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 28, 1979 | Commission file number 2-22922

MEMOREX CORPORATION

(Exact name of registrant as specified in its charter)

CALIFORNIA	94-1504607
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
SAN TOMAS AT CENTRAL EXPRESSWAY SANTA CLARA, CALIFORNIA	95052
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) 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

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

None

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 X 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 28, 1979
COMMON STOCK, $1 PAR VALUE	7,211,346 SHARES

ITEM 1. Business

General

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 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, word processing equipment, and audio and video recording devices. These systems and products are marketed and serviced by an extensive worldwide 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 and communications devices based on electromechanical and electronic technologies. These products include disc storage systems, communications controllers, terminals, semiconductor memory units, tape storage systems and printers. Media products, which are based on magnetic coating technologies, include computer tape, disc packs, flexible discs and audio and video tape products. Other products in the media category include precision plastics, toners, developers and typewriter ribbons.

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				
	1979	1978	1977	1976	1975
			(Thousands)		
REVENUES					
Equipment Products	$490,899	$424,726	$273,351	$210,370	$156,307
Media Products	246,862	208,540	176,761	134,263	107,687
Total	$737,761	$633,266	$450,112	$344,633	$263,994
OPERATING INCOME					
Equipment Products	$ 45,710	$ 77,775	$ 74,870	$ 60,930	$ 28,425
Media Products	26,911	17,003	15,641	11,624	4,807
General Corporate	(14,108)	(15,600)	(15,797)	(11,920)	*
Total	$ 58,513	$ 79,178	$ 74,714	$ 60,634	$ 33,232

* General Corporate expenses were allocated to product lines in 1975.

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

At year-end December 1979, 1978 and 1977, identifiable assets used in each of the segments were: equipment products—$407,515,000, $311,360,000 and $184,479,000, respectively; media products—$164,116,000, $138,621,000 and $114,307,000, respectively; and general corporate—$26,688,000, $37,668,000 and $31,470,000, respectively.

Over the last several months interest rates have increased dramatically in response to actions taken by the United States government to tighten credit and reduce inflation and it can be expected that the availability of credit will be adversely affected by these and other government actions. The Company expects that it will be affected by the high cost and reduced availability of credit in 1980, but it cannot presently predict the extent of the impact.

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 significant 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 via 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 54% of equipment revenues. Disc drives, disc drive controllers and disc packs, all of which are manufactured by the Company, 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 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 communcations controllers contribute approximately 16% of equipment revenues. The Company's communications controllers include hard-wired models, as well as the more advanced programmable models that offer additional capability needed for more sophisticated data communications networks.

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.

The Company also manufactures peripheral equipment for small business computers. Such equipment includes certain disc and tape storage drives, semiconductor memories, controllers and data entry equipment models.

Most of the materials and components used by the Company in the manufacture of 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 sudden loss of such a supplier could cause selected delays in shipments by the Company.

Leasing Activities

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 increased opportunities for equipment sales to third party lessors and OEM's. 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 lease base declined during the period 1975-1976, it increased during the period 1977-1979. At December 28, 1979, the gross book value of equipment subject to lease (including disc packs) totalled approximately $163.0 million and the net book value approximated $79.5 million.

Most leases with end-users take the form of either fixed-term leases under which the lessee is obligated to make payments over a term generally of 36 months or more, or cancellable leases, under which the lessee may terminate the lease upon relatively short notice. Leases sometimes include a purchase option permitting the customer to apply some portion of lease payments to a subsequent purchase. Most domestic leases are cancellable leases and most international leases are fixed-term. All fixed-term and cancellable leases included in the Company's lease base are accounted for as operating leases, under which rental revenues are recorded as earned.

Upon termination of an end-user 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 generally has 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 generally have declined over the equipment's life.

In the latter part of 1979 the off-rent portion of certain models of equipment, included primarily in the Company's domestic lease base, increased as a result of customer replacement with newer types of equipment procured either from the Company or its competitors. The same circumstance occurred in third party lessors' lease bases for which the Company normally has assumed remarketing responsibility. Most of this off-rent equipment in the Company's lease base has not been fully depreciated. Most of such equipment in third party lessors' lease bases has not yet generated the lessors' designated return on investment, and therefore the time at which the Company will be entitled to residuals on this equipment accordingly will be extended. In February 1980, the Company received an award from the General Services Administration of the United States Government which the Company expects will result in much of this off-rent equipment being rented or sold to government agencies. The contract with the General Services Administration runs for one year with two additional one year renewals. However, the contract may be terminated for the convenience of the government prior to expiration of its full term.

The Company's lease base also includes certain classes of fully depreciated equipment which continue to produce rental revenues. Such equipment at December 28, 1979 had an original cost of approximately $22 million. Because such equipment continues to produce rental revenues and because sales of fully or partially depreciated equipment generally have been made at prices in excess of net book value, the Company believes the economic value of its total lease base is currently greater than its net book value.

Most end-users of peripheral equipment lease rather than purchase their equipment. The effect of this practice is that a supplier must have sufficient cash to support the costs of developing, manufacturing and marketing its equipment while waiting for lease rentals to be received over a number of years to recover its investment. In recent years, this cash increasingly has been obtained from sales or assignments of equipment products and related lease agreements to unrelated third party lessors. These transactions qualify as sales for accounting purposes and aggregated approximately 18% and 21% of total revenues and 27% and 31% of equipment products revenues for the years ended December 28, 1979 and December 29, 1978, respectively. Transactions with one of these third party lessors, Lease Financing Corporation, accounted for approximately 7% and 12% of total revenues and 11% and 17% of equipment product revenues in 1979 and 1978, respectively.

Of transactions with third party lessors in 1979, approximately 48% related to equipment subject to cancellable leases and 52% related to equipment subject to fixed-term leases. Fixed-term leases of 36 months or longer involve less risk to the lessor than cancellable leases and, accordingly, financing is more readily available and on more favorable terms than is the case with cancellable leases. In the past, a number of third parties obtained insurance, primarily from Lloyds, against the interruption of rental payments under cancellable leases. Within the last year or so, a substantial number of claims have been made against these insurers, and the insurance is no longer available. Among other factors, this lack of insurance could impact the availability of financing for cancellable leases.

With respect to cancellable leases the Company has received commitments from third party lessors to finance equipment to be covered by such leases which it believes are sufficient to cover its financing requirements in 1980. In practice, however, most of these commitments are subject to the ability of the third party lessors to obtain bank or other financing to fund the transactions with the Company. The Company has been advised by these third party lessors that they expect adequate financing to be available in 1980. However, they presently have in place only a portion of the financing required to cover their commitments to the Company, and escalating interest rates and credit constraints could effect adversely the availability of funds to third party lessors.

A significant reduction in the availability of third party transactions on terms satisfactory to the Company could have a material adverse effect on the ability of the Company to finance its operations in the manner described above. In addition, if alternative forms of financing could be developed, there is no assurance that such alternative arrangements would permit the Company to report transactions as sales and record current earnings which is the Company's practice under existing arrangements.

Although most transactions with third party lessors have been structured as outright sales, some have been structured as non-recourse loans where the Company retains title to the equipment and grants a security interest in the equipment and underlying leases to the third party. In either case, with fixed-term leases the Company generally receives an amount equal to the present value of the aggregate rentals, agrees to perform maintenance for which it receives its normal charges, and in some cases, performs certain lease administration services. There is usually no remarketing obligation and, when there is, the Company typically is entitled to recover its costs. Under cancellable leases, the Company receives an amount equal to a multiple of the monthly rentals and agrees to perform certain services and obligations with respect to the equipment and related leases, such as general lease administration, invoicing and collection of rentals, maintenance of the equipment, payment of insurance and personal property taxes, and remarketing of equipment which comes off lease. For these services and obligations, the Company receives its normal maintenance charges and a remarketing and administration fee.

Virtually all of the agreements with third party lessors provide the Company with residual rights in revenues derived from the equipment after the third party lessor has received a designated return. In some cases the Company has the option to reacquire the equipment at a nominal cost, but in most transactions, the Company receives a percentage of residual revenues ranging from 65% to 90%. In those transactions structured as non-recourse loans, the Company is entitled to 100% of any residual revenues. The Company began to receive residual revenues in 1978 from some of the earlier third party lessor transactions. These revenues are reflected in results of operations as they are realized.

MEDIA PRODUCTS

The Company manufactures and markets, worldwide, magnetic storage media. Most of these products employ magnetic coating technologies developed by the Company and continuously improved since its founding in 1961.

The Company's magnetic tape products include computer tape, home video cassettes, audio tape for the consumer and professional recording markets and a line of video cassettes for the professional and industrial markets. The Company's audio tape products, which serve the higher quality segment of the in-home tape market, include both cassette and 8-track cartridge 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.

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

Most 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 may be a general tightening in the supply of petro-chemicals during 1980. The Company also anticipates that the prices of its petroleum based raw materials will significantly increase during 1980, 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 21 foreign countries, the Company markets and services its products internationally. International operations are carried on by foreign subsidiaries, all of which are essentially wholly-owned except one which is majority-owned. Operations are conducted worldwide and are grouped into 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. At facilities in Belgium, the Company performs light manufacturing operations on equipment and media products for distribution throughout Europe. The Company also maintains media product finishing and equipment refurbishing operations for the European market in England, Ireland 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 the percentage contribution to total revenues for the five years ended December 28, 1979:

	For the Year Ended December				
	1979	1978	1977	1976	1975
			(Thousands)		
Revenues from International Operations	$359,000	$285,000	$168,000	$136,000	$112,000
Percentage of Total Revenues	49%	45%	37%	39%	42%

Effective in 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.

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.

A summary of the operations and identifiable assets of the Company on a geographic basis at year-end December 1979, 1978 and 1977, and for the years then ended, follows:

	REVENUES			OPERATING INCOME		
	1979	1978	1977	1979	1978	1977
			(Thousands)			
United States	$552,183	$509,854	$370,210	$ 81,775	$107,658	$113,499
Europe, Middle East and Africa	279,150	217,049	126,102	21,882	16,050	4,000
Americas & Asia	79,351	68,226	42,088	9,137	11,977	4,700
General Corporate	-	-	-	(14,108)	(15,600)	(15,797)
Eliminations*	(172,923)	(161,863)	(88,288)	(40,173)	(40,907)	(31,688)
Total	$737,761	$633,266	$450,112	$ 58,513	$ 79,178	$ 74,714

	IDENTIFIABLE ASSETS		
	1979	1978 (Thousands)	1977
United States	$333,271	$256,967	$188,277
Europe, Middle East and Africa	203,610	169,203	102,197
Americas and Asia	66,746	59,492	37,386
General Corporate	26,688	37,668	31,470
Eliminations*	(31,996)	(35,681)	(29,074)
Total	$598,319	$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 3,500 people at December 28, 1979. 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 ".

In December 1978, the Company formed a subsidiary, Memorex Finance Company (MFC), which commenced active operations in 1979. MFC was formed for the purpose of financing end-user equipment leases. These leases are either operating or finance type leases as defined by Financial Accounting Standard No. 13 and cover both Memorex and other equipment manufacturers' products which are packaged under a common lease.

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 $28.3 million and $23.6 million in 1979 and 1978, respectively.

The Company directs its research and development efforts toward the development of new products in its primary business segments and toward the enhancement of existing products that will extend the value and operating life of existing customer-installed computer equipment. In the equipment businesses, focus is on the development and improvement of rotating magnetic memories and communications devices used with computer systems. In the media businesses, research and development efforts are directed toward improved methods of magnetic storage on both flexible and rigid media used in the operation of computer systems and toward improved magnetic storage applications in selected consumer markets.

In 1979 significant expenditures were made in the following areas:

The development of a double density version of the Company's 3650 disc drive which is sold to users of IBM computer systems; the development of a family of new eight inch disc drives for sale to OEM suppliers of small computer and word processing systems; the development of thin film technology for use in both equipment and media products; the further development of products and features such as the 3770 disc cache and the Intelligent Dual Interface which expand the capabilities and extend the lives of the Company's disc storage subsystems; the development of new terminal devices for use with IBM computer systems; the development of improved computer tape for use with high-performance tape drives and in geoseismic markets; and the development of new processes and techniques for the production of advanced rigid disc media.

Major new product introductions during 1979 included the 3652 double density disc drive, the 101 eight inch rigid disc drive, Cubic HD and GEO-XL computer tape, and the Memorex VHS home video cassette.

During the year, a new wholly-owned subsidiary, Memorex Mini Disc Drive Corporation, was formed to develop the new family of eight inch disc drives. As part of the Company's overall business plan to establish worldwide manufacturing and distribution capability for eight inch disc drive products, the Company contemplates entering joint ventures and licensing arrangements with certain foreign companies. Some of these ventures also contemplate minority equity participation by the foreign venture companies in Memorex Mini Disc Drive Corporation.

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 products 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, technical innovations 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.

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 continuing through a variety of actions 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 central processors. It also extends the lead time which IBM enjoys before the Company and others can introduce comparable competing products.

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 leading manufacturers of premium audio tape, computer tape and disc packs,where it faces numerous competitors.

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. With the introduction by IBM of so called "fixed" media, the replacement of media on many new disc drive models no longer is possible. 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 28, 1979, the Company had approximately 12,300 employees. The Company considers that its relations with its employees have been good. The Company has no collective bargaining agreements with respect to U.S. employees and has never experienced a 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's major domestic production facilities are located in areas where employee turnover rates are high and competition for those possessing key professional capabilities and technical skills is severe. The cost of living (particularly housing) in some of these areas also tends to be among the highest in the nation. The Company nonetheless believes that it will continue to be able to hire and retain the personnel necessary for its business for the foreseeable future. The Company may experience difficulty, however, in complying with the government's wage guidelines although it has pledged to use its best efforts to do so. If the Company should be unable to obtain exceptions to the wage guidelines where it may be necessary to do so in order to maintain the quality of its work force and if the government, as a result, were to cancel its commitment to obtain certain equipment from the Company, such cancellation could have a material adverse effect upon the Company's business.

ITEM 2. Summary of Operations

The Summary of Operations and Per Share Data for the five years ended December 28, 1979, along with Management's Discussion and Analysis of the Summary of Operations as required by Item 2, appear on pages 42 and 43 of the Company's 1979 Annual Report 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 28, 1979 and December 29, 1978, included in the 1979 Annual Report, the following supplementary data is provided to assist in an understanding of the Five-Year Summary of Operations.

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 credit for 1976 through 1978 relates to income tax benefits from utilizing loss carryforwards.

PER SHARE DATA—The proforma income 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. See Exhibit I (Basis of Computation of Net Income Per Common Share and Equivalents) for information on net income applicable to common stock.

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; Dublin, Ireland and Nogales, Mexico.

As of December 28, 1979, the Company's operations were conducted in owned and leased facilities as follows:

	Number of Square Feet	
	Owned	Leased
Santa Clara, California	661,000	1,050,000
Irvine, California	70,000	30,000
Cupertino, California	—	86,000
Anaheim, California	36,000	112,000
Santa Ana, California	—	46,000
Eau Claire, Wisconsin	44,000	12,000
Liege, Belgium	184,000	—
Dublin, Ireland	—	41,000
Nogales, Mexico	—	80,000
Sales and Service Centers and Warehouses in Principal Cities in the U.S. and Overseas	55,000	602,000
Total	1,050,000	2,059,000

Effective in 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 129 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, 42 acres in Plano, 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 experiencd 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
Memorex Pty. Ltd.	Australia
Mem-mex S.A. de C.V.	Mexico
Memorex S.A.	France
MRX Corporation of Delaware	Delaware
MRX International Corporation	California
Memorex Disc Corporation	California
Memorex Europe, Ltd.	Delaware
Memorex Puerto Rico, Inc.	Delaware
Memorex Finance Company	California
Memorex World Trade Corporation	Cayman Islands
Memorex Mini Disc Drive Corporation	California
Memorex Ribbon Corporation	Delaware
Memorex Home Video Corporation	Delaware
Telex Computer GmbH	West Germany
Telex Computers S.p.A.	Italy

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 and Memorex Finance Company (MFC) of which it owns approximately 84% of the outstanding common stock and 100% of the outstanding preferred stock. The Company has options to acquire the remaining 16% (minority interest) of the outstanding common stock of MFC through 1985. 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 Company accounts for its investment in MFC under the equity method. The names of certain subsidiaries, which in the aggregate would not constitute a significant subsidiary, are omitted.

ITEM 5. Litigation

In 1973 Memorex and cetain 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 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. On August 11, 1978 the court granted IBM's motion for a directed verdict. 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 ruling 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 write-off of assets. The trial court judgment entitles IBM to recover its own court costs. The court has determined this amount to be approximately $410,000, should final judgment be entered against the Company. Both the Company and IBM have agreed not to contest this amount.

The Company, its directors other than Mr. Spangle, the Company's independent accountants and certain present and former officers have been named as defendants in a purported class action filed in the United States District Court for the Northern District of California (McFarland v. Memorex Corporation, et al., Civil Action C 79-2007 WAI). The complaint alleges violations of the federal securities laws and state securities and common laws in connection with a public offering of the Company's Common Stock in August 1978. The underwriters and the selling warrantholders in the offering, including BankAmerica Foundation, also are named as defendants. The complaint alleges that in the public offering the defendants misrepresented the financial condition, net earnings, assets and net worth of the Company. The plaintiff seeks damages, including punitive damages in an unspecified amount under his common law claims or, in the alternative, rescission of the stock purchased in the offering. A similar purported class action filed in the United States District Court for the Eastern District of Pennsylvania (Haas v. Memorex Corporation, et al., Civil Action 79-3333) has been transferred to the United States District Court for the Northern District of California. The Company believes both lawsuits are without merit and intends to defend them vigorously. In one of the cases, the Court granted the Company's motion to dismiss the plaintiff's initial complaint but permitted the plaintiff to amend it. The amended complaint has been filed and the Company plans to file a motion seeking its dismissal. Similar motions in the other case have not yet been heard by the Court.

On November 27, 1979, a shareholder derivative action in the Santa Clara County, California, Superior Court against Mr. Robert C. Wilson, the Company's chairman and former chief executive officer, and the Company was dismissed with prejudice.

ITEM 6. Increases and Decreases in Outstanding Securities and Indebtedness

(a) Outstanding Securities

	Shares of Stock		Convertible Subordinated Debentures $5\frac{1}{4}\%$ Due 1990 (Thousands)
	Options	Common Stock* $1 Par Value	
Outstanding, December 29, 1978	344,014	7,030,969	$54,752
Granted	197,700		
Issued throughout 1979 upon exercise of stock options	(30,192)	30,192	
Issued October, 1979 under Tax Reduction Act Stock Ownership Plan (TRASOP)		18,268	
Employee share plan:			
Deduct amount accrued in 1978 for 1979 issuance		(69,000)	
Add:			
Amount issued in 1979 re: 1978 accrual		61,728	
Amount accrued in 1979 for 1980 issuance		139,189	
Terminated	(49,048)		
Purchased by Company during 1979 for an average price of approximately $718 for each $1,000 of principal			(4,176)
Outstanding, December 28, 1979	462,474	7,211,346	$50,576

*Net of treasury shares.

(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 $266,920 during 1979, and were used for general corporate purposes. $30,192 was credited to the Common Stock account and $236,728 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 $3,009,803. The stock was issued to the plans without registration in reliance of exemption under Section (4) (2) of the Securities Act of 1933 and also because the issuance of the shares did not involve a "sale" in accordance with Section (2) (3) of said act.

(b) Indebtedness

	Thousands of Dollars	
	Notes Payable To Banks	$7\frac{5}{8}\%$ Industrial Development Revenue Bonds
Outstanding, December 29, 1978	$ 19,341	$ —
Borrowings/Advances		
Quarter Ended March 30, 1979	9,700	
Quarter Ended June 29, 1979	17,767	6,000
Quarter Ended September 28, 1979	22,775	
Quarter Ended December 28, 1979	18,579	
Repayments		
Quarter Ended March 30, 1979	(3,078)	
Quarter Ended June 29, 1979	(13,388)	
Quarter Ended September 28, 1979	(7,010)	
Quarter Ended December 28, 1979	(5,007)	
Outstanding, December 28, 1979	$ 59,679	$ 6,000

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 Security Holders

Title of Class	Number of Record Holders (December 28, 1979)
Common Stock, $1 Par Value	20,261*
Convertible Subordinated Debentures, 5¼% Due April 1, 1990	1,971
Redeemable Preferred Stocks, $100 Par Value	
Series A	14
Series B	2
Stock Options	300

* Includes an estimated 9,500 holders whose stock is recorded in broker names.

ITEM 10. Submission of Matters to Vote of Security Holders—Previously reported.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions of all of the executive officers of the Company as of March 10, 1980 are listed below along with their business experience during the past five years. Executive officers are elected by and serve at the discretion of the Board of Directors. 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
Clarence W. Spangle*, 55 President and Chief Executive Officer	Mr. Spangle served as President of Honeywell Information Systems (computer operations) and as Executive Vice President and a Director of Honeywell, Inc. from prior to 1975 to February 1980. He became a Director, President and Chief Executive Officer of the Company effective March 1, 1980. Mr. Spangle is a Director of First Bank Systems, Inc., a bank holding company, and Gelco Corporation, a lessor of automobiles, trucks and equipment. Mr. Spangle has agreed to accept the Chairman position upon the retirement of Mr. Wilson sometime before September 1, 1980.
Robert C. Wilson*, 60 Chairman	Mr. Wilson has served as Chairman of the Board, Director, President and Chief Executive Officer of the Company from prior to 1975 to March 1, 1980. Effective March 1, 1980, Mr. Wilson resigned as President and Chief Executive Officer and retained the duties of Chairman of the Board and Director of the Company.
Charles S. Strauch*, 44 Executive Vice President	Mr. Strauch served in executive capacities with Gould Incorporated (electrical systems, instruments, controls and automotive products) from prior to 1975 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 the Company as Executive Vice President.

*Member, Office of the President.

Name, Age and Position	**Business Experience During Past 5 Years**
William T. Bayer, 48 Vice President of the Company and President, General Systems Group	Mr. Bayer served as Vice President, Engineering and Manufacturing with Honeywell Information Systems, Inc. (computer operations) from prior to 1975 to August 1975. From August 1975 to January 1977 he served as President of Magnetic Peripherals, Inc. (disc drives and related computer equipment) a joint venture between Control Data Corporation and Honeywell, Inc. He then served as Vice President, OEM Operations for Control Data Corporation (computer equipment and media) from January 1977 until March 1980 when he joined the Company as President, General Systems Group.
George L. Bragg, 47 Vice President, Corporate Development	Mr. Bragg has served as Vice President, Corporate Development since prior to 1975.
Reto Braun, 38 Vice President of the Company and President, Europe-Middle East-Africa Group	Mr. Braun was employed by the Company in European marketing management positions from prior to 1975 until April 1975 when he joined ITT Europe Inc. (telephone and telegraph communications) as Director of Marketing for Eastern Europe. He rejoined the Company from ITT in May 1976 and was appointed to his present position in December 1977.
Theodore J. Cutler, 38 Vice President of the Company and President, Consumer Products Group	Mr. Cutler has been employed by the Company since prior to 1975. Since employed by the Company he has been promoted through a succession of management positions. In June 1977 he was appointed to his present position.
Robert L. Erickson, 50 Vice President, Legal and Secretary	Mr. Erickson has been employed by the Company as Vice President, Legal and Secretary since prior to 1975.
Jack H. King, 46 Vice President of the Company and President, Computer Media Group	Mr. King was employed as General Manager of the Banking Division of University Computing Company (computer application software for financial industries) from prior to 1975 until joining the Company in October 1978 as General Manager of the Computer Tape Division. He was appointed to his present position in July 1979.
Walter B. Kurgas, 45 Vice President, Manufacturing	Mr. Kurgas served as Vice President, Manufacturing for G. D. Searle and Company (manufacturer of nuclear instruments for medical diagnostics) from prior to 1975 until January, 1978. In January, 1978 he joined A.M. International, Inc. (manufacturer of addressograph, multigraph and business machines) as Vice President, Operations for its A.M. Multigraphics Division; he served in that capacity until September 1978. He then served as General Manager of A.M. Addressograph, a division of A.M. International, Inc., until April 1979. Mr. Kurgas then joined the Company as Vice President, Manufacturing.
Robert L. Malcolm, 52 Vice President, Industrial Relations	Mr. Malcolm served as Staff Vice President, Western Region Personnel of Rockwell International Corporation (aerospace, electronics and automotive products) since prior to 1975 until May 1975. He then joined the Company as Vice President, Industrial Relations.
Richard W. Martin, 42 Vice President of the Company and President, Communications Group	Mr. Martin was employed by Fairchild Camera and Instrument Corporation (an electronics company) as Division Vice President-Transistor Division, from prior to 1975 until joining the Company in March 1976. Since employed by the Company he has been promoted through a succession of management positions. In May, 1979 he was appointed to his present position.

Name, Age and Position	**Business Experience During Past 5 Years**
Steven H. Puthuff, 39 Vice President, Engineering	Mr. Puthuff held a succession of engineering management positions with Digital Development Corporation (fixed head disc systems) from prior to 1975 until April 1977. He then joined the Company and was appointed to his present position in October 1977.
James Simpson, 42 Vice President of the Company and President, Large Storage Systems Group	Mr. Simpson has been employed by the Company since prior to 1975. Since employment, he has been promoted through a succession of senior management positions, and in September 1977 was named Vice President and General Manager of the Computer Media Group. In July 1979 he was promoted to his present position.
F. Gordon Smith, 60 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 1975 until 1976. He then became Senior Vice President, Marketing for Information Services Corporation (a specialized software package organization) until December 1978. He then joined the Company as Vice President, Marketing.
Charles E. Splaine, 41 Vice President of the Company and President, Field Operations Group	Mr. Splaine has been employed by the Company from prior to 1975. 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. Coo, 38 Treasurer	Mr. Coo was employed by Syntex (pharmaceuticals) as Director of Banking and Investments from prior to 1975 until December 1976 when he joined the Company as Treasurer.
Thomas S. Stevens, 36 Controller	Mr. Stevens has been employed by the Company from prior to 1975. Since employment, he has been promoted through a succession of management positions, and in July 1979 he was promoted to his present position. Mr. Stevens is also the acting chief financial officer of the Company.

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 Per Common Share and Equivalents.

II—Revolving Credit and Loan Agreement dated January 11, 1979 with nine banks, Bank of America, National Trust and Savings Association, Agent bank.

III—Credit Agreement with Bank of America National Trust and Savings Association dated December 28, 1979.

IV—Credit Agreement with First Pennsylvania Bank dated December 28, 1979.

V—City of Eau Claire, Wisconsin Industrial Development Revenue Bonds (Memorex Corporation Project) Series 1979 dated June 28, 1979.

(b) No reports on Form 8-K were filed for the three months ended December 28, 1979.

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 1980 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) Thomas S. Stevens

Date: March 25, 1980

Thomas S. Stevens, Controller

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

* Page References refer to page numbers in the separately printed 1979 Annual Report

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 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 and supplementary financial reporting and changing prices information listed in the above index which are included in the 1979 Annual Report (pages 28 through 41, 44 and 45) are hereby incorporated by reference. With the exception of the items listed above and in Item 2, Summary of Operations, the 1979 Annual Report is not to be deemed filed as part of this report.

REPORT OF INDEPENDENT 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 28, 1979 and December 29, 1978 and the related consolidated statements of income, common shareholders' equity and changes in financial position for the years then ended and have issued our report thereon dated January 25, 1980, which is included in the Company's 1979 Annual 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 28, 1979 and December 29, 1978 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 25, 1980

Deloitte Haskins & Sells

MEMOREX CORPORATION

SUPPLEMENTARY FINANCIAL INFORMATION
December 28, 1979 and December 29, 1978

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 $294,302,000, $235,858,000 and $149,759,000 at December 28, 1979, December 29, 1978 and December 31, 1977, 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. 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 28, 1979 and December 29, 1978, there were outstanding options to purchase the Company's Common Stock, granted (under the 1973, 1974, 1976 and 1979 stock option plans) to key employees, as follows:

		1979		1978	
Year of Grant	Option Price Per Share	Number of Shares	Total Market Value*	Number of Shares	Total Market Value*
1974	$ 2.75 - 4.31	—	$ —	9,884	$ 31,560
1975	2.06 - 8.94	8,197	46,147	22,148	127,631
1976	7.25 - 31.06	26,577	690,615	37,782	897,377
1977	24.75 - 27.81	115,000	3,039,906	133,700	3,538,300
1978	27.00 - 56.63	118,000	4,464,656	140,500	5,377,156
1979	20.25 - 38.13	194,700	5,778,131	—	—
Total		462,474	$14,019,455	344,014	$9,972,024

* At date of grant

Options became exercisable and were exercised during 1979 and 1978 as follows:

	Number of Shares	Option Price		Market Value at Date Exercisable or Exercised	
		Per Share	Total	Per Share	Total
Became Exercisable:					
1979	57,822	$7.25 - 56.63	$1,774,469	$18.75 - 38.25	$1,691,452
1978	74,226	2.06 - 31.06	1,374,342	27.75 - 55.87	2,584,417
Exercised:					
1979	30,192	$2.75 - 31.06	$ 266,920	$27.00 - 36.63	$ 948,063
1978	173,454	2.06 - 31.06	1,140,787	26.50 - 57.75	5,832,349

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 1980, 1981 and 1982 Federal income taxes are not expected to exceed the provisions for such taxes in those years.

Accrued Liabilities

	1979	1978
	(Thousands)	
Payroll	$24,346	$20,257
Taxes	6,443	4,925
Interest	3,714	3,694
Warranty reserves	2,076	1,582
Minority interest in consolidated subsidiaries	4,328	2.967
Other	23,253	20,884
	$64,160	$54,309

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	
	1979	1978	1979	1978
	(Millions)			
AT DECEMBER				
Inventories	$199	$143	$184	$144
Rental Equipment & Spare Parts	$223	$165	$204	$165
Less: Accumulated Depreciation	103	73	94	73
Net	$120	$ 92	$110	$ 92
Productive Capacity				
Plant & Equipment	$223	$178	$159	$137
Less: Accumulated Depreciation	98	70	70	58
Net	$125	$108	$ 89	$ 79
FOR THE YEARS ENDED DECEMBER				
Cost of Sales	$384	$286	$352	$287
Cost of Rental & Service	$131	$ 97	$123	$ 97
Depreciation:				
Included in Cost of Sales	$ 14	$ 9	$ 10	$ 7
Included in Cost of Rental and Service	35	28	32	28
Included in Other Operating Expenses	6	7	4	5
	$ 55	$ 44	$ 46	$ 40

Estimation Methods Used

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. 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 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.

RECONCILIATION OF AMOUNTS FOR WHICH REPLACEMENT COST ESTIMATES ARE PROVIDED TO THOSE REPORTED IN THE CONSOLIDATED FINANCIAL STATEMENTS
December 28, 1979 and December 29, 1978

	Inventories		Rental Equipment and Spare Parts — Cost		Rental Equipment and Spare Parts — Accumulated Depreciation		Property, Plant and Equipment — Cost		Property, Plant and Equipment — Accumulated Depr & Amort	
	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978
					(Millions)					
At December										
Historical amounts for which replacement cost data are provided	$ 184	$ 144	$ 204	$ 165	$ (94)	$ (73)	$ 159	$ 137	$ (70)	$ (58)
Products not currently manufactured:										
Cost	1	2	6	28						
Less: reserves and accumulated depreciation	(1)	(2)			(6)	(28)				
Land							9	7		
Construction in Progress							16	6		
Subtotal	184	144	210	193	$ 100	$(101)	184	150	$ (70)	$ (58)
Less: accumulated depreciation			(100)	(101)			(70)	(58)		
Total as reported on the accompanying consolidated balance sheet	$ 184	$ 144	$ 110	$ 92			$ 114	$ 92		

MEMOREX CORPORATION

SCHEDULE II
CONSOLIDATED AMOUNTS RECEIVABLE FROM UNDERWRITERS, PROMOTERS, DIRECTORS, OFFICERS, EMPLOYEES AND PRINCIPAL SECURITY HOLDERS
For the Years Ended December 28, 1979 and December 29, 1978

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	
	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period	
				Current	Non-Current
			(Thousands)		
Year Ended December 29, 1978:					
Employees[1] [3]	$ —	$ 130	$ —	$ 30	$ 100
Year Ended December 28, 1979:					
Employees[1]					
Charles Strauch [2]	$ —	$ 100	$ —	$ 20	$ 80
Others [3]	130	320	40	188	222
TOTAL	$ 130	$ 420	$ 40	$ 208	$ 302

(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.

(2) Officer

(3) Non Officers

MEMOREX CORPORATION

SCHEDULE V
CONSOLIDATED PROPERTY, PLANT AND EQUIPMENT, CAPITAL LEASE AND RENTAL EQUIPMENT AND SPARE PARTS
For the Years Ended December 28, 1979 and December 29, 1978

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes— Add (Deduct)	Balance at End of Period
			(Thousands)		
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)[3]	—	—	6,539
Total	$107,469	$ 29,585	$ 4,692	$ 2,408[2]	$134,770
Capital Lease	$ 15,205	$ —	$ —	$ —	$ 15,205
Rental equipment and spare parts	$163,227	$ —	$ —	$ 29,708[1]	$192,935
Year Ended December 28, 1979:					
Land	$ 6,446	$ 2,482	$ —	$ —	$ 8,928
Buildings and improvements	33,917	3,888	287	—	37,518
Machinery and equipment	79,461	19,631	2,313	—	96,779
Furniture and fixtures	8,407	2,547	360	—	10,594
Construction-in-progress	6,539	9,201[3]	—	—	15,740
Total	$134,770	$ 37,749	$ 2,960	$ —	$169,559
Capital Lease	$ 15,205	$ —	$ —	$ —	$ 15,205
Rental equipment and spare parts	$192,935	$ —	$ —	$ 17,729[1]	$210,664

(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. Additionally, during 1979 and 1978, certain classes of fully depreciated equipment with an original cost of $10,800,000 and $3,100,000 respectively, which no longer have economic value, were removed from the accounts.

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

(3) 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 28, 1979 and December 29, 1978

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Changes— Add (Deduct)	Balance at End of Period
			(Thousands)		
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	$ 46,928	$ 11,475	$ 3,982	$ 812[(2)]	$ 55,233
Capital lease	$ 2,703	$ 507	$ —	$ —	$ 3,210
Rental equipment and spare parts	$ 98,783	$ —	$ —	$ 2,173[(1)]	$100,956
Year Ended December 28, 1979:					
Buildings and improvements	$ 7,686	$ 2,145	$ 197	$ —	$ 9,634
Machinery and equipment	42,793	10,349	1,915	—	51,227
Furniture and fixtures	4,754	1,154	200		5,708
Total	$ 55,233	$ 13,684	$ 2,312	$ —	$ 66,569
Capital Lease	$ 3,210	$ 507	$ —	$ —	$ 3,717
Rental equipment and spare parts	$100,956	$ —	$ —	$ (464)[(1)]	$100,492

(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. Depreciation expense charged against operations and relating to rental equipment and spare parts was $32,017,000 and $27,813,000 for 1979 and 1978 respectively. Additionally, during 1979 and 1978, certain classes of fully depreciated equipment with an original cost of $10,800,000 and $3,100,000 respectively, which no longer have economic value, were removed from the accounts.

(2) 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 28, 1979 and December 29, 1978

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(Thousands)		
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
Year Ended December 28, 1979:					
Allowance for doubtful accounts	$ 3,619	$ 1,845	$ 121	$ 1,380(1)	$ 4,205
Reserve for inventory obsolescence	7,718	5,758	521	7,097(2)	6,900
Product warranty reserve	1,582	3,470	416	3,392(3)	2,076

(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 28, 1979 and December 29, 1978

ITEM*	Charged to Costs and Expenses 1979	1978
	(Thousands)	
Taxes other than income taxes:		
Payroll Taxes	$25,542	$19,979
Advertising Costs	$12,030	$ 7,969

*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 PER COMMON SHARE AND EQUIVALENT

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

The computations of the average number of common shares and equivalents (thousands of shares) are as follows:

	1979		1978		1977		1976		1975	
	Primary	Fully Diluted	Primary	Fully Diluted	Primary	Fully Diluted	Primary	Fully Diluted	Primary	Fully Diluted
Average number of common shares outstanding during the period	7,050	7,050	6,130	6,130	5,418	5,418	4,691	4,691	4,370	4,370
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	528	532	1,068	1,090	1,195	1,224	983	1,056	370	411
Average number of common shares and equivalents	7,578	7,582	7,198	7,220	6,613	6,642	5,674	5,747	4,740	4,781

For 1976 through 1979, dividend requirements on preferred stock (which commenced in 1976) were deducted from net income; interest expense, net of taxes, applicable to Convertible Subordinated Debentures was added to net income in the computation of income per share amounts.

The following computations of the proforma net income per common share reflect what the effect on net income per common share would have been had dividends been payable on the preferred stock at the maximum rates payable after 1980:

	1979	1978	1977	1976	1975
			(Thousands)		
Net Income	$31,544	$50,197	$55,963	$39,755	$17,636
Less Preferred Stock dividends	2,956	2,796	798	634	—
Net income applicable to common stock	28,588	47,401	55,165	39,121	17,636
Add interest expense on debentures, net of tax and related extraordinary credit	1,029	2,274	3,126	798	—
Less increment to attain the maximum proforma dividend for the year	1,318	1,478	3,290	3,227	3,396
Proforma income available to common shareholders	$28,299	$48,197	$55,001	$36,692	$14,240