penalty to customers, but the incidence of cancellations has been negligible. Most users of precision tape tend to order supplies for relatively short term usage. Others contract with suppliers to provide annual requirements to obtain volume price discounts and place orders for deliveries from time to time against the contracts. Extended future commitments are not common in the industry because, among other reasons, customers are assured delivery of their requirements within days after orders are placed. Hence, the Company's backlog of unfilled orders at any given time does not reflect the total amount of immediate future business which it may expect to enjoy.

For discussion of the Company's development program for products other than magnetic tape products, see "Recent Developments."

Marketing Activities

In the United States Memorex markets its products primarily through its own direct sales organization. Sales engineers with experience in precision tape applications are located in 19 market centers. Liaison between customers and quality control and product development personnel in Santa Clara is also performed by the Company's Customer Technical Service organization composed of engineers and scientists.

International marketing activities accounted for approximately 17% of total sales in 1966 and 22% of total sales in the first six months of 1967. More than three-quarters of these sales were made in Europe by the Company's subsidiaries and affiliates and the balance principally in Canada, Mexico, Japan, and Australia by distributors under non-exclusive distributorship agreements with the Company. The profitability of sales in domestic markets and in foreign markets is substantially the same.

Product Prices

The Company's practice is to sell at list prices which are published from time to time for the different widths, lengths, and packaging configurations of its product, as well as for the different levels of quality control testing certified to the user. Deviations from list prices are made in special cases of large quantity orders or in the bidding and negotiation of supply contracts.

In recent years, prices in precision tape markets have generally declined and during the past year, prices of products used in analog data recording have suffered especially serious decline. To counter this industry trend, Memorex has succeeded in selling a product mix which has generally maintained its overall gross profit margin. The Company can make no meaningful representation regarding the future course of industry price levels or its ability to cope with possible adverse price trends. It believes that its opportunity to command relatively high prices, such as it has enjoyed to date, will be dependent upon the future success of its product improvement and research activities.

Competition

The precision tape manufacturing industry in the United States is principally comprised of seven major companies each of whose annual production is estimated to exceed three million dollars. The absence of reliable statistics makes it difficult to state Memorex's relative position, but the Company believes that its current volume of precision tape production is substantially exceeded by only one competitor. Several of the Company's competitors possess substantially greater financial resources. IBM, which for many years has purchased computer tape for resale, is currently establishing a tape manufacturing facility. Management is unable to make any meaningful representation regarding the effects of this development upon the Company's business, although Memorex does not sell tape to IBM for resale and the Company has competed with IBM since 1962 in the marketing of computer tape to computer installations. There is no assurance that new competition may not result from companies which are not currently leading producers in the United States or in foreign countries. In this regard, Memorex has announced plans to construct a precision tape manufacturing facility in Europe. The Company understands that other domestic producers have or intend to produce tape in Europe, and that foreign producers have facilities in both Europe and Japan. However, the Company is unable to make any meaningful representation concerning such competition.

In June, 1967, the E. I. DuPont de Nemours & Company announced that it will manufacture and market a magnetic recording tape which uses chromium dioxide as the magnetic oxide constituent of its chemical formulation, as contrasted to iron oxide which is used by other manufacturers throughout the precision tape industry. To the Company's knowledge, only limited quantities of the DuPont product have been available and the Company is, therefore, unable to judge the DuPont claims of certain technical advantages for its product, its possible uses or the impact of the DuPont product on the markets for conventional tape products.

Magnetic tape recording devices for mass-data storage enjoy economic advantages relative to some kinds of other devices and technical advantages relative to others. These economic and technical advantages

include, among others, a relatively (to all other storage devices usable for the same purposes) low cost per bit of data stored, ability to record data over a wide frequency spectrum, the reusable and relatively durable characteristics of tape, sequential recording of data which naturally occurs in sequential modes, and ease in transporting tape-recorded data between recording installations and within libraries. Technological obsolescence of existing precision tape products will result in part from advances in magnetic tape recording technology and consequent requirements for new and improved precision tape products. Although the rate of technological development in the design of the memory devices has been rapid in recent years, the Company is aware of no development which threatens to supersede the general use of precision magnetic tape for low cost mass-data storage. Relatively long random access time, a characteristic of magnetic tape resulting from its sequential recording of data, constitutes an important disadvantage of magnetic tape for some types of computer memory applications other than mass-data storage. Magnetic memory media which provide more rapid access to stored information (but substantially less storage capacity as compared with tape) include the disc pack memories recently made available on a commercial basis by several major computer system manufacturers. The Company's activities with regard to disc pack memory devices are described under "Recent Developments" herein. There is no assurance that technological advances in memory devices of computers and other data processing systems will not limit or encroach upon the present application and advantages of magnetic tape.

Research Activities

Memorex engages in an extensive research and development program which is intended to maintain and improve the technological position of existing products and to develop new products. (See "Consolidated Statements of Income" for dollar amounts expended on research.) The level of these activities has increased substantially during each year of the Company's operations. Activities include development of new chemical formulations, investigations in the use of alternate raw materials, and modifications in design of manufacturing processes and equipment. These activities involve the work of polymer chemists, physicists, chemical process engineers, electrical and mechanical engineers, and tape recording specialists. There are 42 of these employees devoting their full time to research and development and there are 51 other employees devoting not less than three-fourths of their time to these research and development activities.

Apart from a $172,000 research contract awarded to the Company by the National Aeronautics and Space Administration (NASA), the Company has never received any government support for its research and development activities. All of its chemical formulations, process designs, and manufacturing equipment designs have been developed solely at Memorex's expense.

Patents and Trade Secrets

Memorex owns copyrights and trademarks, and has industrial trade secrets. It does not own any patents related to its products, processes or equipment. Prior to 1966 Memorex generally did not make a practice of applying for patents covering its basic products and processes in the belief that frequently its inventions are more securely protected by retaining a multiplicity of trade secrets and by avoiding the technical disclosures required in patent applications. However, since 1966 Memorex has filed patent applications on those processes and products for which patent protection is believed to afford greater security than would be afforded by trade secret protection. There is no assurance that such applications will result in the issuance of patents. To avoid the loss of ownership of inventions through oversight of conflicting claims and to reduce the risk of infringing patents of others, the Company attempts to keep current on disclosures made in patent and other scientific publications.

Manufacturing Operations

Manufacturing operations consist of complex processing of chemical raw materials, precise coating and drying of continuous webs or wide rolls of base film, precise slitting of webs to narrow widths, and quality control testing of intermediate and finished products. Operations are conducted in a white-room environment from which airborne particles have been removed to avoid contamination of production, similar to the manufacturing environments of the pharmaceutical industry.

Essentially all processing techniques, manufacturing and testing equipment, as well as the Company's plant facilities, have been designed by Memorex engineers for its special purpose use. Equipment is continuously maintained to assure production of a uniformly high quality level, so that the Company believes technological obsolescence rather than wear and tear will be largely responsible for actual depreciation.

Raw materials and components used in the Company's production are generally available from multiple sources.

Properties

Memorex's principal offices, laboratories and production facilities are located in Santa Clara, California, 50 miles south of San Francisco.

Substantially all Santa Clara operations are conducted in modern buildings of approximately 222,000 square feet situated on a 30 acre site, approximately 162,000 square feet of which has been added since mid-1965. The buildings are air-conditioned and fully sprinklered and contain extensive specially designed improvements. Title to the land and buildings is owned in fee by the Company subject to a loan secured by a deed of trust (see Note 5 to Consolidated Financial Statements), except for a small parcel of approximately one-half acre and a 10,000 square foot building situated thereon which are occupied under lease. In addition to its Santa Clara properties, buildings aggregating approximately 40,000 square feet are leased in Los Angeles, California. The Company has currently under construction in Santa Clara facilities of approximately 40,000 square feet for manufacturing, research, and maintenance operations, which facilities will be owned in fee by the Company.

Manufacturing equipment consists of chemical processing, mechanical and electronic equipment, including ultra-sonic film cleaning baths, magnetic oxide dispersing machines, film coating equipment, drying and curing ovens, coating surface treating equipment, film web slitters, and chemical analysis and automated control equipment. Substantially all manufacturing equipment is special purpose in character and designed for the Company's use. Research, experimental, and quality control equipment consists of chemical and electronic laboratory and test equipment, much of which is specially adapted for precision tape research and development, and diverse magnetic tape recording equipment.

The nature of the Company's manufacturing operations, which involve a series of production processes, each capable of a different level of output, makes difficult any statement of the percentage of the over-all utilization of its plant. In general, operations to date have been conducted at the maximum level of the process which has limited over-all output.

Total fixed assets owned by the Company at June 30, 1967 had an aggregate original cost of $13,969,000, and cost net of depreciation reserves of $11,566,000. In addition, the Company leases certain manufacturing and research equipment having an aggregate original cost of $454,000 under a lease expiring 1972 at a monthly rental of $9,596.

Employees

At July 1, 1967, the Company employed 1,019 people. Of this number 443 were hourly-waged production employees, 246 were professional personnel and technicians engaged in engineering, research and

other technical activities, 123 were marketing employees, and 207 were other management, administrative, maintenance and clerical employees.

Vacations, holidays and other usual benefits, a life insurance and hospital-medical insurance program are provided for employees at no expense to them. In addition, the Memorex Employees' Profit Sharing Plan provides that 10% of the Company's profits before taxes (assuming certain minimum earnings requirements are met) be allocated to employees on the basis of years of service and salary. Funds allocated are invested by a trustee and paid to employees upon certain conditions of retirement, termination, death or disability.

None of the Company's employees are covered by collective bargaining agreements. The Company believes its relations with employees to be excellent.

MANAGEMENT

Directors and Officers

The directors and officers of the Company are as follows:

Name	
*Laurence L. Spitters	President and Chairman of the Board of Directors
Richard D. Boucher	Vice President
Stanley W. Meyer	Vice President
Gordon E. Pilcher	Vice President
Eugene L. Rogers	Vice President and Director
Edward S. Seaman	Vice President
Carl A. Anderson	Secretary
Gordon O. Sheppard	Treasurer
*Alger Chaney	Director
*W. Noel Eldred	Director
Thomas E. Morris	Director
*W. Lawrence Noon	Director
*T. Robert Sandberg	Director
Fred M. van Eck	Director
Dr. Theodore Vermeulen	Director

*Member of Executive Committee

Messrs. Spitters, Seaman and Anderson have been in the employ of the Company for the past five years.

Mr. Boucher has been employed by the Company since April, 1963, and was elected Vice President in June, 1967. He was employed by International Minerals and Chemical Corporation as Plant Manager from 1962 to April, 1963.

Mr. Meyer has been employed by the Company since January, 1964, and was elected Vice President in June, 1967. He was employed by Ampex Corporation from 1955 to 1963 and was their Manager of Quality Assurance prior to joining the Company.

Mr. Pilcher was employed by the Company as Vice President June 1, 1967. He was employed by Amfac Inc. (formerly American Factors, Limited) as Vice President and Controller from 1964 to May, 1967, and for three years prior thereto by McKinsey and Company, Inc., management consultants

Mr. Rogers has been Vice President of the Company since July 1965. From 1961 to 1965 he was employed by Microwave Electronics Corporation, manufacturer of microwave tubes and devices, as Vice President of Marketing.

Mr. Sheppard has been employed by the Company since February 1963 and was elected Treasurer in November 1965. He was employed by Palomar Scientific Corporation from November 1961 to February 1963 and prior thereto by Ampex Corporation.

Remuneration of Directors and Officers

The direct remuneration paid by the Company during its fiscal year ended December 31, 1966, to each director, and each of the three highest paid officers, of the Company whose aggregate direct remuneration from the Company exceeded $30,000, and to all directors and officers as a group, is shown in the following table:

Name of Individual or Number of Persons in Group	Capacities in Which Remuneration Was Received	1966 Aggregate Direct Remuneration Salary	— Profit Sharing Plan‡ — 1966	Total to Date
Laurence L. Spitters	President and Chairman of the Board	$ 60,000*	$ 2,205	$ 3,892
W. L. Noon	Vice President‡	$ 50,100*	$ 2,205	$ 3,892
Eugene L. Rogers	Vice President	$ 45,100*	$ 2,098	$ 2,984
Edward S. Seaman	Vice President	$ 50,000*	$ 2,205	$ 3,892
All Directors and Officers as a Group (13 persons)		$301,450†	$13,070	$25,511

*The Company's Board of Directors has paid a year-end bonus to these officers based on the Company's financial performance for the year. Bonuses are paid in the sole discretion of the Board of Directors and not according to any fixed scale or plan. Included above are such bonus payments computed on performance for 1966 but not paid until February 1967. Not included above are bonus payments made to the above in 1966 with respect to 1965 performance.

‡Mr. Noon resigned as Vice President, effective July 1, 1967, but continues to serve as a consultant to management and as a member of the Executive Committee of the Board of Directors.

†Includes bonuses based on 1966 performance.

‡For discussion of the Memorex Employees' Profit Sharing Plan, see "Description of Business—Employees".

PRINCIPAL HOLDERS OF STOCK

As of June 30, 1967, no person owned more than 10% of the outstanding shares of Common Stock beneficially or of record. The beneficial ownership by all officers and directors as a group on that date was 183,109 shares, or 17.6% of the 1,043,836 shares outstanding. These figures include 78,500 shares owned by J. H. Whitney & Co., a private investment firm, of which Mr. Fred M. van Eck, Director of the Company, is a general partner.

Messrs. Spitters, Noon, and van Eck, and J. H. Whitney & Co., because of their ownership of stock and positions on the Board of Directors, may be considered to be controlling persons or parents of the Company within the meaning of the Securities Act of 1933; however, Mr. van Eck and J. H. Whitney & Co. disclaim the existence of any such control.

SELLING SHAREHOLDERS

The following table sets forth, as of June 30, 1967, information regarding beneficial and record ownership of shares of the Common Stock of the Company of each shareholder who intends to sell in the offering set forth in this Prospectus, and the total number of shares to be retained by each Selling Shareholder after said offering.

Name	Number of Shares of Common Stock		
	Owned	To Be Sold	To Be Retained
Charles W. David	5,500	5,500	—
Karl Robert and Elsie David	750	750	—
Eugene A. Munson	1,250	1,250	—
W. L. Noon*	17,750	5,500	12,250
Ronald R. Raite	1,250	1,250	—
Laurence L. Spitters*	36,650	11,000	25,650
Raymond Stuart-Williams	6,850	6,250	600
J. H. Whitney & Co.†	78,500	8,500	70,000

*See "Principal Holders of Stock" and "Management."
†See "Principal Holders of Stock."

Messrs. Stuart-Williams and David were founders of Disc Pack Corporation (See "Recent Developments") and are currently consultants of the Company. Mr. Munson, also a founder of Disc Pack, continues to serve in a management capacity in the Company's disc pack project. Mr. Raite, a founder of Disc Pack Corporation and of Substrate Corporation (See "Recent Developments") is President of Substrate Corporation, a wholly-owned subsidiary of the Company. Karl Robert and Elsie David are the parents of Charles W. David.

The selling optionees who hold 33,687 shares of the Common Stock of the Company also being registered hereunder constitute 23 employees of the Company and have purchased such shares from time to time upon exercise of options granted them by the Company.

RECENT DEVELOPMENTS

In 1965 the Company's wholly owned subsidiary Comdata Corporation acquired certain assets from Bruce Industries, Inc. at an aggregate cost of $118,272. These assets consisting largely of production machinery, have been used by Comdata in metal working operations for the manufacture of reels and components for the Company's magnetic tape products.

Disc Pack Corporation, a California corporation, was founded in late 1965, by Messrs. Raymond Stuart-Williams, Charles W. David, Ronald R. Raite and Eugene A. Munson, persons experienced in the computer disc memory business, for the purpose of engaging in the research and development of manufacturing processes and equipment relating to magnetic coated disc packs. Disc packs are used in computers for random access memory media, which are complimentary to the mass data storage media provided by magnetic tape.

On January 31, 1967, a transaction was consummated pursuant to which, in essence: (i) a wholly-owned subsidiary of the Company acquired substantially all of the assets, subject to substantially all the liabilities, of Disc Pack Corporation, (ii) Messrs. Stuart-Williams, David, Raite and Munson (See "Selling Shareholders"), the original individual shareholders of Disc Pack Corporation (who were not then affiliated with Memorex) received an aggregate of 15,000 shares of the Company's Common Stock, and (iii) the Company acquired 10,000 shares of its own Common Stock as treasury shares. The name of the

wholly-owned subsidiary was later changed to Disc Pack Corporation. This subsidiary is engaged in the development and fabrication of disc pack memory devices. Production of the devices has been commenced, and initial sales for customer evaluation are now being made.

In August 1966, the Company purchased from Peripheral Systems Corporation ("PSC") one-half its issued and outstanding capital stock for $50,000. PSC was founded in July 1966 by a group of individuals with experience in the magnetic recording field, including certain employees on leave of absence from the Company, to engage in the development of magnetic disc recording equipment for computer use, a field in which the Company was not and is not otherwise engaged. The remainder of PSC's capital stock was purchased by these individuals from PSC for an aggregate of $50,000. In September 1966, the Company and PSC entered into a Research Agreement providing, among other things, for the funding of PSC development projects by Memorex in exchange for licensing rights. As of June 30, 1967, the Company had funded projects under the agreement to the extent of $453,750, representing reimbursement to PSC for research costs in the amount of $412,500 and a fixed fee of 10% of such costs in the amount of $41,250. The Company and PSC recently have decided to proceed with the manufacturing and marketing of disc drive computer memory equipment which has been developed by PSC, and pursuant to the terms of the Research Agreement, the Company is obligated to lend or arrange a loan to PSC in an amount equal to anticipated expenditures of such activities for a one-year period, up to a maximum of $2,100,000. To date no loans have been made, but it is anticipated that such arrangements will be made within the next few months.

The Company has also entered into an agreement with the individual shareholders of PSC providing that commencing in November 1967 and continuing for a period after certain standards of performance have been reached, but not later than June 30, 1970, the Company shall have an option to acquire all shares of PSC not now held by it in exchange for not less than 10,000 nor more than 25,000 shares of the Company's Common Stock. The exact number of shares to be transferred are to be determined by a formula based upon the profitability of PSC's operations.

The Research Agreement provides, in essence, that if the Company continues financing, or arranging financing, of PSC's research activities, it shall hold an exclusive license on all proprietary information developed by PSC in the course of such activities, subject to a royalty of 1½% of gross sales, but recoverable first against all amounts expended by the Company in financing PSC's activities and any unpaid loans made by the Company to PSC. The agreement between the Company and the individual shareholders further provides that in the event the Company does not exercise its option to acquire their PSC shares, such license shall become nonexclusive, subject to the same royalty arrangement outlined above, except that the royalty rate will be modified after recovery by the Company of all its expenditures so as to be equal to most favorable rate granted to any other licensee by PSC respecting such devices.

In May of 1967, the Company purchased, for a consideration of $16,000, all of the issued and outstanding capital stock of Substrate Corporation, founded by Ronald R. Raite, an original shareholder of Disc Pack Corporation, and formed for the purpose of manufacturing aluminum substrate discs used in the production of disc pack memories. Contemporaneously with the Company's purchase of stock, Mr. Raite and three other individuals (all employees of Substrate Corporation) purchased $4,000 principal amount of Substrate Corporation 5% Convertible Subordinated Debentures, at par. These debentures are convertible after January 15, 1970, or earlier upon the occurrence of certain events, into 2,000 shares of Substrate capital stock on the basis of $2 principal amount for each share, which 2,000 shares would represent 20% of the Common Stock then issued and outstanding. The indenture under which the debentures are issued also provides that in the event the Company shall elect to merge Substrate into the Company, the holders of the debentures shall be entitled to receive an aggregate of 2,000 shares of the

Company's Common Stock and $150,000. The Company cannot state at this time whether it will merge Substrate into itself since determination will be based upon standards of future performance.

None of the operations of the above companies has significantly contributed to revenue of the Company to date.

DESCRIPTION OF COMMON STOCK

The authorized capital stock of the Company consists of 5,000,000 shares of Common Stock ($1.00 par value), and 200,000 shares of Preferred Stock ($100.00 par value).

The holders of the outstanding Common Stock are entitled to receive such dividends as may be declared by the Board of Directors out of any funds of the Company legally available therefor. However, the Indenture under which the Company's outstanding 5% Subordinated Convertible Debentures are issued (see "Capitalization") restricts the payment of dividends or other distributions (other than stock dividends) on its capital stock, and the purchase or redemption, or other acquisition for value of any shares of its capital stock by the Company or any subsidiary to the amount of consolidated income as defined in the Indenture accrued subsequent to June 30, 1966, plus the net proceeds received by the Company from the issuance, exchange or sale subsequent to June 30, 1966, of shares of its capital stock (including shares of Common Stock issued on conversion of indebtedness valued at the principal amount of the indebtedness so converted), but only insofar as such net proceeds exceed the aggregate amount of such purchase, redemptions and other acquisitions of, and distributions (other than cash dividends) on capital stock since June 30, 1966. Such restrictions, however, do not prevent the payment of any dividend within 60 days after the date of declaration thereof, if at such date of declaration and said dividends comply with such restrictions, or the payment of cash dividends at the regular rate on any stock of the Company preferred by its terms as to dividends which may in the future be issued for bona fide cash consideration or property acquisition.

Each holder of the Company's Common Stock is entitled to one vote for each share held and has cumulative voting rights in electing directors. The Common Stock is not redeemable and does not carry conversion rights. The Common Stock does not carry preemptive rights or other rights to subscribe to additional shares.

In the event of any liquidation, dissolution or winding up of the Company, the holders of the Common Stock are entitled to share equally and ratably in the balance, if any, remaining after payment of all debts and liabilities, including payment on the Debentures.

None of the authorized Preferred Stock is outstanding, and the Company has no present intention of issuing any Preferred Stock; however, the Preferred Stock may be issued from time to time in one or more series, and the Board of Directors is authorized to fix or order the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, the liquidation preferences of any fully unissued series of any Preferred Stock, and the number of shares constituting any such series, and the designation thereof. Although it is impossible to predict at this time, as in the case of any preferred stock, issuance thereof might place holders of common stock in a junior position with respect to dividends and distributions upon liquidation. However, the rate of dividend, the conversion rights, if any, the redemption prices, voting rights, if any, and certain other terms of such series of Preferred Stock, as well as the terms and conditions upon which it might be offered, would be determined by the Board of Directors, a short time before such offering were to be made, and would depend, of course, upon the market and other conditions at that time.

In the opinion of counsel for the Company, the shares of Common Stock being offered hereby are full-paid and nonassessable. Bank of America N. T. & S. A., San Francisco, is Transfer Agent, and Wells Fargo Bank, San Francisco, is Registrar for the Common Stock.

STOCK OPTION PLANS

General Information

In order to provide key employees of the Company and its subsidiaries with additional incentive to contribute to the success of the Company and to retain key employees of outstanding ability by affording them an opportunity to acquire Common Stock of the Company, Memorex has adopted two successive stock option plans. The first, the Restricted Plan, was approved by shareholders in 1961. Options granted in 1964 were revised to reflect changes necessitated or made desirable by the Revenue Act of 1964, and on November 12, 1965, the Restricted Plan was terminated so that no more options may be granted under it. However, as of July 24, 1967, Restricted Stock Options to purchase 8,250 shares of Common Stock remained outstanding. The Qualified Plan was approved by shareholders in December 1965, terminates not later than December 29, 1975, and may be suspended or terminated at an earlier date by the Board of Directors of the Company, provided that such suspension or termination may not affect options granted prior thereto. As of July 24, 1967, Qualified Stock Options to purchase 42,677 shares of Common Stock were outstanding.

Under both the Restricted Plan and Qualified Plan "key employees" of the Company are made eligible to receive options. A "key employee" is defined in the Qualified Plan as one who renders those types of services which tend to contribute materially, or which may reasonably be anticipated to contribute materially, to the success of the Company or of a subsidiary. Under the Qualified Plan, key employees of the Company's "subsidiaries" (as that term is defined in Internal Revenue Code Section 425(f)), also are made eligible to receive options. No employee who immediately after the granting of an option would own stock (including stock which the individual may purchase under outstanding options) possessing more than 5% of the total combined voting power of all classes of stock of the Company, or of any subsidiary thereof, may be granted a Qualified Stock Option. Any employee to whom either a Restricted or Qualified Stock Option is granted is required to remain in continuous employment for one year from the date the option is granted before the option is exercised, and thereafter options are exercisable in installments, as discussed below.

QUALIFIED PLAN

Securities Subject to Plan—Price—Exercise of Options

The maximum number of shares for which options may be granted under the Qualified Plan is 70,000 shares of the Common Stock of the Company, and the maximum number of shares for which options may be granted to any one employee is 7,000. There is no minimum number of shares for which options may be granted to an employee. Shares covered by options which expire become available for subsequent options granted under the Qualified Plan. The option price of options granted under the Qualified Plan may not be less than 100% of the fair market value of the Company's Common Stock on the date of grant. In all cases Qualified Stock Options expire not later than five years from the date of grant. Qualified Stock Options are exercisable at the rate of 25% of the stock subject to the option per year, beginning twelve months after the date of grant, on a cumulative basis until expiration of the option.

Notwithstanding the foregoing, no Qualified Stock Option may be exercised in whole or in part while there is outstanding in the name of the optionee any Restricted or Qualified Stock Option bearing an earlier date and exercisable at a higher price. (Under Section 422 of the Internal Revenue Code, as amended, no Restricted Stock Option granted before January 1, 1964 is deemed to be outstanding until the date on which it may be exercised.) Further, no Qualified Stock Option granted in exchange for a cancelled Qualified Stock Option may be exercised in whole or in part prior to the date the cancelled option would have expired, had it not been cancelled.

Termination of Employment—Death—Adjustments Upon Fundamental Changes in Company

If an optionee ceases to be an employee of the Company and its subsidiaries, other than by reason of death, during the option period, a Qualified Stock Option is thereafter exercisable only prior to the end of the 30-day period commencing with cessation of employment or prior to the end of the option period, whichever first occurs. If an optionee dies while in the employ of the Company or a subsidiary, or within the 30-day period commencing with the cessation of his employment with the Company and its subsidiaries, such option may be exercised by his heirs for a period of one year after death. In both cases, however, the option may only be exercised to the extent that it was exercisable at the time of cessation of employment or death, and in no case may an option be exercised to any extent after the expiration of the option period.

To prevent dilution or enlargement of the rights of option holders under the Qualified Plan adjustments in the number of shares subject to the Plan, the number of shares subject to options, the maximum number of shares for which options may be granted to one employee, and option exercise prices, are provided for in the case of merger, consolidation, reorganization, recapitalization, stock dividends in excess of 2% or other change in the corporate structure of the Company. The Qualified Plan further provides that upon dissolution or liquidation of the Company, other than in connection with a reorganization, merger or consolidation in which the surviving corporation prior to or concurrent with its succession to the business of the Company, assumes and continues the Qualified Plan by substituting stock options for the options granted under the Qualified Plan, all options granted under the Qualified Plan shall terminate; provided, however, that each optionee shall have the right during the period following the adoption of such a plan and prior to its effectuation to exercise his option to the full extent not theretofore exercised and regardless of any installment provisions contained in such option.

Assignment—Payment—Delivery

Qualified Stock Options may not be transferred, except by will or intestacy. Full payment in cash for shares purchased under the Qualified Plan is required at the time of exercise, and the Company may postpone delivery of shares for such period as may be required for it with reasonable diligence to comply with applicable requirements, if any, under the Securities Act of 1933, the Securities Exchange Act of 1934, any applicable listing requirements of any national securities exchange, and requirements under any other federal or state law or regulation applicable to the issuance or transfer of such shares.

Administration

The Qualified Plan is administered by a Committee of three members of the Company's Board of Directors, appointed by, and serving at the pleasure of, the Board, none of whom are eligible to participate in the Plan. The Committee presently consists of Alger Chaney, T. Robert Sanberg, and W. Noel Eldred. From time to time the Committee may designate which of the key employees of the Company or of any subsidiary shall be granted options under the Qualified Plan, and, subject to the provisions of the Plan, shall determine the number of shares for which an option shall be granted to each such key employee. The Committee has full power to construe and interpret the Plan and to establish and amend rules and regulations for its administration.

Tax Consequences

All options granted pursuant to the Restricted Plan after December 31, 1963, and all options granted under the Qualified Plan are subject to the requirements imposed by the Revenue Act of 1964. Options which comply with such requirements constitute "qualified stock options" under the provisions of that

statute, and the holder thereof derives no income until he disposes of stock purchased upon exercise of the option. If a disposition does not take place within three years after the date of issuance of the shares upon such exercise, any profit or loss realized by him upon a later disposition of the stock will be taxable to the optionee as a long-term capital gain or loss, and the corporation will not be entitled to any deduction for federal income tax purposes.

RESTRICTED PLAN

Securities Subject to Plan—Price—Exercise of Options

The maximum number of shares for which options could have been granted under the Restricted Plan (terminated as of November 12, 1965, so that no further options may be granted under the Restricted Plan after that date) was 75,000 shares of the Company's Common Stock, and the maximum number of shares for which options could be granted to any one employee was 15,000. There was no minimum number of shares for which options could be granted to an employee. Shares covered by options which expired became available for subsequent options granted under the Restricted Plan. The Restricted Plan allowed options to be granted to key employees of the Company, other than the four founders of the Company, for the purchase of shares of Common Stock of the Company at a price of not less than 100% of the fair market value of the shares on the date of grant. The options granted prior to January 1, 1964 under the Restricted Plan were "restricted stock options" within the meaning of Internal Revenue Code Section 421 prior to its amendment in 1964. The options granted during 1964, as amended, are considered to be "qualified stock options" under the provisions of the Revenue Act of 1964, although they remain subject to the general provisions of the Restricted Plan, except as they have been specifically amended. These amended options expire five years from the date of grant, while all other options granted under the Restricted Plan expire eight years from date of grant. All options granted under the Restricted Plan are exercisable at the rate of 25% per year, beginning one year after the date of grant, on a cumulative basis until expiration of the option.

Termination of Employment—Death—Adjustments Upon Fundamental Changes in the Company

If an optionee ceases to be an employee of the Company, other than by reason of death, a Restricted Stock Option is thereafter exercisable only prior to the end of the 30-day period commencing with cessation of employment. If an optionee dies while in the employ of the Company, such option may be exercised by his heirs for a period of one year after death. In both cases, however, the option may only be exercised to the extent that it was exercisable at the time of cessation of employment or death, and, except in the case of the exercise by heirs of a deceased optionee of an option granted prior to January 1, 1964, an option may not be exercised to any extent after the expiration of the option period.

To prevent dilution or enlargement of the rights of option holders under the Restricted Plan, adjustments in the number of shares subject to the Plan, the number of shares subject to option, the maximum number of shares for which options may be granted to one employee, and option exercise prices, are provided for in the case of merger, consolidation, reorganization, recapitalization, stock dividend or other change in the corporate structure of the Company. The Restricted Plan further provides that upon dissolution or liquidation of the Company, other than in connection with a reorganization, merger or consolidation in which the surviving corporation prior to or concurrent with its succession to the business of the Company, assumes and continues the Restricted Plan by substituting stock options for the options granted under the Restricted Plan, all options granted under the Plan terminate; provided, however, that each optionee is given the right immediately prior to such dissolution, liquidation, merger or consolidation which results in termination, to exercise his option to the fullest extent it may then be exercisable.

Assignment—Payment—Delivery

Restricted Stock Options may not be transferred except by will or intestacy. Full payment in cash for shares purchased under the Restricted Plan is required at the time of exercise, and the Company may postpone delivery of shares for such period as may be required for it with reasonable diligence to comply with applicable requirements, if any, under the Securities Act of 1933, the Securities Exchange Act of 1934, any applicable listing requirements of any national securities exchange, and requirements under any other federal or state law or regulation applicable to the issuance or transfer of such shares.

Administration

Although the Restricted Plan provided that it could at the election of the Company's Board of Directors, be administered by a committee of the Board, the Board directly administered this Plan. Accordingly, the Board from time to time designated which of the key employees of the Company were to be granted options and, subject to the provisions of the Plan, the number of shares for which an option or options were granted to them. The Restricted Plan also provided that the Board, if no committee is appointed, has the full power to construe and interpret the Plan and to establish and amend rules and regulations for its administration.

Tax Consequences

Options granted under the Restricted Plan prior to January 1, 1964, remain subject to the provisions of the Internal Revenue Code relating to "restricted stock options" and are not affected by the Revenue Act of 1964. Under these provisions the employee derives no income at the time he receives or exercises his option, but only when he subsequently disposes of his stock. If the limitations of these options are observed, and if no disposition of the stock is made by him within two years after the grant of the option or within six months after the date of the issuance of such stock to him, any profit or loss realized by him upon a later disposition will be taxed as a long-term capital gain or loss, and the corporation will not be entitled to any deduction for federal income tax purposes. See "Qualified Plan—Tax Consequences" for consequences of options granted after January 1, 1964.

OUTSTANDING OPTIONS

The following table contains information, as of July 24, 1967, with respect to all options now outstanding under the Qualified and Restricted Plans:

Date of Grant of Options	Expiration Date of Options	Option Price Per Share	Number of Shares of Common Stock Called for by Outstanding Options
QUALIFIED PLAN			
1-14-66	1-13-71	$32.88	3,000
4-11-66	4-10-71	49.00	15,277
6-10-66	6- 9-71	51.50	300
7-21-66	7-20-71	59.25	200
12-16-66	12-15-71	65.13	300
4-21-67	4-20-72	104.38	1,000
7-24-67	7-23-72	172.00	22,600
RESTRICTED PLAN*			
8-30-63	8-30-71	$ 3.33	6,000
3-13-64	3-13-69	3.67	750
6-26-64	6-26-69	6.67	1,500

*The option price per share and the number of shares called for by outstanding options reflect adjustments made upon a 30 for 1 split-up of the Company's stock in December, 1964.

As of July 24, 1967, options to purchase 65,625 shares and 2,323 shares of the Company's Common Stock under the Restricted Plan and Qualified Plan, respectively, had been exercised, and on that date employees of the Company held 33,687 of such shares, all of which are being registered hereunder.

The following table contains information as of July 24, 1967, with respect to all options held by each director, and each of the three highest paid officers, of the Company whose aggregate direct remuneration exceeded $30,000 in 1966, and all directors and officers as a group.

Holder	Number of Shares of Common Stock on Which Option Held	Option Price	Expiration Date of Options
Eugene L. Rogers, Vice President and Director	3,000①	$ 32.88	1-13-71
Edward S. Seaman, Vice President	750②	3.33	8-30-71
Edward S. Seaman, Vice President	1,500①	49.00	4-10-71
Edward S. Seaman, Vice President	1,250①	172.00	7-23-72
Total	6,500		
All directors and officers as a Group	1,125②	3.33	8-30-71
	750③	3.66	3-13-69
	3,000①	32.88	1-13-71
	5,126①	49.00	4-10-71
	7,750①	172.00	7-23-72
Total	17,751		

① Qualified Stock Options, see above for terms.

② Restricted Stock Options granted prior to January 1, 1964, see above for terms.

③ Restricted Stock Options granted after January 1, 1964, see above for terms.

For information on the market price of Common Stock, as of time of printing, see the cover page of this Prospectus.

LEGAL OPINION

The legality of the Common Stock offered hereby has been passed upon by Messrs. Morrison, Foerster, Holloway, Clinton & Clark, San Francisco, counsel for the Company.

EXPERTS

The financial information contained under the caption "Consolidated Statement of Income" and the certified financial statements referred to under the caption "Financial Statements" in the Prospectus have been examined by Arthur Andersen & Co., independent certified public accountants, as set forth in their opinion, and has been included herein in reliance of the authority of such firm as experts in giving such an opinion.

ADDITIONAL INFORMATION

This Prospectus omits certain information contained in the Registration Statement on file with the Securities and Exchange Commission. The information omitted may be obtained from the Commission's principal office at Washington, D. C., upon payment of the fee prescribed by the rules and regulations of the Commission.

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

To MEMOREX CORPORATION:

We have examined the consolidated balance sheet of MEMOREX CORPORATION (a California corporation) and subsidiaries as of December 31, 1966, and the related consolidated statements of income (under the caption "Consolidated Statements of Income") and of shareholders' equity for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Memorex Corporation and subsidiaries as of December 31, 1966, and the results of their operations for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

ARTHUR ANDERSEN & Co.

San Jose, California,
February 3, 1967.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

MEMOREX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1966 and June 30, 1967 (Unaudited)

Assets	December 31, 1966	June 30, 1967 (Unaudited)
CURRENT ASSETS:		
Cash	$ 577,000	$ 681,000
Temporary investments in government obligations, at cost	4,079,000	765,000
Accounts receivable	5,654,000	5,505,000
Inventories, at the lower of cost (first-in, first-out) or market (Note 2)	3,067,000	4,564,000
Prepayments	173,000	354,000
Total current assets	13,550,000	11,869,000
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 3 and 5):		
Land	478,000	478,000
Buildings and improvements	4,926,000	5,689,000
Machinery and equipment	5,686,000	7,248,000
Furniture and fixtures	407,000	554,000
	11,497,000	13,969,000
Less—Accumulated depreciation	1,637,000	2,403,000
	9,860,000	11,566,000
OTHER ASSETS	746,000	948,000
	$24,156,000	$24,383,000

Liabilities		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 5)	$ 55,000	$ 55,000
Unsecured note payable to bank	—	300,000
Accounts payable	2,006,000	810,000
Accrued liabilities—		
Salaries, wages and commissions	273,000	137,000
Profit sharing	576,000	336,000
Federal and foreign income taxes	1,133,000	531,000
Other	469,000	683,000
Product warranty reserve	300,000	400,000
Total current liabilities	4,812,000	3,252,000
DEFERRED FEDERAL INCOME TAXES (Note 4)	616,000	786,000
LONG-TERM DEBT (Note 5)	12,055,000	11,382,000
COMMITMENTS (Note 6)	—	—
SHAREHOLDERS' EQUITY (Notes 5, 7 and 8):		
Preferred stock, $100 par value—authorized 200,000 shares	—	—
Common stock, par value $1 per share—authorized 5,000,000 shares Outstanding—1,036,891 shares at December 31, 1966, and 1,053,836 shares at June 30, 1967 (including 10,000 shares held in treasury)	1,037,000	1,054,000
Paid-in surplus	855,000	1,556,000
Retained earnings	4,781,000	6,353,000
	$24,156,000	$24,383,000

The accompanying notes are an integral part of these balance sheets.

MEMOREX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Five Years and Six Months (Unaudited) Ended June 30, 1967

	Common Stock	Paid-in Surplus	Retained Earnings
BALANCE DECEMBER 31, 1961	$ 19,000	$ 643,000	$ (313,000)
Net loss for the year	—	—	(694,000)
BALANCE DECEMBER 31, 1962	19,000	643,000	(1,007,000)
Net income for the year (including reduction of Federal income taxes of $236,000)	—	—	454,000
BALANCE DECEMBER 31, 1963	19,000	643,000	(553,000)
Net income for the year (including reduction of Federal income taxes of $277,000)	—	—	1,279,000
Proceeds from sale of common stock to employees under stock option plan	1,000	8,000	—
Conversion of 6% Convertible subordinated promissory notes	13,000	1,195,000	—
Provision for cost of registering common stock with Securities and Exchange Commission	—	(40,000)	—
Paid-in surplus capitalized in connection with thirty-for-one stock split	944,000	(944,000)	—
BALANCE DECEMBER 31, 1964	977,000	862,000	726,000
Net income for the year	—	—	1,331,000
Proceeds from sale of common stock to employees under stock option plan	27,000	19,000	—
Additional costs of registration of common stock with Securities and Exchange Commission	—	(33,000)	—
BALANCE DECEMBER 31, 1965	1,004,000	848,000	2,057,000
Net income for the year	—	—	2,724,000
Proceeds from sale of common stock to employees under stock option plan	8,000	17,000	—
Acquisition of Disc Pack Corporation:			
25,000 shares issued	25,000	52,000	—
10,000 shares returned to treasury incident to the transaction	—	(62,000)	—
BALANCE DECEMBER 31, 1966	1,037,000	855,000	4,781,000
Net income for the six months ended June 30, 1967 (unaudited)	—	—	1,572,000
Proceeds from sale of common stock to employees under stock option plan	8,000	106,000	—
Conversion of 5% convertible subordinated debentures, due August 1, 1986	9,000	595,000	—
BALANCE JUNE 30, 1967 (unaudited)	$1,054,000	$1,556,000	$6,353,000

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock options became exercisable during the periods as set forth below:

Year Exercisable	Shares	Option Price Range—Per Share	Option Price In Total	Fair Value Range—Per Share	Fair Value In Total
1962	6,844	$ .10	$ 684	$ .20	$ 1,369
1963	10,219	.10 to .20	1,360	2.20 to 3.33	30,215
1964	16,218	.10 to 3.33	20,297	3.67 to 6.67	100,304
1965	18,469	.10 to 6.67	33,047	24.50 to 36.13	511,417
1966	11,625	.20 to 6.67	32,363	36.75 to 54.75	562,594
1967 (6 mos.)	2,625	.50 to 6.67	12,937	85.25 to 156.00	333,562
	66,000		$100,688		$1,539,461

During the periods, options were exercised as follows:

Year Exercised	Shares	Option Price Range—Per Share	Option Price In Total	Fair Value Range—Per Share	Fair Value In Total
1962	2,625	$ .10	$ 262	$ .20	$ 525
1963	1,500	.20	300	3.50	5,250
1964	20,340	.10 to 3.33	8,454	6.67 to 20.00	336,817
1965	26,910	.10 to 6.67	46,296	25.00 to 36.75	736,360
1966	7,875	.20 to 6.67	24,563	32.75 to 67.75	397,312
1967 (6 mos.)	6,375	.20 to 6.67	19,562	85.25 to 156.00	590,001
	65,625		$99,437		$2,066,265

No additional options will be issued under the 1961 Restricted Stock Option Plan.

As of June 30, 1967, under a Qualified Stock Option Plan adopted in 1965, options granted for 20,464 shares of the company's common stock were outstanding as follows:

Year of Grant	Shares	Option Price Per Share	Option Price In Total
1966	3,000	$ 32.88	$ 98,625
1966	15,664	49.00	767,536
1966	300	51.50	15,450
1966	200	59.25	11,850
1966	300	65.13	19,538
1967 (6 mos.)	1,000	104.38	104,380
	20,464		$1,017,379

Subsequent to June 30, 1967, the company granted additional options for 22,600 shares of the company's common stock at a price of $172 per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock options became exercisable during the periods as set forth below:

Year Exercisable	Shares	Option Price Range—Per Share	Option Price In Total	Fair Value Range—Per Share	Fair Value In Total
1966	None				
1967 (6 mos.)	5,150	$32.88 to 49.00	$240,256	$65.50 to 90.75	$448,425

During the period, options were exercised as follows:

Year Exercised	Shares	Option Price Range—Per Share	Option Price In Total	Fair Value Range—Per Share	Fair Value In Total
1967 (6 mos.)	1936	$49.00	$ 94,864	$90.75 to 157.00	$241,682

An aggregate of 70,000 shares of the company's common stock were reserved for issuance under the Qualified Stock Option Plan.

Both the Restricted Stock Option Plan and the Qualified Stock Option Plan provide among other things, that options granted are exercisable at one-fourth the total shares each year on a cumulative basis, commencing one year after date of grant. Options granted prior to 1964 expire eight years after date of grant and those granted in 1964 and subsequent years expire five years after date of grant.

The company records the net proceeds from the sale of stock at the time the options are exercised; no charges are recognized in the income account with respect to such options at any time.

8. Event Subsequent to December 31, 1966

On January 31, 1967, the company exercised its option to acquire the remaining 60% ownership of Disc Pack Corporation by issuing Memorex Corporation common stock. Inasmuch as the decision to acquire Disc Pack was made in 1966, and its operations in 1966 were wholly supported by the company, the acquisition has been accounted for as a "pooling of interests" and reflected in the 1966 consolidated financial statements.

Disc Pack was organized in late November 1965, and its financial condition as of December 31, 1965, was not significant; therefore, it was not included in the 1965 consolidated financial statements.

9. Investment Tax Credit

It is the company's policy to amortize the investment tax credit to income over the life of the related asset. The amount of such amortization is not material to the accompanying financial statements.

The investment tax credits have been classified in this prospectus as a reduction in the provision for Federal income taxes and an increase in cost of sales with no change in net income. The annual accumulated investment tax credit has not been similarly classified in the 1966 annual report to shareholders. Therefore, in the annual report the provision for depreciation has been decreased and the provision for Federal income taxes has been increased by $97,000, with no change in net income.

10. Consolidated Supplementary Profit and Loss Information

Classification	Charged to Profit and Loss: Cost of Sales	Operating Expenses	Total
YEAR ENDED DECEMBER 31, 1962:			
Maintenance and repairs	$ 13,000	$ 3,000	$ 16,000
Depreciation and amortization	31,000	62,000	93,000
Taxes—			
Payroll	15,000	3,000	18,000
Property	6,000	3,000	9,000
California franchise	—	—	—
Rent	18,000	30,000	48,000
YEAR ENDED DECEMBER 31, 1963:			
Maintenance and repairs	$ 31,000	$ 2,000	$ 33,000
Depreciation and amortization	82,000	59,000	141,000
Taxes—			
Payroll	26,000	12,000	38,000
Property	16,000	5,000	21,000
California franchise	—	—	—
Rent	72,000	42,000	114,000
YEAR ENDED DECEMBER 31, 1964:			
Maintenance and repairs	$ 48,000	$ 4,000	$ 52,000
Depreciation and amortization	177,000	75,000	252,000
Taxes—			
Payroll	58,000	21,000	79,000
Property	27,000	9,000	36,000
California franchise	—	21,000	21,000
Rent	67,000	50,000	117,000
YEAR ENDED DECEMBER 31, 1965:			
Maintenance and repairs	$ 64,000	$ 6,000	$ 70,000
Depreciation and amortization	298,000	125,000	423,000
Taxes—			
Payroll	85,000	37,000	122,000
Property	58,000	20,000	78,000
California franchise	—	77,000	77,000
Rent	106,000	48,000	154,000
YEAR ENDED DECEMBER 31, 1966:			
Maintenance and repairs	$129,000	$ 13,000	$142,000
Depreciation and amortization	584,000	244,000	828,000
Taxes—			
Payroll	226,000	37,000	263,000
Property	122,000	44,000	166,000
California franchise	—	96,000	96,000
Rent	156,000	125,000	281,000
SIX MONTHS ENDED JUNE 30, 1967 (UNAUDITED):			
Maintenance and repairs	$ 75,000	$ 19,000	$ 94,000
Depreciation and amortization	525,000	240,000	765,000
Taxes—			
Payroll	159,000	98,000	257,000
Property	37,000	15,000	52,000
California franchise	—	94,000	94,000
Rent	77,000	114,000	191,000