

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) of
THE SECURITIES EXCHANGE ACT of 1934

For the fiscal year ended December 29, 1978

Commission file number 2-22922

MEMOREX CORPORATION

(Exact name of registrant as specified in its charter)

CALIFORNIA

(State or other jurisdiction of
incorporation or organization)

94-1504607

(I.R.S. Employer
Identification No.)

SAN TOMAS AT CENTRAL EXPRESSWAY
SANTA CLARA, CALIFORNIA

(Address of principal executive offices)

95052

(Zip Code)

Registrant's telephone number, including area code (408) 987-1000

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class

Name of Each Exchange on
Which Registered

COMMON STOCK, \$1 PAR VALUE

NEW YORK STOCK EXCHANGE
PACIFIC STOCK EXCHANGE

CONVERTIBLE SUBORDINATED DEBENTURES,
5¼% DUE APRIL 1, 1990

NEW YORK STOCK EXCHANGE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Class

Outstanding at December 29, 1978

COMMON STOCK, \$1 PAR VALUE

7,030,969 SHARES

ITEM 1. Business

Memorex was incorporated in California in 1961. The Company develops, manufactures, markets and services a wide range of computer peripheral equipment systems and products employed in the recording, retrieval, communication, and storage of information. The Company also develops, manufactures, and markets a variety of media products based on magnetic coating technology for use in data processing equipment and audio and video recording devices. These systems and products are marketed and serviced throughout the free world by an extensive international sales and service force.

The Company's operations consist of two business segments: equipment products and media products. Equipment products consist of computer peripheral equipment based on electromechanical and electronic technologies and include disc storage systems, communications controllers, terminals, semiconductor memory units, tape storage systems, printers and computer output microfilm products. Media products, which are based on magnetic coating technologies, include computer tape, disc packs, flexible discs and audio and video tape products.

The following table sets forth a summary of the historical contribution to revenue and operating income of the Company's business segments:

	For the Year Ended December				
	1978	1977	1976	1975	1974
	(Thousands)				
REVENUES					
Equipment Products	\$424,726	\$273,351	\$210,370	\$156,307	\$116,043
Media Products	208,540	176,761	134,263	107,687	101,584
Total	<u>\$633,266</u>	<u>\$450,112</u>	<u>\$344,633</u>	<u>\$263,994</u>	<u>\$217,627</u>
OPERATING INCOME					
Equipment Products	\$ 77,775	\$ 74,870	\$ 60,930	\$ 28,425	\$ 1,462
Media Products	17,003	15,641	11,624	4,807	12,495
General Corporate	(15,600)	(15,797)	(11,920)	*	*
Total	<u>\$ 79,178</u>	<u>\$ 74,714</u>	<u>\$ 60,634</u>	<u>\$ 33,232</u>	<u>\$ 13,957</u>

*General Corporate expenses were allocated to product lines in these years.

• Operating income is derived by adding interest and other, net to income before income taxes and extraordinary credit.

• The nature of the international operations requires allocations to develop product line information. During 1978 the Company refined cost allocation procedures relating to international operations. Accordingly, to conform to the 1978 method of allocation, product line operating income for years prior to 1978 has been restated as appropriate resulting in the following increases in equipment product operating income offset by decreases in media product operating income: 1977—\$11,000,000; 1976—\$7,500,000; 1975 and 1974—none due to insignificance of amounts.

At December 29, 1978 and December 31, 1977, identifiable assets used in each of the segments were: equipment products—\$311,360,000 and \$184,479,000, respectively; media products—\$138,621,000 and \$114,307,000, respectively; and general corporate—\$37,668,000 and \$31,470,000, respectively.

EQUIPMENT PRODUCTS

The Company's equipment products are used in combination with computer central processing units ("CPU's") manufactured by others, principally IBM. The Company's products record, store, retrieve, and transmit data to and from the CPU, which processes the data. Equipment products sold or leased to end-users are designed to be compatible with most IBM general purpose computer systems. Most of the equipment products sold to original equipment manufacturers ("OEM's") are designed to be compatible with the equipment of manufacturers other than IBM. The Company believes that it is presently one of the largest independent suppliers of disc storage systems and hard-wired communications controllers used in connection with IBM computer systems, although, compared with IBM, its share of these markets is small. The Company also believes that it is a major independent supplier of disc drives to manufacturers of data processing systems other than IBM who do not themselves manufacture disc drives.

The Company's disc and tape drives act as recording, storage and retrieval units for data stored outside the CPU. Such data is transmitted or received by the drives (which are generally utilized in strings of up to eight individual units) through an associated controller which acts as the interface between the CPU and the drives. Where data is to be transmitted by communication lines to other CPU's or remote site terminals, a communications controller is used as the interface between the CPU and the communication lines and acts to translate the electronic impulses carrying the data into transmittable form.

Disc storage systems are presently the Company's most significant equipment product and contribute over 55% of equipment revenues. Disc storage systems incorporate disc drives and controllers and use disc packs, all of which are manufactured by the Company, and provide the most widely used means of storing information for direct access by the CPU. The important features of disc storage systems include speed of retrieval and random accessibility, contrasted with the serial access to which tape storage systems are limited. The Company's disc drive products have a wide range of capabilities, with storage capacities from a few hundred thousand to several million units of information. These variations in performance and storage allow the Company to offer products tailored to customer requirements.

With the growth of computer networks and remote site terminal operations, the market for terminals and communications controllers has expanded at a rapid rate. Terminals and communications controllers contribute approximately 16% of equipment revenues. The Company manufactures terminals with a wide range of capabilities. The Company's communications controllers include hard-wired models, as well as the more advanced programmable models. The hard-wired controller has proven to be the most cost effective for many applications. Programmable controllers have the additional capability needed for more sophisticated data communications networks, including the integration of otherwise incompatible terminals and adaptation to varying customer requirements.

To complement its product line, the Company purchases and markets various items of equipment manufactured by others, including certain tape and disc storage subsystems and products, semiconductor memories and line printers. All products purchased from other manufacturers are marketed under the Memorex name and serviced by Company personnel.

In July 1977, the Company acquired Business Systems Technology, Inc. ("BST"), a manufacturer of plug compatible peripheral equipment for small business computers. Such equipment includes certain disc storage drives, semiconductor memories, controllers, line printers and data entry equipment models representing an extension of the Company's product line. BST also added a distribution network in the United States and Canada serving the growing small systems market.

Most of the materials and components used in the Company's equipment products are available from a number of suppliers. While the Company generally maintains multiple sources of supply for most items, it is dependent from time to time on single sources of supply for certain items. The Company believes that alternative sources could be developed, if required, for any present single supply source, but the loss of such a supplier could cause significant delays in shipments by the Company.

Historically, the Company's equipment products have been sold or leased to end-users and sold to OEM's and unrelated third party lessors. In recent years, rental revenues have decreased as a percentage of total revenues, reflecting the Company's emphasis on equipment sales to end-users, third party lessors and OEM's and increased opportunities for such sales. The end-user leasing program continues to account for significant revenues, however, and the Company has a substantial investment in its own products on lease to others. Although the Company's net investment in leasebase declined during the period 1974-1976, it increased slightly in 1977 and increased further during 1978. At December 29, 1978, the gross book value of equipment subject to lease (including disc packs) totalled approximately \$160.0 million and the net book value approximated \$69.9 million.

Equipment leases to end-users generally are for initial terms of from one to three years and typically include a purchase option permitting the lessor to apply some portion of lease payments to a subsequent purchase. Upon termination of a customer lease, the lease is renewed or the equipment is returned to the Company. Returned equipment is refurbished and where possible re-leased or sold. While the Company has generally been successful in re-leasing or selling leased equipment returned to it, there is no assurance of a market for such equipment because of possible changes in technology and possible competitive actions of IBM and others. Rental and sales prices on older equipment have generally declined over the equipment's life.

The Company's leasebase includes certain classes of fully depreciated equipment which continue to produce rental revenues. Such equipment at December 29, 1978 had an original cost of approximately \$37 million. Because such equipment continues to produce rental revenues and because sales of fully or partially depreciated equipment have generally been made at prices in excess of net book value, the Company believes the economic value of its total leasebase is currently greater than its net book value.

Sales of equipment products to unrelated third party financing institutions are a significant factor in the Company's business. Such sales accounted for approximately 21% and 12% of revenues for the years ended December 29, 1978 and December 31, 1977, respectively. Transactions with one of these third party financing institutions, Lease Financing Corporation, accounted for approximately 12% and 6% of 1978 and 1977 revenues. In 1978, sales to Lease Financing Corporation were structured to qualify as leases for income tax purposes.

The agreements with the third party financing institutions usually provide the Company with residual rights in revenues derived from the equipment after the third party has received a designated return. In some cases, the Company has the option to reacquire the equipment at nominal cost and in others provision is made for the Company to receive a percentage of residual revenues generally ranging from 65% to 90%. Residual benefits from some of these older agreements began to accrue in 1978 and have been reflected in results of operations as realized. With respect to the 1978 transactions with Lease Financing Corporation, the Company is entitled to 100% of any residual benefits.

MEDIA PRODUCTS

The Company manufactures and markets magnetic storage media for use in data processing systems, audio and video systems and word processing equipment throughout the free world. Most of these products employ magnetic coating technologies developed by the Company and continuously improved since its founding in 1961. The Company believes it is one of the largest manufacturers of flexible discs, computer tape, disc packs and premium audio tape.

The Company manufactures and markets a full line of magnetic tape products which include computer tape, video tape, audio tape for the consumer and professional recording markets and a line of audio cassettes for the industrial and educational markets. The Company's audio tape products, which serve the higher quality segment of the growing in-home tape market, include cassette, 8-track cartridge, and reel-to-reel formats. Although most of the Company's media products have been developed and are manufactured by it, certain less significant products are obtained from others and marketed under the Memorex name.

An extensive line of disc packs, disc cartridges, head disc assemblies and components, which are used to record and store data in computer information storage systems, are also manufactured and marketed by the Company. Disc media products are developed and manufactured for sale and lease to end-users of disc-drive equipment and for sale to other disc drive manufacturers. The Company's more advanced disc products incorporate Winchester technology whereby the recording heads previously located in the disc drive are built into the individual disc pack.

The Company also markets a variety of products for use in typewriters, dictating machines and copiers (so called "word processing equipment") including magnetic cards, magnetic tape cassettes, flexible magnetic discs, carbon and fabric typewriter ribbons, and toners and developers. Most of these products are manufactured by the Company, while the remainder are purchased from others and marketed under the Memorex name.

In April 1977, the Company acquired CFI Memories, Inc. ("CFI"), which manufactures disc packs, disc cartridges and related media products. In addition to supplementing the Company's product line, the CFI acquisition added a marketing organization consisting of 150 distributors throughout the United States.

The Company operates its own precision plastic manufacturing facility which supplies a significant portion of its media products packaging needs.

Many of the Company's media products incorporate petroleum based products. While the Company presently believes its sources of such raw materials to be adequate it anticipates that there will be a general tightening in the supply of petro-chemicals during 1979. The Company also anticipates that the prices of its petroleum based raw materials will significantly increase during 1979, primarily as a result of the anticipated increases in the price of crude oil. There can be no assurance of the availability or price of these petroleum based raw-materials in the future should major disruptions in the world petroleum market occur.

INTERNATIONAL OPERATIONS

Through its sales and service facilities in 20 foreign countries, the Company markets and services its products throughout the free world. International operations are carried on by foreign subsidiaries, all of which are essentially wholly-owned except one which is majority-owned. Operations are organized on the basis of three geographic areas: United States; Europe, Middle East and Africa; and Americas and Asia. The Company's foreign subsidiaries, which are largely operated by local nationals, inventory, sell, lease and service the Company's products in their respective countries. The Company also maintains media product finishing and equipment refurbishing operations for the European market in Belgium, England and Germany. A Mexican subsidiary performs light manufacturing operations on products for foreign and domestic distribution. The following table shows revenues from international operations and their percentage contribution to total revenues for the five years ended December 1978:

	For the Year Ended December,				
	1978	1977	1976	1975	1974
Revenues from International Operations	\$285,000	\$168,000	\$136,000	\$112,000	\$ 87,000
Percentage of Total Revenues	45%	37%	39%	42%	40%

Since January 1978, the Company acquired the European marketing and service operations (Telex Europe) of Telex Computer Products, Inc. The results of Telex Europe's operations have been consolidated with the results of the Company since January 1, 1978. Based upon information provided by Telex Computer Products, Inc., the unaudited revenues of Telex Europe for the year ended December 31, 1977 were approximately \$39,000,000. Since April 1978, the Telex Europe operations have been integrated with the Company's existing subsidiaries in Europe. Consequently, operating results of Telex Europe subsequent to that date cannot be determined.

Although competition varies widely in the individual foreign countries in which the Company operates, IBM is an aggressive competitor in all of them.

The Company's international operations are subject to certain risks and problems not inherent in its domestic operations. These include currency fluctuations relative to the dollar and exchange controls which have been or may be imposed by foreign governments. The Company receives payment on foreign sales and lease transactions primarily in the currency of the country in which the transaction is conducted.

The following table summarizes the operations and identifiable assets of the Company on a geographic basis as of December 29, 1978 and December 31, 1977 and for the years then ended.

	Revenues		Operating Income		Identifiable Assets	
	1978	1977	1978	1977	1978	1977
United States	\$509,854	\$370,210	\$107,658	\$113,499	\$256,967	\$188,277
Europe, Middle East and Africa	217,049	126,102	16,050	4,000	169,203	102,197
Americas and Asia	68,226	42,088	11,977	4,700	59,492	37,386
General Corporate	—	—	(15,600)	(15,797)	37,668	31,470
Eliminations*	(161,863)	(88,288)	(40,907)	(31,688)	(35,681)	(29,074)
Total	\$633,266	\$450,112	\$ 79,178	\$ 74,714	\$487,649	\$330,256

*Represents revenues and operating income from inter-company sales and the elimination of inter-company profits from identifiable assets. Internal revenues accrue to United States operations from product sales to foreign subsidiaries which are principally sales and service operations. Internal selling prices are designed to allocate manufacturing profits to manufacturing entities and sales and service profits to those entities.

MARKETING

The Company's equipment products are marketed by a worldwide sales and field engineering organization employing approximately 2,900 people at December 29, 1978. The availability of prompt dependable service is crucial in developing and maintaining continuing relations with customers. The Company believes it maintains one of the largest service organizations among independent computer peripheral equipment manufacturers. Given the dominant position of IBM in most of the Company's equipment markets, the ability of the Company to provide comparable or superior products and service is essential. See "Business—Competition".

The Company's media products are sold to both distributors and end-users by a specialized sales force. Audio products are sold by the Company's consumer sales force to distributors and to retail outlets, including department stores, mass merchandisers, music and record stores and electronics and hi-fi outlets.

NEW PRODUCTS AND PRODUCT DEVELOPMENT

The Company's business is characterized by rapid technological change which requires substantial investments in product development and engineering. Research and development expenditures totalled \$23.6 million and \$19.2 million in 1978 and 1977, respectively.

In late 1977, the Company introduced the 3650 disc drive and the associated 3674 controller which the Company believes are among the most technologically advanced disc storage subsystem products commercially available. These products are presently in production and are being shipped to customers. Significant new products now in production also include the 1380 programmable communications controller for use in sophisticated large scale networks, which previously had been manufactured for the Company in a less advanced version by another manufacturer, and the 1377 video display terminal with microprocessor control. In April 1978, the Company announced the 3770 Disc Cache which is designed to enhance the Company's 3670 series disc storage subsystems by increasing the speed of data retrieval through the use of microprocessor and charge coupled device technology. Shipments of this equipment are expected to commence in 1979.

Other new products include the 552 flexible disc drive, products employing the improved MRX audio magnetic coating and SuperReel™, an improved reel for computer tape.

The Company has entered into a joint venture with Bell & Howell to manufacture video tape cassettes for home video recorders.

COMPETITION

Competition in all of the Company's equipment markets is intense. The controlling force in the medium and large scale computer systems business is IBM whose activities dominate the marketplace. The price and useful economic life of independent peripheral equipment such as the Company's disc storage and communications controller systems are to a large extent dependent upon the practices of IBM. In sales of disc drives to OEM's, a market in which IBM does not directly compete, and in sales of equipment for use in small computer systems where the market is not controlled by IBM, the Company faces competition from a number of other manufacturers. Price, quality and service are the principal means of competing in these markets.

In the terminal market the Company competes with numerous other firms offering similar products, some of which are offered at lower rents and prices. The Company does not have a significant share of the market for communications terminals, tape storage subsystems or semiconductor memories.

There is presently widespread customer acceptance of independent vendor equipment in data processing systems incorporating IBM central processing units. The Company believes that this multi-vendor relationship will continue to exist. However, in its design of new generations of data processing systems, IBM is apparently continuing to attempt to discourage or inhibit the attachment of non-IBM equipment to its central processing units. This practice hinders the ability of the Company and others to develop and market IBM-compatible equipment and media for sale or lease to users of IBM computer systems. The computer peripheral equipment industry historically has been subject to rapid technological change and development, and the Company's business and assets could be materially adversely affected by such changes in the future.

Competition is also intense in all of the Company's media product markets. Product quality, availability, customer service and price are the principal means of competition. The Company believes it is among the leaders in the audio and computer tape markets, where it faces numerous competitors. In the closed circuit video tape market, there are four principal competitors, two of which are believed to have more sales than the Company.

In the sale of disc packs and other disc media products, the Company has five major competitors, the primary one being IBM. Historically sales prices and lease rates for disc packs have declined substantially due to competition and the relative ease of replacing a competitor's leased disc packs. The principal means of competition in disc packs are quality, price and customer service.

In the sale of its word processing products, the Company has several strong competitors which are larger and have a greater share of the market for these products than the Company.

PATENTS

The Company holds a number of U.S. and foreign patents and various patent licenses which it believes to be important. However, the Company does not believe that the loss of any one of them would materially adversely affect its business or that its business is dependent to any material extent on any patent or group of patents or on any licensing arrangement. In the opinion of the Company, the information, skills and processes, in the nature of trade secrets, utilized by the Company are substantially more important to its business than patents and patent licenses.

From time to time other companies in the industry have claimed that products similar to those manufactured by the Company are covered by patents held by such other companies, and it may be necessary or desirable in the future for the Company to obtain licenses in addition to those it now holds. Based on its past experience, the Company believes that any such licenses will be obtainable on reasonable terms.

EMPLOYEES

As of December 29, 1978, the Company had approximately 11,100 employees. The Company considers that its relations with its employees have been good in this country. The Company has no collective bargaining agreements with respect to U.S. employees and has never experienced significant work stoppage in the United States. Employees at the Company's facility in Liege, Belgium are organized, and labor problems have been experienced there from time to time.

The Company faces severe competition in hiring and retaining key personnel and technical employees, but believes it will continue to be able to hire and retain the personnel necessary for its business for the foreseeable future.

ITEM 2. Summary of Operations

The Summary of Operations and Per Share Data for the five years ended December, 1978, along with Management's Discussion and Analysis of the Summary of Operations as required by Item 2, appears on pages 48 and 49 of the Company's 1978 Financial Report included elsewhere herein and are incorporated herein by reference. The Company has never paid dividends on common stock.

In addition to the notes to consolidated financial statements for the years ended December 29, 1978 and December 31, 1977, included in the 1978 Financial Report, the following supplementary data is provided as additional information to assist in an understanding of the Five-Year Summary of Operations.

Accounting Principles—The Summary of Operations for the years 1974 through 1977 have been restated to retroactively reflect a capital lease entered into in 1972 and capitalized in 1978 under provisions of Financial Accounting Standard (FAS) No. 13. This capitalization does not have a material effect on previously reported net income.

Depreciation—Depreciation and amortization for each of the five years ended December, 1978 was: 1978—\$40,187,000; 1977—\$27,629,000; 1976—\$33,710,000; 1975—\$39,281,000; and 1974—\$47,393,000.

Interest Expense—Interest expense for each of the five years ended December, 1978 was: 1978—\$13,640,000; 1977—\$12,138,000; 1976—\$13,191,000; 1975—\$16,644,000; and 1974—\$20,061,000.

Investment Tax Credit—Investment tax credits used in computing the provision for income taxes for each of the five years ended December, 1978 were: 1978—\$6,000,000; 1977—\$3,300,000; 1976—\$3,800,000; 1975—\$650,000; and 1974—None.

Extraordinary Credits—Extraordinary credits for 1975 were comprised of estimated tax benefits from utilizing net operating loss carryforwards (\$7,546,000) and gain on purchase of convertible subordinated debentures (\$2,031,000). The extraordinary credits for 1976 through 1978 relate to income tax benefits from utilizing loss carryforwards.

Per Share Data—The proforma income (loss) per common share amounts reflect the proforma dilution which would result if maximum dividends payable on preferred stock after 1980 were payable during the periods included in the Summary of Operations. Preferred stock was initially issued in 1974 in connection with a debt restructuring and provides for dividends at increasing rates through 1981.

ITEM 3. Properties

Domestic manufacturing operations are conducted at the Company's facilities in Santa Clara, Irvine, Cupertino, Anaheim, and Santa Ana, California and in Eau Claire, Wisconsin. Distribution centers are located in Philadelphia, Chicago and Dallas. Internationally the Company conducts certain manufacturing operations at Liege, Belgium and Nogales, Mexico.

As of December 29, 1978, the Company's operations were conducted in owned and leased facilities as follows:

	Number of Square Feet	
	Owned	Leased
Santa Clara, California	639,000	972,000
Irvine, California	70,000	29,000
Cupertino, California	—	87,000
Anaheim, California	36,000	84,000
Santa Ana, California	—	41,000
Eau Claire, Wisconsin	44,000	12,000
Liege, Belgium	184,000	—
Nogales, Mexico	—	80,000
Sales and Service Centers and Warehouses in Principal Cities in the U.S. and Overseas	55,000	502,000
Total	<u>1,028,000</u>	<u>1,807,000</u>

Since January, 1978 the Company acquired the European marketing operations of Telex Corporation, which included a refurbishing and storage center in England, a refurbishing center in Germany and 13 sales and service centers located throughout Europe.

The Company owns approximately 127 acres of land in Santa Clara, California (including the remainder interest in 55 acres currently subject to long-term leases pursuant to which the Company is in possession of the property), 9 acres in Irvine, California, 8 acres in Eau Claire, Wisconsin, 5 acres in Dallas, Texas, 2 acres in Anaheim, California, and 15 acres near Liege, Belgium. The leased facilities in Santa Clara include the corporate headquarters building and an equipment products manufacturing facility in which the Company has possessory and remainder interests. This lease is for an original term of 30 years expiring in 2002, and the Company has an option to extend the lease for an additional ten years.

Although the nature of the Company's manufacturing activities makes it difficult to estimate the percentage of the overall utilization of its facilities, the Company believes it would require additional manufacturing facilities to accommodate any significant increase in production. The Company has not experienced any difficulty in obtaining such additional facilities in the past.

ITEM 4. Parents and Subsidiaries

Parents of Registrant: None

Registrant: Memorex Corporation

Subsidiaries of Registrant:

	State or Other Jurisdiction in Which Incorporated or Organized
Memorex U.K. Limited	United Kingdom
Memorex GmbH	West Germany
Memorex S.A.	Belgium
Memorex A.B.	Sweden
Memorex A.S.	Norway
Memorex S.p.A. Italia	Italy
Memorex Ges.m.b.H.	Austria
Memorex B.V.	Netherlands
Memorex A.G.	Switzerland
O.Y. Memorex A.B.	Finland
Memorex S.A. de C.V.	Mexico
Memorex A/S	Denmark
Memorex Canada Limited	Canada
Memorex Japan Ltd.	Japan
Memorex Interamerica C.A.	Venezuela
Memorex Do Brasil	Brazil

ITEM 4. Parents and Subsidiaries (Continued)

	State or Other Jurisdiction in Which Incorporated or Organized
Memorex Pty. Ltd.	Australia
Mem-mex S.A. de C.V.	Mexico
Memorex S.A.	France
MRX Corporation of Delaware	Delaware
Memorex International Corporation	California
Memorex Disc Corporation	California
CFI Memories, Inc.	California
Business Systems Technology, Inc.	California
Memorex Europe, Ltd.	Delaware
Memorex Puerto Rico, Inc.	Delaware
Memorex Finance Company	California
Memorex World Trade Corporation	Cayman Islands

Memorex owns 100% of the outstanding shares of all of the foregoing subsidiaries except Memorex Japan, Ltd., of which it owns 60% of the outstanding shares. Certain of the shares in some of the foreign subsidiaries are owned by Memorex beneficially but not of record.

All subsidiaries are included in Memorex's consolidated financial statements. The names of certain subsidiaries, which in the aggregate would not constitute a significant subsidiary, are omitted.

ITEM 5. Litigation

In 1973 Memorex and certain of its subsidiaries (the Company) filed an action against IBM in the United States District Court for the Northern District of California alleging that IBM has used its monopoly power to control prices and eliminate competition. The Company also alleged that IBM has monopolized and attempted to monopolize development, production, distribution, sale, leasing and servicing in certain markets for computers and computer equipment in violation of the federal antitrust laws. At the trial the Company presented evidence of actual damages totaling \$333 million (of which the jury was instructed by the trial court to disregard \$27 million) and sought to recover treble damages, its costs and attorneys' fees.

On July 5, 1978 the court declared a mistrial because the jury was unable to reach a verdict after twenty days of deliberation. On August 11, 1978 the court granted IBM's motion for a directed verdict, i.e., the court ruled that no reasonable jury could find in favor of Memorex on any of the substantive issues. The court also ruled that if its directed verdict in favor of IBM is overturned on appeal, Memorex will not be entitled upon retrial to a jury trial because of the complexity of the case. The Company has appealed the trial court's rulings to the United States Court of Appeals for the Ninth Circuit. The Company is unable to predict either when the appeal will be decided or, in the event of a reversal, when a new trial would begin.

The Company's costs incurred in the litigation have been expensed as incurred, and a final judgment adverse to the Company will not result in any writeoff of assets. The trial court judgment entitles IBM to recover its own court costs (not including attorneys' fees). IBM has submitted to the court a statement of expenses totaling approximately \$700,000, of which the Company contests approximately \$500,000. If a final judgment is entered against the Company, the amount of such costs ultimately determined to be proper will be payable.

In November 1978 Leo P. Portney, a holder of Common Stock of the Company, commenced an action against the Bank of America National Trust and Savings Association (the "Bank"), the BankAmerica Foundation, a non-profit corporation organized by the Bank for charitable purposes and the Company to recover on behalf of the Company \$14,262,500 allegedly representing the profit realized by the Bank and BankAmerica Foundation in connection with the exercise of a warrant to purchase 350,000 shares of common stock and the subsequent sale of such stock. The complaint alleges that, because Mr. Alvin C. Rice was an officer and director of the Bank and a director of the Company, the Bank and Bank America Foundation were provided access to "inside information" and that under the provisions of Section 16(b) of the Securities Exchange Act of 1934 any profit realized upon the exercise of the warrant and sale of the stock is recoverable on behalf of the Company. The complaint also seeks to recover

costs of suit and legal fees. The action was originally commenced in the United States District Court for the Northern District of Illinois but is in the process of being transferred to the United States District Court for the Northern District of California. Although the Company has not yet responded to the Complaint its present intention is to file an answer denying that it has any liability, indicating its belief that neither of the other defendants has any liability, but praying for recovery of any amounts which the court may determine is payable to the Company by the other defendants.

On December 26, 1978 a shareholder derivative action was commenced against Mr. Robert C. Wilson, President and Chief Executive Officer, seeking to recover on behalf of the Company profits in excess of \$1,500,000 allegedly realized by Mr. Wilson in the sale of 65,000 shares of Company Common Stock in August 1978. The Complaint, which was filed in Santa Clara County, California, Superior Court by Harry Lewis, a holder of Common Stock of the Company, alleges that at the time of the sale Mr. Wilson had up to date confidential information about the Company's sales and earnings and its internal estimates thereof which made him aware that the Company's earnings for the third quarter of 1978 would be substantially lower than the estimates being made publicly by analysts, investment banking firms and brokers. The Complaint also alleges that the use of such confidential information by Mr. Wilson for his own benefit violated his fiduciary duties to the Company and its shareholders and that therefore he should account to the Company for the profits realized by him from the use of the information as well as any damage sustained by the Company as a result. The Complaint also seeks the recovery of an undesignated amount of punitive damages, costs and attorneys' fees. The Board of Directors of the Company has appointed a special committee of its members (not including Mr. Wilson) to investigate the allegations of the Complaint and evaluate the merits of the lawsuit. Mr. Wilson advised the Company that he regards the lawsuit as being without merit.

ITEM 6. Increases and Decreases in Outstanding Securities and Indebtedness

(a) Increases and (decreases) in outstanding equity securities and indebtedness in 1978 were as follows:

	Shares of Stock			
	Options	Common Stock* \$1 Par Value	Preferred Stock, \$100 Par Value	
			Series A	Series B
Outstanding, December 31, 1977	424,995	5,513,230	159,639	499,490
Granted	143,000			
Issued August 9, 1978 through a public offering		750,000		
Issued August 9, 1978 upon exercise of warrants		519,536		
Issued throughout 1978 upon exercise of stock options	(173,454)	173,454		
Issued October 11, 1978 under Tax Reduction Act Stock Ownership Plan (TRASOP)		5,749		
Accrued in 1978 for 1979 issuance under employee share plan		69,000		
Terminated	(50,527)			
Outstanding, December 29, 1978	<u>344,014</u>	<u>7,030,969</u>	<u>159,639</u>	<u>499,490</u>

*Net of treasury shares

	Thousands of Dollars		
	Notes Payable To Bank	Convertible Subordinated Debentures, 5¼% Due 1990	9¼% Notes Due 1990
Outstanding, December 31, 1977	\$42,498	\$65,687	\$ —
Issued 9¼% Notes, due 1990			50,000
Purchased by Company during 1978 for an average price of approximately \$691 for each \$1,000 of principal		(10,935)	
Repayments	(23,157)		
Outstanding, December 29, 1978	<u>\$19,341</u>	<u>\$54,752</u>	<u>\$50,000</u>

(1) All shares issued upon exercise of stock options were issued in a registered offering under the Securities Act of 1933. Cash proceeds from sale of the shares were \$1,140,787 and were used for general corporate purposes. \$173,454 was credited to the Common Stock account and \$967,333 was credited to the Additional Capital account. No brokers or underwriters were used.

(2) Stock issued under employee benefit plans (TRASOP and Share Plan) was accounted for as additional compensation at an imputed value (based upon market price) of \$2,353,872. The stock was issued without registration in reliance of exemption under Section (4) (2) of the Securities Act of 1933 and also because the shares did not involve a "sale" in accordance with Section (2) (3) of said act.

ITEM 7. Changes in Securities and Changes in Security for Registered Securities—None.

ITEM 8. Defaults by the Company on its Senior Securities—None.

ITEM 9. Approximate Number of Equity Security Holders

Title of Class	Number of Record Holders (December 29, 1978)
Common Stock, \$1 Par Value	25,947*
Convertible Subordinated Debentures, 5¼% Due April 1, 1990	2,143
Preferred Stock, \$100 Par Value	
Series A	14
Series B	2
Stock Options	155*

*Includes an estimated 15,000 holders whose stock is recorded in broker names.

ITEM 10. Submission of Matters to Vote of Security Holders—None.

Executive Officers of the Registrant

The names, ages and positions of all of the executive officers of the Company as of February 28, 1979 are listed below along with their business experience during the past five years. Officers are either elected annually by the Board of Directors at the meeting of directors immediately following the annual meeting of shareholders or appointed by the chairman. There are no family relationships among these officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected.

Name, Age and Position	Business Experience During Past 5 Years
Robert C. Wilson*, 59 President, Chairman and Chief Executive Officer ⁽¹⁾	Mr. Wilson served as President, Chief Executive Officer and a Director of Collins Radio Company ("Collins Radio") (avionics and communications systems) from prior to 1973 to November 1973. He was also a Director of Rockwell International Corporation ("Rockwell") (a multi-industry company with principal activities in aviation, space, electronics, automotive components and printing machines). After the merger of Collins Radio with Rockwell in November 1973, Mr. Wilson continued as the President of the Collins Radio Group of Rockwell and was elected Vice President of Rockwell. Mr. Wilson resigned from the Collins Radio Group and Rockwell in May 1974 and became Chairman of the Board, Director, President and Chief Executive Officer of Memorex at that time.

⁽¹⁾Mr. Wilson has announced his intention to retire from active management of the Company upon reaching his 60th birthday in January 1980.

**Name, Age
and Position**

**Business Experience
During Past 5 Years**

James Dobbie*, 48
Executive Vice President

Mr. Dobbie was Executive Vice President of the Data Machines Division of Varian Associates (communication and electronic systems and instruments) from prior to 1974 and until January 1975, when he became Vice President and General Manager of Memorex's Computer Media Group. In January 1977, he was elected Executive Vice President.

Charles S. Strauch*, 43
Executive Vice President

Mr. Strauch served in executive capacities with Gould Incorporated (electrical systems, instruments, controls and automotive products) from prior to 1974 until January 1979. From 1975 until September 1977 he was Group Vice President of the Instrument and Controls Group, and then was elected Executive Vice President. In January 1979 he joined Memorex Corporation as Executive Vice President.

Richard C. Allen, 41
Vice President and General
Manager, Communications
Group

Mr. Allen was Director of Central Systems Development of the Varian Data Machines Division of Varian Associates from prior to 1974 until June 1974. He then became Vice President, Engineering of the Varian Data Machines Division of Varian Associates and served in that position until May 1975. From May 1975 until July 1976 he was an independent consultant in the computer field before joining Memorex as Vice President, Engineering. In October 1977 he was appointed to his present position.

George L. Bragg, 46
Vice President, Corporate
Development

Mr. Bragg served as Director of Corporate Development of Collins Radio from April 1973 to November 1973. After the merger of Collins Radio with Rockwell in November 1973, he continued in that position until March 1974. He joined Memorex in April 1974 as Vice President for Administration. In June 1974 he was elected Vice President, Corporate Development.

Reto Braun, 37
Vice President and General
Manager, Europe-Middle
East-Africa Group

Mr. Braun was employed by Memorex in European marketing management positions from prior to 1974 until April 1975 when he joined ITT Europe Inc. as Director of Marketing for Eastern Europe. He rejoined Memorex, from ITT, in May 1976 and was appointed to his present position in December 1977.

Theodore J. Cutler, 37
Vice President and General
Manager, Consumer and
Business Media Group

Mr. Cutler was employed in a succession of marketing management positions with Procter and Gamble (consumer packaged goods) from prior to 1974 until January 1974 when he joined Memorex. Since employment with Memorex he has been promoted through a succession of management positions. In June, 1977 he was appointed to his present position.

Robert L. Erickson, 49
Vice President, Legal and
Secretary

Mr. Erickson was Vice President, Legal and Secretary, of Collins Radio from prior to 1973 until the merger of Collins Radio with Rockwell in November 1973. After that merger, he served as Vice President, Legal of the Collins Radio Group and as an Assistant General Counsel of Rockwell until May 1974. He joined Memorex in May 1974 as Vice President and in June 1974 was elected to the additional office of Secretary.

Marcelo A. Gumucio, 41
Vice President and General
Manager, Large Storage
Systems Group

Mr. Gumucio was General Manager, Latin America and South Africa, International Division of Hewlett-Packard Company (an electronics company) from prior to 1974 until July 1975, when he joined Memorex as Vice President and General Manager, Americas and Asia Group. In October 1977 he was appointed to his present position.

Robert L. Malcolm, 51
Vice President, Industrial
Relations

Mr. Malcolm was Vice President, Personnel of Collins Radio from prior to 1973 until the merger of Collins Radio with Rockwell in November 1973. After that merger, he continued to serve as Vice President, Personnel of the Collins Radio Group until July 1974 when he became Staff Vice President, Western Regional Personnel of Rockwell. He held this position until joining Memorex as Vice President, Industrial Relations in May 1975.

*Member, Office of the President

**Name, Age
and Position**

**Business Experience
During Past 5 Years**

Richard W. Martin, 41
Vice President and General
Manager, Americas and
Asia Group

Mr. Martin was employed by Fairchild Camera and Instrument Corporation (an electronics company) in a succession of management positions, the latest of which was Division Vice President-Transistor Division, from prior to 1974 until joining Memorex in March 1976 as General Manager of the Computer Tape Division. In October 1977 he was appointed to his present position.

Henry C. Montgomery,** 43
Vice President, Finance

Mr. Montgomery was employed as Vice President and Controller of Fairchild Camera and Instrument Corporation from prior to 1974 until he joined Memorex as Vice President, Finance in November 1974.

**Resigned position in February 1979

A. Keith Plant, 41
Vice President and General
Manager, General Systems
Group

Mr. Plant has been employed by Memorex since prior to 1974. Since employment, he has been promoted through a number of management positions. Immediately prior to his current position, to which he was appointed in October 1977, he was General Manager of the Small Systems Division.

Steven H. Puthuff, 38
Vice President,
Engineering

Mr. Puthuff was employed by Waretex Data Communications Systems (electronics communications and instrumentation) from prior to 1974 until September 1974. From September 1974 until April 1977 he was employed by Digital Development Corporation (fixed head disc systems). From prior to 1974 he had held a succession of engineering management positions. He joined Memorex in April 1977 and was appointed to his present position in October 1977.

James Simpson, 41
Vice President and General
Manager, Computer Media
Group

Mr. Simpson has been employed by Memorex from prior to 1974. Since employment, he has been promoted through a succession of management positions, and in July 1976 was named Vice President, Operations Support for the EUMEA Group. In September 1977 he was appointed to his current position.

F. Gordon Smith, 59
Vice President,
Marketing

Mr. Smith served as Vice President and General Manager of Singer Business Machines International (business machines and data processing systems) from prior to 1974 until 1976. He then became Senior Vice President, Marketing for Information Services Corporation (a specialized software package organization) until December 1978. He then joined Memorex Corporation as Vice President, Marketing.

Charles E. Splaine, 40
Vice President, Field
Operations Group

Mr. Splaine has been employed by Memorex from prior to 1974. Since employment, he has been promoted through a succession of management positions, and in January 1977 was named Vice President, Sales of the Equipment Products Group. In November 1977, he was appointed to his present position.

Robert G. Coe, 37
Treasurer

Mr. Coe was employed by Syntex (pharmaceuticals) as Director of Banking and Investments from prior to 1974 until December 1976 when he joined Memorex as Treasurer.

William M. George, 41
Controller

Mr. George was employed by General Electric (a multi-industry company dealing in electronics products) in a succession of financial management positions from prior to 1974 until March 1977 when he joined Memorex as Controller.

ITEM 11. Indemnification of Directors and Officers

Under Section 317 of the California Corporations Code, the Board of Directors may authorize a corporation to indemnify any present or former director, officer, employee or other agent of the corporation who is made a party or is threatened to be made a party, to any proceeding by a third party by reason of the fact that such person was an agent of the corporation. Such indemnification may include payment of expenses, judgment, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding. Indemnification can be made only if the agent acted in good faith and in a manner he believed to be in the best interests of the corporation. In criminal cases, the indemnified person must also have had no reasonable ground to believe his conduct was unlawful.

In actions brought, or threatened, in the name of the corporation, the Board of Directors may indemnify against expenses actually and reasonably incurred in connection with the defense or settlement of the action, subject to the additional requirements that the persons have acted with reasonable care, have not been adjudged liable to the corporation (except under certain circumstances) and the action is settled or otherwise disposed of with court approval.

To the extent any such person is successful in defending any such action, whether or not brought by or in the name of the corporation, the corporation is obligated to indemnify him against expenses actually and reasonably incurred in connection therewith.

Article 10 of the Company's By-Laws provides that the Company shall indemnify and hold harmless each "agent" of the Company, as the term "agent" is defined in Section 317(a) of the California General Corporation Law, from and against any expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any "proceeding" (as defined in said Section 317(a)) to the full extent permitted by applicable law. The Company shall advance to its agents expenses incurred in defending any proceeding prior to the final disposition thereof to the full extent and in the manner permitted by applicable law.

The Company currently carries directors' and officers' indemnification insurance in the amount of \$20,000,000.

ITEM 12. Financial Statements, Exhibits Filed and Reports on Form 8-K**(a) 1. Consolidated Financial Statements:**

The consolidated financial statements, including supplementary financial information and supporting consolidated schedules, are listed in the Index to Consolidated Financial Statements filed as part of this annual report.

2. Exhibits:

I—Basis of Computations of Net Income (Loss) Per Common Share and Equivalents

(b) No reports on Form 8-K were filed for the three months ended December 29, 1978.**PART II**

Pursuant to General Instruction H of Form 10-K, items 13 through 15 are omitted. Reference is made to the proxy materials for the 1979 Annual Meeting of Shareholders.

Instruction responses and items omitted herein have been omitted because the information requested is either not applicable or is included in either the proxy materials, the consolidated financial statements or the exhibits thereto.

* * * * *

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEMOREX CORPORATION (Registrant)

By: (s) William M. George

William M. George, Controller

MEMOREX CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
(ITEM 12(a))

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Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

Individual financial statements of the Company are omitted because it is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed in the aggregate do not have minority equity interests and/or indebtedness to any person other than the parent or its consolidated subsidiaries in amounts which together exceed 5% of the total consolidated assets at the date of the latest balance sheet filed excepting indebtedness incurred in the ordinary course of business which is not overdue and which matures within one year from the date of its creation, whether evidenced by securities or not, and indebtedness which is collateralized by the parent by guarantee, pledge, assignment or otherwise.

The consolidated financial statements listed in the above index which are included in the 1978 Financial Report (pages 35 through 47) are hereby incorporated by reference. With the exception of the items listed above and in Item 2, Summary of Operations, the 1978 Financial Report is not to be deemed filed as part of this report.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors
of Memorex Corporation:

We have examined the consolidated balance sheets of Memorex Corporation and subsidiaries as of December 29, 1978 and December 31, 1977 and the related consolidated statements of income, changes in financial position and shareholders' equity for the years then ended and have issued our report thereon dated January 19, 1979, which is included in the Company's 1978 Financial Report and incorporated herein by reference. Our examinations also comprehended the supplementary financial information, excluding the unaudited estimated replacement cost information, and the consolidated schedules of Memorex Corporation for the years ended December 29, 1978 and December 31, 1977 as listed in the accompanying index to consolidated financial statements included in Item 12(a). In our opinion, such supplementary financial information and consolidated schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

San Francisco, California
January 19, 1979

Deloitte Haskins & Sells

MEMOREX CORPORATION

SUPPLEMENTARY FINANCIAL INFORMATION

December 29, 1978 and December 31, 1977

Pension Plan

On the basis of the most recent actuarial valuation of the Company's non-contributory pension plan, vested benefits were fully provided for and past service costs which have not been funded or otherwise provided for amounted to approximately \$6,700,000 and \$6,000,000 as of January 1, 1978 and 1979, respectively.

Inventories and Rental Equipment and Spare Parts

Cost of inventories and rental equipment and spare parts includes material, labor and overhead. Inventories and rental equipment and spare parts used in determining amounts charged to cost of sales or cost of rental and service were \$235,858,000, \$149,759,000 and \$113,642,000 at December 29, 1978 and December 31, 1977 and 1976, respectively.

Property, Plant and Equipment

Capital additions, improvements and major renewals or betterments are capitalized as property, plant and equipment. Maintenance, repairs and minor renewals or betterments are charged to expense as incurred. Any gain or loss on disposition of property is credited or charged to income and the asset cost and accumulated depreciation are removed from the accounts.

Stock Options

At December 29, 1978 and December 31, 1977 there were outstanding options to purchase the Company's Common Stock, granted (under the 1973, 1974 and 1976 stock option plans) to key employees, as follows:

Year of Grant	Option Price Per Share	1978		1977	
		Number of Shares	Total Market Value*	Number of Shares	Total Market Value*
1973	\$1.45 - 4.50	—	\$ —	22,745	\$ 85,375
1974	2.56 - 4.31	9,884	31,560	99,435	324,902
1975	2.06 - 9.06	22,148	127,631	69,841	401,808
1976	15.06 - 31.06	37,782	897,377	53,224	1,233,964
1977	24.75 - 27.81	133,700	3,538,300	179,750	4,713,393
1978	27.00 - 56.62	140,500	5,377,156	—	—
TOTAL		<u>344,014</u>	<u>\$9,972,024</u>	<u>424,995</u>	<u>\$6,759,442</u>

* At date of grant

Options became exercisable and were exercised during 1978 and 1977 as follows:

	Number of Shares	Option Price		Market Value at Date Exercisable or Exercised	
		Per Share	Total	Per Share	Total
Became Exercisable:					
1978	74,226	\$2.06 - 31.06	\$1,374,342	\$27.75 - 55.87	\$2,584,417
1977	67,154	1.45 - 31.06	639,540	24.00 - 32.38	1,939,960
Exercised:					
1978	173,454	\$2.06 - 31.06	\$1,140,787	\$26.50 - 57.75	\$5,832,349
1977	95,241	1.45 - 27.31	418,871	23.50 - 34.00	2,530,145

The net proceeds from sale of common stock at the time the options are exercised are added to the common stock and additional capital accounts.

Income Taxes

Based on currently anticipated operations, cash outlays for 1979, 1980 and 1981 Federal income taxes are not expected to exceed the provisions for such taxes in those years.

Accrued Liabilities

	1978	1977
	(Thousands)	
Payroll	\$20,257	\$12,269
Taxes	4,925	3,728
Interest	3,694	938
Warranty reserves	1,582	1,511
Minority interest in consolidated subsidiary	2,967	1,515
Other	20,885	11,101
	<u>\$54,310</u>	<u>\$31,062</u>

Estimated Replacement Cost Information (Unaudited)

The replacement cost information presented in this section of the financial statements is furnished pursuant to Rule 3-17 of Regulation S-X, which was adopted by the Securities and Exchange Commission in Accounting Series Release No. 190.

Basic Assumptions

The Company has considered its replacement plans in order to identify and exclude those assets that are not expected to be replaced, which in general consist of inventories and rental equipment and spare parts of products not currently manufactured. Certain changes in productive technology are considered in such hypothetical plans to determine both the type and extent of assets required to replace existing productive capacity. Wherever possible, these technological improvements have been incorporated in the estimates. Management cannot, and does not, intend to replace the Company's entire productive capacity at this or any other time, nor are the replacement cost data indicative of any actual replacement programs, because such programs would be dependent on future events and circumstances. Accordingly, such hypothetical plans are not as complete as would be necessary for management decisions if actual replacement were imminent, but they indicate management's best judgment as to the general type of assets that would be used if replacement were to be made currently.

Tabulation of Replacement Cost Estimates

	Estimated Replacement Cost		Comparable Historical Amount	
	1978	1977	1978	1977
	(Millions)			
<i>At December</i>				
Inventories	\$143	\$ 85	\$144	\$ 85
Rental Equipment & Spare Parts	\$165	\$141	\$165	\$149
Less: Accumulated Depreciation	73	80	73	85
Net	<u>\$ 92</u>	<u>\$ 61</u>	<u>\$ 92</u>	<u>\$ 64</u>
Productive Capacity:				
Plant & Equipment	\$178	\$158	\$137	\$104
Less: Accumulated Depreciation	70	75	58	50
Net	<u>\$108</u>	<u>\$ 83</u>	<u>\$ 79</u>	<u>\$ 54</u>
<i>For the years ended December</i>				
Cost of Sales	<u>\$286</u>	<u>\$190</u>	<u>\$287</u>	<u>\$197</u>
Cost of Rental & Service	<u>\$ 97</u>	<u>\$ 61</u>	<u>\$ 97</u>	<u>\$ 62</u>
Depreciation:				
Included in Cost of Sales	\$ 9	\$ 8	\$ 7	\$ 6
Included in Cost of Rental and Service	28	18	28	19
Included in Other Operating Expenses	7	3	5	2
	<u>\$ 44</u>	<u>\$ 29</u>	<u>\$ 40</u>	<u>\$ 27</u>

Estimation Methods Used and Estimated Impact on Costs and Operations

Costs. The estimated replacement costs of inventories and rental equipment and spare parts are based on revised standard costs which approximate current material costs as well as current labor and overhead rates. All replacement cost amounts related to foreign assets were translated into U.S. dollars at exchange rates in effect at year-end. Products not currently manufactured are excluded from estimated replacement cost. Although they are not currently manufactured, these products continue to generate revenues for the Company. The estimated replacement cost of equipment inventories is estimated to be lower than historical cost principally due to improved technology in semiconductor components and increased capacity utilization, partially offset by higher estimated replacement cost of media inventories principally due to the effect of inflation on raw material purchases. The estimated replacement cost of rental equipment and spare parts also reflects improved technology in semiconductor components and increased capacity utilization offset by the effect of inflation on raw material purchases.

The estimated replacement cost of productive capacity is determined as follows:

- (1) The replacement cost of equipment (including furniture and fixtures) is estimated on the basis of applicable commodity price indices.
- (2) The replacement cost of buildings is estimated from current construction costs for similar facilities with equivalent square footage. The portion of the Company's facilities which is rented under a capitalized financing lease is included in the determination of the replacement cost of productive capacity.
- (3) Land and construction in progress are excluded from estimated replacement cost.

MEMOREX CORPORATION RECONCILIATION OF AMOUNTS FOR WHICH REPLACEMENT COST ESTIMATES ARE PROVIDED TO THOSE REPORTED IN THE CONSOLIDATED FINANCIAL STATEMENTS December 29, 1978 and December 31, 1977

At December	Rental Equipment and Spare Parts						Property, Plant and Equipment				Capital Lease			
	Inventories		Cost		Accum. Depreciation		Cost		Accum. Depreciation		Cost *		Accum. Depreciation	
	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977
Historical amounts for which replacement cost data are provided	\$144	\$85	\$165	\$149	\$ (73)	\$(85)	\$122	\$ 89	\$(55)	\$(47)	\$15	\$15	\$(3)	\$(3)
Products not currently manufactured:														
Cost	2	2	28	14										
Less: reserves and accumulated depreciation	(2)	(2)			(28)	(14)								
Land							7	7						
Construction in Progress							6	12						
Subtotal	144	85	193	163	\$(101)	\$(99)	135	108	\$(55)	\$(47)	15	15	\$(3)	\$(3)
Less: accumulated depreciation			(101)	(99)			(55)	(47)			(3)	(3)		
Total as reported on the accompanying consolidated balance sheet	\$144	\$85	\$ 92	\$ 64			\$ 80	\$ 61			\$12	\$12		

*Present value of future rentals as determined at inception of the lease.

MEMOREX CORPORATION

SCHEDULE II

**CONSOLIDATED AMOUNTS RECEIVABLE FROM UNDERWRITERS,
PROMOTERS, DIRECTORS, OFFICERS, EMPLOYEES
AND PRINCIPAL SECURITY HOLDERS**

December 29, 1978

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>	<u>COLUMN E</u>	
	<u>Balance at Beginning of Period</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Period</u>	
				<u>Current</u>	<u>Non- Current</u>
		(Thousands)			
Employees ⁽¹⁾ (non officers) ...	—	\$ 130	—	\$ 30	\$ 100

⁽¹⁾The Company had extended to strategic employees a few interest-free loans which are to be partially forgiven for each successive year of the employee's continued employment over a designated term of employment.

MEMOREX CORPORATION

SCHEDULE V

CONSOLIDATED PROPERTY, PLANT AND EQUIPMENT, CAPITAL LEASE AND RENTAL EQUIPMENT AND SPARE PARTS

For the Years Ended December 29, 1978 and December 31, 1977

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>	<u>COLUMN E</u>	<u>COLUMN F</u>
<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes - Add (Deduct)</u>	<u>Balance at End of Period</u>
(Thousands)					
Year Ended December 31, 1977:					
Land	\$ 5,849	\$ 772	\$ —	\$ 100	\$ 6,721
Buildings and improvements	20,211	1,382	144	856	22,305
Machinery and equipment	47,171	14,645	4,006	1,969	59,779
Furniture and fixtures	5,525	1,198	171	347	6,899
Construction-in-progress	7,171	5,020 ⁽⁴⁾	426	—	11,765
Total	<u>\$ 85,927</u>	<u>\$ 23,017</u>	<u>\$ 4,747</u>	<u>\$ 3,272⁽²⁾</u>	<u>\$107,469</u>
Capital Lease	<u>\$ 15,205</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,205</u>
Rental equipment and spare parts	<u>\$172,183</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (8,956)⁽¹⁾</u>	<u>\$163,227</u>
Year Ended December 29, 1978:					
Land	\$ 6,721	\$ —	\$ 275	\$ —	\$ 6,446
Buildings and improvements	22,305	11,403	144	353	33,917
Machinery and equipment	59,779	21,439	3,812	2,055	79,461
Furniture and fixtures	6,899	1,969	461	—	8,407
Construction-in-progress	11,765	(5,226) ⁽⁴⁾	—	—	6,539
Total	<u>\$107,469</u>	<u>\$ 29,585</u>	<u>\$ 4,692</u>	<u>\$ 2,408⁽³⁾</u>	<u>\$134,770</u>
Capital Lease	<u>\$ 15,205</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,205</u>
Rental equipment and spare parts	<u>\$163,227</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,708⁽¹⁾</u>	<u>\$192,935</u>

(1) Represents the net change for rental equipment and spare parts. Because the Company routinely sells products which have been capitalized, it is impracticable to report all addition and deletion activities. The Company increased its rental equipment and spare parts through business acquisitions by \$16,030,000 in 1978 and \$4,500,000 in 1977. Additionally, during 1978 and 1977, certain classes of fully depreciated equipment with an original cost of \$3,100,000 and \$8,200,000, respectively, which no longer have economic value, were removed from the accounts.

(2) Assets acquired through business acquisitions during 1977.

(3) Assets acquired in Telex Europe acquisition during 1978.

(4) Represents the net additions and capitalizations of construction-in-progress.

MEMOREX CORPORATION

SCHEDULE VI

**CONSOLIDATED ACCUMULATED DEPRECIATION
OF PROPERTY, PLANT AND EQUIPMENT, CAPITAL LEASE
AND RENTAL EQUIPMENT AND SPARE PARTS**

For the Years Ended December 29, 1978 and December 31, 1977

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>	<u>COLUMN E</u>	<u>COLUMN F</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other Changes - Add (Deduct)</u>	<u>Balance at End of Period</u>
			(Thousands)		
Year Ended December 31, 1977:					
Buildings and improvements	\$ 5,316	\$ 807	\$ 135	\$ 369	\$ 6,357
Machinery and equipment	33,507	6,101	3,682	561	36,487
Furniture and fixtures	3,467	633	68	52	4,084
Total	<u>\$ 42,290</u>	<u>\$ 7,541</u>	<u>\$ 3,885</u>	<u>\$ 982⁽²⁾</u>	<u>\$ 46,928</u>
Capital lease	<u>\$ 2,196</u>	<u>\$ 507</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,703</u>
Rental equipment and spare parts	<u>\$114,144</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$(15,361)⁽¹⁾</u>	<u>\$ 98,783</u>
Year Ended December 29, 1978:					
Buildings and improvements	\$ 6,357	\$ 1,397	\$ 144	\$ 76	\$ 7,686
Machinery and equipment	36,487	9,115	3,545	736	42,793
Furniture and fixtures	4,084	963	293	—	4,754
Total	<u>\$ 46,928</u>	<u>\$ 11,475</u>	<u>\$ 3,982</u>	<u>\$ 812⁽³⁾</u>	<u>\$ 55,233</u>
Capital lease	<u>\$ 2,703</u>	<u>\$ 507</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,210</u>
Rental equipment and spare parts	<u>\$ 98,783</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,173⁽¹⁾</u>	<u>\$100,956</u>

(1) Represents the net change for rental equipment and spare parts. Because the company routinely sells products which have been capitalized, it is impracticable to report all addition and deletion activities. Accumulated depreciation was increased as a result of rental equipment and spare parts obtained through business acquisitions by approximately \$5,360,000 in 1978 and \$1,680,000 in 1977. Depreciation expense charged against operations and relating to rental equipment and spare parts was \$27,813,000 and \$19,340,000 for 1978 and 1977, respectively. Additionally, during 1978 and 1977 certain classes of fully depreciated equipment with an original cost of \$3,100,000 and \$8,200,000, respectively, which no longer have economic value, were removed from the accounts.

(2) Accumulated depreciation on assets acquired through business acquisitions during 1977.

(3) Accumulated depreciation on assets acquired in Telex Europe acquisition during 1978.

MEMOREX CORPORATION

SCHEDULE XII

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended December 29, 1978 and December 31, 1977

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>	<u>COLUMN E</u>	<u>COLUMN F</u>
		<u>Additions</u>			
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
(Thousands)					
Year Ended December 31, 1977:					
Allowance for doubtful accounts	\$1,937	\$1,963	\$ —	\$1,295 ⁽¹⁾	\$2,605
Reserve for inventory obsolescence	5,209	1,779	227	1,526 ⁽²⁾	5,689
Product warranty reserve	1,668	2,335	81	2,573 ⁽³⁾	1,511
Year Ended December 29, 1978:					
Allowance for doubtful accounts	\$2,605	\$2,772	\$ 141	\$1,899 ⁽¹⁾	\$3,619
Reserve for inventory obsolescence	5,689	5,489	42	3,502 ⁽²⁾	7,718
Product warranty reserve	1,511	2,417	96	2,442 ⁽³⁾	1,582

(1) Deductions represent accounts receivable that were deemed uncollectible.

(2) Deductions represent obsolete inventory written off or disposed of.

(3) Deductions represent costs incident to customer warranty.

MEMOREX CORPORATION
SCHEDULE XVI
CONSOLIDATED SUPPLEMENTARY INCOME STATEMENT INFORMATION
For the Years Ended December 29, 1978 and December 31, 1977

ITEM*	Charged to Costs and Expenses	
	1978	1977
	(Thousands)	
Taxes other than income taxes:		
Payroll Taxes	\$19,979	\$11,886
Advertising Costs	\$ 7,969	\$ 6,075

*Items not scheduled are below 1% of consolidated revenues or are shown in the consolidated financial statements.

MEMOREX CORPORATION
EXHIBIT I
BASIS OF COMPUTATIONS OF NET INCOME (LOSS) PER
COMMON SHARE AND EQUIVALENT

The basis of computing net income (loss) per common share is described in the Consolidated Financial Statements.

The computation of the average number of common shares and equivalents (thousands of shares) is as follows:

	<u>Primary</u> <u>Fully Diluted</u>		<u>Primary</u> <u>Fully Diluted</u>		<u>Primary</u> <u>Fully Diluted</u>		<u>Primary</u> <u>Fully Diluted</u>		<u>1974</u>
	<u>1978</u>		<u>1977</u>		<u>1976</u>		<u>1975</u>		
Average number of common shares outstanding during the period	6,130	6,130	5,418	5,418	4,691	4,691	4,370	4,370	4,314
Average number of common share equivalents, resulting from assumed exercise of stock options and warrants computed on the treasury stock method and assumed conversion of the convertible subordinated debentures, outstanding during the period	<u>1,068</u>	<u>1,090</u>	<u>1,195</u>	<u>1,224</u>	<u>983</u>	<u>1,056</u>	<u>370</u>	<u>411</u>	<u>—</u>
Average number of common shares and equivalents	<u>7,198</u>	<u>7,220</u>	<u>6,613</u>	<u>6,642</u>	<u>5,674</u>	<u>5,747</u>	<u>4,740</u>	<u>4,781</u>	<u>4,314</u>

For 1974, the average number of common shares and equivalents was the same computed on both the primary and fully diluted basis.

For 1976, 1977 and 1978, dividend requirements on preferred stock (which commenced in 1976) were deducted from net income; interest expense, net of tax, applicable to Convertible Subordinated Debentures was added to net income in the computation of income per share amounts.

For 1974 through 1978, the computations of the proforma net income (loss) per common share reflect what the effect on net income (loss) per common share would have been had dividends been payable on the preferred stock at the maximum rates payable after 1980 as follows:

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
	<u>Thousands</u>				
Net Income (Loss)	\$50,197	\$55,963	\$39,755	\$17,636	\$(9,369)
Less Series "A" Preferred Stock dividend	2,796	798	634	—	—
Add interest expense, net of tax and extraordinary credit	<u>2,274</u>	<u>3,126</u>	<u>798</u>	<u>—</u>	<u>—</u>
Income (loss) available to common shareholders	49,675	58,291	39,919	17,636	(9,369)
Less increment to attain the proforma dividend for the year	<u>1,478</u>	<u>3,290</u>	<u>3,227</u>	<u>3,396</u>	<u>2,250</u>
Proforma income (loss) available to common shareholders	<u>\$48,197</u>	<u>\$55,001</u>	<u>\$36,692</u>	<u>\$14,240</u>	<u>\$(11,619)</u>

