

Memorex Corporation

\$12,000,000

....% Convertible Subordinated Debentures Due August 1, 1986
Convertible into Common Stock at \$.... Per Share

95,150 Shares
Common Stock
(\$1 Par Value)

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

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

The Debentures are redeemable at any time at prices set forth herein. The Debentures are entitled to a Sinking Fund beginning August 1, 1976, sufficient to retire 80% of the issue prior to maturity. Interest is payable February 1 and August 1. The Debentures are subordinate in right of payment to all Senior Indebtedness, as defined.

The shares of Common Stock offered hereby are outstanding shares which are being purchased by the Underwriters from certain shareholders named herein under Selling Shareholders. The Company will not receive any of the proceeds from the sale of these shares.

On August .., 1966, the reported high bid and low asked prices for the Common Stock in the over-the-counter market were and, respectively.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Corporation ^②	Proceeds to Selling Shareholders ^②
Debentures:				
Per Unit	% ^①	%	%	None
Total	\$ ^①	\$	\$	None
Common Stock:				
Per Share	\$	\$	None	\$
Total	\$	\$	None	\$

① Plus accrued interest from August 1, 1966 to date of delivery.

② Before deduction of expenses of the Corporation and the Selling Shareholders estimated at \$..... and \$..., respectively.

The Debentures and the Shares are offered by the Underwriters named herein subject to prior sale when and as delivered and accepted by them and subject to the approval of certain legal matters by counsel. It is expected that delivery of Debentures and stock certificates will be made on or about, 1966, at the office of Smith, Barney & Co. Incorporated, 120 Montgomery Street, San Francisco, California 94104.

Blyth & Co., Inc.

....., 1966

Smith, Barney & Co.

Incorporated

THE COMPUTER HISTORY MUSEUM



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

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE DEBENTURES AND THE COMMON STOCK OF THE COMPANY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

THE COMPANY

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

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

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

Although no reliable industry statistics are available, the Company estimates that the current annual rate of industry sales of precision tape products is somewhat greater than \$100 million. Growth of the industry in the last decade has been relatively high and has reflected the increasing use of magnetic tape recording equipment in the computer, instrumentation and television markets. There is no assurance that such growth will continue at the rates of recent years.

PURPOSE OF ISSUE

Since mid-1965, Memorex has significantly expanded its facilities and manufacturing capacity at Santa Clara through new construction and additions to property and equipment. Upon completion of additions now in progress, expected in late 1966, installed manufacturing capacity will be double that of mid-1965, and the Company's Santa Clara facilities will occupy 185,000 square feet as compared with 60,000 square feet in early 1965. The total cost of these additions will be approximately \$8 million, of which \$3 million had been expended at June 30, 1966, such funds having been obtained principally through bank loans, and approximately \$5 million will be expended during the remainder of 1966.

Of the net proceeds from the sale of the Debentures, estimated at \$....., approximately \$6 million will be applied to the repayment of all existing bank indebtedness, including indebtedness incurred in the Company's 1966 facilities expansion program. The Company expects that all of the balance will be expended in its 1966 expansion program, as discussed above.

DIVIDEND POLICY

The Company has not paid or declared any dividends since its organization. It is the Company's policy to retain earnings, since capital requirements are expected to be significant as its business continues to expand. Accordingly, the Company has no present intention to pay cash dividends on its Common Stock.

CONSOLIDATED STATEMENTS OF INCOME

The following consolidated statements of income of the Company and subsidiaries for the five years ended December 31, 1965, have been examined by Arthur Andersen & Co., independent public accountants, as set forth in their opinion included elsewhere in this Prospectus. The consolidated statements of income for the six-month periods ended June 30, 1965 and 1966 including the related notes, not examined by independent public accountants, reflect, in the opinion of the Company, all known adjustments necessary to present fairly the earnings for such periods. These statements should be read in conjunction with the financial statements and related notes included elsewhere in this Prospectus.

	Year Ended December 31,					Six Months Ended June 30, (Unaudited)	
	1961①	1962	1963	1964	1965	1965	1966
Net Sales	\$ —	\$ 475,340	\$ 3,486,263	\$ 8,041,881	\$ 13,098,835	\$ 5,815,572	\$ 10,581,752
Operating Costs and Expenses:							
Preproduction expenses	307,959	357,118	—	—	—	—	—
Cost of sales	—	497,233	2,181,360	4,678,970	7,751,303	3,494,919	5,764,813
Research and development.....	—	100,356	288,371	451,609	746,647	355,102	565,895
Marketing and advertising.....	—	130,094	365,707	570,966	1,029,658	487,756	878,939
General and administrative.....	—	36,179	122,525	259,876	678,493	296,787	708,712
Profit sharing expense.....	—	—	—	—	280,185	113,119	260,500
	307,959	1,120,980	2,957,963	5,961,421	10,486,286	4,747,683	8,178,859
Income (loss) from operations	(307,959)	(645,640)	528,300	2,080,460	2,612,549	1,067,889	2,402,893
Interest Expense	6,000	48,154	74,204	118,812	131,216	50,204	102,232
Net income (loss) before Federal and foreign income taxes	(313,959)	(693,794)	454,096	1,961,648	2,481,333	1,017,685	2,300,661
Provision for (Reduction of) Income Taxes:							
Federal	—	—	236,000	959,774②	1,117,219②	478,552	988,000②
Foreign	—	—	—	—	32,781	12,000	97,000
Reduction of Federal income tax arising from loss carryforward	—	—	(236,000)	(277,000)	—	—	—
	—	—	—	682,774	1,150,000	490,552	1,085,000
Net Income (Loss):							
After reduction of Federal income tax arising from loss carryforward	—	—	\$ 454,096	\$ 1,278,874	—	—	—
Before reduction of Federal income tax arising from loss carryforward	\$ (313,959)	\$ (693,794)	\$ 218,096	\$ 1,001,874	\$ 1,331,333	\$ 527,133	\$ 1,215,661
Net Income (Loss) Per Share④:							
After reduction of Federal income tax arising from loss carryforward	—	—	\$.48	\$ 1.33	—	—	—
Before reduction of Federal income tax arising from loss carryforward	\$ (.42)	\$ (.85)	\$.23②	\$ 1.04②	\$ 1.35	\$.54	\$ 1.21

See notes to consolidated statements of income on following page.

NOTES TO CONSOLIDATED STATEMENTS OF INCOME
(Including notes applicable to unaudited periods)

① The consolidated statement of income for the year ended December 31, 1961, includes the results of operations of the Company since its inception in February, 1961.

② The provision for Federal income taxes includes deferred taxes resulting from use of the straight-line method of depreciation for book purposes and the declining-balance method for tax purposes as follows: 1964—\$114,000; 1965—\$118,050; six months ended June 30, 1966—\$75,150.

The accumulated investment tax credit has been used to reduce accrued Federal income taxes otherwise payable on income for 1964, 1965 and the six months ended June 30, 1966. The charge equivalent to such credit has been classified in the consolidated statement of income as additional depreciation. This classification results in increases in the provision for depreciation included in cost of sales, and corresponding reductions in income before taxes and in the provision for Federal income taxes, with no change in net income, as follows: 1964—\$40,226; 1965—\$26,000; six months ended June 30, 1966—\$50,000.

③ The 6% Convertible Subordinated Promissory Notes in the principal amount of \$1,208,000 previously outstanding were converted on December 26, 1964, into 382,650 shares of the Company's common stock (after reflecting the thirty-for-one stock split approved by the shareholders and effected on December 31, 1964).

If the promissory notes had been originally issued as common stock, interest expense in both 1963 and 1964 would have been reduced by \$36,240 (net of applicable Federal income taxes). Net income per share (before reduction of Federal income taxes arising from loss carryforward) on this basis would have been \$.27 in 1963 and \$1.08 in 1964.

④ Net income (loss) per share has been computed on the basis of the average number of shares outstanding during each period, and gives effect retroactively to the conversion of the promissory notes and the thirty-for-one stock split in 1964. The average number of shares outstanding on this basis was:

	Number of Shares
Year Ended December 31,	
1961	750,000
1962	817,770
1963	955,650
1964	964,050
1965	987,590
Six Months Ended June 30,	
1965	982,756
1966	1,004,619

In the second half of 1966, the Company proposes to increase expenses for marketing, research and development activities, which increases are expected to result in a reduction in the ratio of net profit to sales compared to that experienced in the first half of the year.

CAPITALIZATION

The capitalization of the Company at June 30, 1966 and as adjusted to give effect to the sale of Debentures offered hereby and the application of a portion of the proceeds (see "Purpose of Issue") was as follows:

Title	Outstanding	To Be Outstanding
Bank Loans under various Loan Agreements①.....	\$5,185,513	\$ —
Other Indebtedness①	1,351,052	181,052
....% Convertible Subordinated Debentures due 1986.....	—	12,000,000
	<u><u>\$6,536,565</u></u>	<u><u>\$12,181,052</u></u>
 Common Stock (\$1 par value), 5,000,000 Shares		
Authorized②	1,006,641 Shares	1,006,641 Shares

① See Consolidated Financial Statements for further information concerning the Company's indebtedness.

② Includes 89,875 shares initially reserved for issuance upon exercise of options under the Company's stock option plans (see "Employees Stock Option Plans") and shares initially reserved for issuance upon conversion of the Debentures offered hereby.

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

MARKET PRICE RANGE OF COMMON STOCK

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

Period	High Bid	Low Bid
1965:		
First Quarter (from March 3).....	33	29½
Second Quarter	37½	23½
Third Quarter	29¼	23¾
Fourth Quarter	33½	25
1966:		
First Quarter	44½	30¾
Second Quarter	54¾	42
Third Quarter (through July 15).....	58	52½

On July 15, 1966, the reported high bid and low asked prices for the Common Stock were 56½ and 56¾, respectively.

DESCRIPTION OF BUSINESS

Markets and Customers

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

Memorex's sales of precision tape for use in computers and other digital and analog data recording systems amounted to 87% of its total sales volume during the first six months of 1966. About 95% of sales in 1965 and substantially all sales prior to 1965 were in this category. Sales for use in television recording amounted to 13% of total sales volume during the first six months of 1966 and about 5% in 1965. The increase in the relative amount of sales of television recording tape during 1966 reflects the successful introduction by the Company of a commercial broadcasting television tape in late 1965. Of sales during the first six months of 1966, 29% were sales to civilian, space and defense agencies of the United States Government, 17% to manufacturers of digital and analog data processing equipment, and 54% to several hundred industrial and commercial businesses, banks, insurance companies, educational and scientific institutions. In 1965 the breakdown was 32%, 16%, and 52%, respectively. No single customer accounted for more than 7% of total sales during the first six months of 1966. Included in the 1965 sales to government agencies were sales to the National Aeronautics and Space Administration (NASA) which amounted to 13% of total sales. No other customer accounted for more than 7% of sales during 1965.

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

At June 30, 1966, the Company's backlog of unfilled orders was approximately \$3,400,000, compared with \$1,100,000 a year earlier. Orders received are normally cancellable without significant penalty to customers, but the incidence of cancellations has been negligible. Most users of precision tape tend to order supplies for relatively short term usage. Others contract with suppliers to provide annual requirements to obtain volume price discounts and place orders for deliveries from time to time against the contracts. Extended future commitments are not common in the industry because, among other reasons, customers are assured delivery of their requirements within days after orders are placed. Hence, the Company's backlog of unfilled orders at any given time does not reflect the total amount of immediate future business which it may expect to enjoy.

Marketing Activities

In the United States Memorex markets its products primarily through its own direct sales organization. Sales engineers with experience in precision tape applications are located in 15 strategic market centers. Liaison between customers and quality control and product development personnel in Santa Clara is also performed by the Company's Customer Technical Service organization composed of engineers and scientists.

International marketing activities were initiated by the Company in the latter half of 1964. Sales to customers abroad represent about 13% of total sales in 1965 and about 20% of total sales in the first six months of 1966. More than three-quarters of these sales were made in Europe by the Company's subsidiaries and affiliates and the balance principally in Canada, Mexico, Japan, and Australia by distributors.

Product Prices

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

In recent years, prices in precision tape markets have generally declined. To counter this industry trend, Memorex has succeeded in selling an increasing proportion of higher priced products. The Company can make no meaningful representation regarding the future course of industry price levels or its ability to cope with possible adverse price trends. It believes that its opportunity to command relatively high prices, such

as it has enjoyed to date, will be dependent upon the future success of its product improvement and research activities.

Competition

The precision tape manufacturing industry in the United States is comprised of seven major companies each of whose annual production is estimated to exceed two million dollars and several small companies whose aggregate output approximates that amount. The absence of reliable statistics makes it difficult to state Memorex's relative position, but the Company believes that its current volume of precision tape production is substantially exceeded by only one competitor.

Of the six other major producers in the U. S., three possess substantially greater financial resources, facilities and personnel than the Company. There are no foreign manufacturers of precision magnetic tape in significant volume.

Memorex has not sold its product to IBM, whose purchases of precision tape for resale to users of its systems establish it as the tape industry's largest customer, as well as the principal seller of tape to computer users. The Company has no statistical or other basis which would enable it to make a meaningful statement regarding the extent to which users of IBM systems are also supplied by Memorex or other tape manufacturers and distributors. Tape customers commonly operate data processing equipment of more than one system maker and information is not readily available regarding the specific use of their tape purchases. The Company's product is compatible for use on substantially all of the major makes and types of digital and analog recording and computing systems in general use.

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

Research Activities

Memorex engages in an extensive research and development program which is intended to maintain and improve the technological position of existing products and to develop new products. The level of these activities has increased substantially during each year of the Company's operations. Activities include development of new chemical formulations, investigations in the use of alternate raw materials, and modifications in design of manufacturing processes and equipment. These activities involve the work of polymer

chemists, physicists, chemical process engineers, electrical and mechanical engineers, and tape recording specialists. There are 37 of these employees devoting their full time to research and development and there are 47 other employees devoting not less than three-fourths of their time to these research and development activities.

Apart from a research contract recently awarded to the Company by the National Aeronautics and Space Administration (NASA) involving a proposed expenditure of \$350,000 during the next two years, the Company has never received any government financial support for its research and development activities. All of its chemical formulations, process designs, and manufacturing equipment designs have been developed solely at Memorex's expense.

Disc Pack Corporation

Disc Pack Corporation, a California corporation, was founded in late 1965 to engage in research and development of manufacturing processes related to magnetic coated disc packs. Disc packs are used in computers for random access memory media, which are complementary to the mass data storage media provided by magnetic tape.

In March 1966, Memorex purchased a 40% interest in Disc Pack Corporation for \$60,000 cash. Concurrently, Memorex agreed to provide Disc Pack Corporation with a magnetic oxide coating material suitable for disc pack production and to purchase from Disc Pack Corporation certain designs, manufacturing process equipments and disc pack devices. As of June 30, 1966, Memorex's purchase obligations to Disc Pack Corporation under these agreements aggregated \$1.2 million. Concurrently, Memorex also acquired an option, expiring December 31, 1966, from the other Disc Pack Corporation shareholders to acquire 100% of their holdings of capital stock of that company in exchange for 15,000 shares of Memorex Common Stock.

To date development work by Memorex relating to the magnetic oxide coating material and by Disc Pack Corporation relating to disc pack processing equipments has progressed according to plan, but success of the development work is still uncertain.

Patents and Trade Secrets

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

A patent was issued to a competitor in 1964 covering the use of two chemical raw materials in a magnetic tape formulation similar to materials which have been used by Memorex. In the opinion of the Company's patent counsel, the claims of the patent are invalid and unenforceable, and, as a consequence, the Company has not accepted an offer to a license under the patent. While the Company has at no time been charged with infringement or threatened with litigation, it desires to eliminate any possible contingent liability and is currently engaged in negotiations with the patent holder for this purpose. The amounts being considered in such negotiations are not deemed material.

Manufacturing Operations

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

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

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

Properties

Memorex's principal offices, laboratories and production facilities are located at 1180 Shulman Avenue, Santa Clara, California, 50 miles south of San Francisco.

Substantially all Santa Clara operations are conducted in modern buildings of approximately 165,000 square feet situated on a 26 acre site. The buildings are air-conditioned and fully sprinklered and contain extensive specially designed improvements. Title to the land and buildings is owned in fee by the Company subject to a loan secured by a deed of trust (see Note 5 to Consolidated Financial Statements), except for a small parcel of approximately one-half acre and a 10,000 square foot building situated thereon which are occupied under lease. The Company has undertaken a program for the construction of additional buildings of approximately 20,000 square feet on its Santa Clara plant site, to be completed in late 1966.

Manufacturing equipment consists of chemical processing, mechanical and electronic equipment, including ultra-sonic film cleaning baths, magnetic oxide dispersing machines, film coating equipment, drying and curing ovens, coating surface treating equipment, film web slitters, and chemical analysis and automated control equipment. Substantially all manufacturing equipment is special purpose in character and designed for the Company's use.

Research, experimental, and quality control equipment consists of chemical and electronic laboratory and test equipment, much of which is specially adapted for precision tape research and development, and diverse magnetic tape recording equipment.

In addition to its Santa Clara properties, a building of approximately 20,000 square feet is leased in Los Angeles, California, by a wholly-owned subsidiary, Comdata Corporation. This subsidiary is engaged in metal working operations for the manufacture of reels and components for the Company's magnetic tape products.

Total fixed assets owned by the Company at June 30, 1966 had an aggregate original cost of \$8,070,083, and cost net of depreciation reserves of \$6,892,561. In addition, the Company leases certain manufacturing and research equipment having an aggregate original cost of \$454,086 under lease expiring 1972 at a monthly rental of \$9,596.

Employees

At July 1, 1966, the Company employed 701 people. Of this number 364 were hourly-waged production employees, 128 were professional personnel and technicians engaged in engineering, research and other techni-

cal activities, 61 were marketing employees, and 148 were other management, administrative, maintenance and clerical employees.

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

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

MANAGEMENT

Directors and Officers

The directors and officers of the Company are as follows:

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

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

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

Mr. Lindsay has been employed by the Company since January 1962 and was elected Vice President in July 1965. Prior thereto he was employed by Cutter Laboratories, Inc.

Mr. Seaman has been employed by the Company since December 1961 and was elected Vice President in August 1963. Prior thereto he was employed by Minnesota Mining and Manufacturing Company.

Mr. Sheppard has been employed by the Company since February 1963 and was elected Treasurer in November 1965. Prior thereto he was employed by Palomar Scientific Corporation and Ampex Corporation.

Remuneration of Directors and Officers

The direct remuneration paid by the Company during its fiscal year ended December 31, 1965, to each director, and each of the three highest paid officers, of the Company whose aggregate direct remuneration from the Company exceeded \$30,000, and to all directors and officers as a group, is shown in the following table:

Name of Individual or Number of Persons in Group	Capacities in Which Remuneration Was Received	1965 Aggregate Direct Remuneration
Laurence L. Spitters.....	President	\$ 43,000*
Donald F. Eldridge†.....	Vice President	\$ 40,000*
W. L. Noon.....	Vice President	\$ 40,000*
Edward S. Seaman.....	Vice President	\$ 39,000*
All Directors and Officers as a Group.....		\$253,389

*The Company has paid a year-end bonus to these officers based on the Company's financial performance for the year. Included above are such bonus payments computed on performance for 1965 but not paid until January 15, 1966. Not included above are bonus payments made to the above in 1965 with respect to 1964 performance.

†Mr. Eldridge resigned as an officer and director of the Company in April, 1966.

These officers also participate in the Memorex Employees' Profit Sharing Plan discussed under "Employees". The amount of the profit sharing allocation to each of the above officers for the year 1965 was \$1,687 and to all officers and directors as a group \$12,441.

EMPLOYEES STOCK OPTION PLANS

Qualified Stock Option Plan

The Memorex Qualified Stock Option Plan ("the 1965 Plan") was approved by shareholders in December 1965. The 1965 Plan permits the granting to key employees of "qualified" stock options under Section 422 of the Internal Revenue Code, as amended. The maximum number of shares for which options may be granted under the 1965 Plan is 70,000 shares of the authorized but unissued Common Stock of the Company, and the maximum number of shares for which options may be granted to any one employee is 7,000. Options are granted under the 1965 Plan at a price equal to 100% of the fair market value of the Company's Common Stock on the date of grant. In all cases options expire five years after date of grant, and are exercisable at the rate of 25% per year beginning one year after the date of grant. As of June 30, 1966, options for 21,900 shares had been granted to 40 key employees under the 1965 Plan. Information relating to the options granted is shown in the following table:

Date of Grant of Options	Expiration Date of Options	Option Price Per Share	No. of Shares of Common Stock Called for by Outstanding Options
1-14-66	1-13-71	\$32.88	3,000
4-11-66	4-10-71	49.00	18,600
6-10-66	6- 9-71	51.50	300

Options presently held by eligible officers and directors of the Company under the 1965 Plan, as a group, aggregate 7,750 shares, of which amount Mr. Edward S. Seaman, Vice President of the Company, holds options for 1,500 shares granted April 11, 1966.

Restricted Stock Option Plan

The 1961 Restricted Stock Option Plan ("1961 Plan") has been terminated; however, options remain outstanding under this plan. The 1961 Plan allowed options to be granted to key employees (other than the founders of the Company) for the purchase of shares of Common Stock of the Company at a price of not less than 100% of the fair market value of the shares on the date of grant.

The options granted under the 1961 Plan were "Restricted" stock options within the meaning of I.R.C. Section 421 prior to its amendment in 1964. Such options are exercisable at the rate of 25% per year beginning one year after the date of grant. From the date of adoption of the 1961 Plan until its termination on November 12, 1965, options for 73,875 shares were granted, of which options for 19,875 shares were still outstanding on June 30, 1966. Information relating to the options outstanding on that date is shown in the following table:

Date of Grant of Options	Expiration Date of Options	Option Price Per Share	No. of Shares of Common Stock Called for by Outstanding Options
4-28-62	10-28-70	\$.20	3,000
10-23-62	10-23-70	.20	375
3-18-63	3-18-71	.50	375
8-30-63	8-30-71	3.33	11,250
3-13-64	3-13-69	3.67	1,875
6-26-64	6-26-69	6.67	3,000

Options presently held by eligible officers of the Company under the 1961 Plan, as a group, aggregate 6,000 shares, of which 3,000 shares were granted on April 28, 1962, and 3,000 shares on August 30, 1963. The former represent an option granted to Mr. Edward S. Seaman, Vice President of the Company.

For information regarding the market value of the securities called for by the Company's Qualified and Restricted stock options, see "Market Price Range of Common Stock".

PRINCIPAL HOLDERS OF STOCK

As of June 30, 1966, no person owned more than 10% of the outstanding shares of Common Stock beneficially or of record. The beneficial ownership by all officers and directors as a group on that date was 278,329 shares, or 27.6% of the 1,006,641 shares outstanding. These figures include 90,000 shares owned by J. H. Whitney & Co., a private investment firm, of which Mr. Fred M. van Eck, Director of the Company, is a general partner, and 22,500 shares owned by Baker, Fentress & Company, a private investment firm of which Mr. Alger Chaney, Director of the Company, is Vice President.

Messrs. Spitters, Noon, Chaney, and van Eck, and Baker, Fentress & Company, and J. H. Whitney & Co., because of their ownership of stock and positions on the Board of Directors, may be considered to be controlling persons or parents of the Company within the meaning of the Securities Act of 1933. Additionally, Allstate Insurance Company, for which Alsta & Co. which at June 30, 1966, owned 30,000 shares of Memorex Common Stock, is nominee may be considered to be an affiliate of the Company within the meaning of the Securities Act of 1933.

SELLING SHAREHOLDERS

The following table sets forth, as of July 15, 1966, information regarding beneficial and record ownership of shares of the Common Stock of the Company of each shareholder who has agreed to sell in the underwritten offering set forth in this Prospectus (see "Underwriting"), and the total number of shares to be retained by each Selling Shareholder after said underwritten offering.

Name	Owned	Number of Shares of Common Stock To Be Sold	To Be Retained
Baker, Fentress & Company	22,500	7,500	15,000
Arnold T. Challman	61,823	15,000	46,823
Alger Chaney	29,650	2,650	27,000
Donald F. Eldridge	60,750	20,000	40,750
W. Lawrence Noon	50,750	25,000	25,750
Small Business Enterprises Company, a subsidiary of Bank of America N. T. & S. A.	29,694	3,000	26,694
Laurence L. Spitters	60,203①	20,000	40,203①
William E. Weiss, Jr.....	22,900	2,000	20,900

① Does not include 6,447 shares held as trustee and co-trustee under various trusts for the benefit of various members of Mr Spitters's family.

DESCRIPTION OF DEBENTURES

The Debentures are to be issued under an indenture dated as of August 1, 1966 (the "Indenture") between the Company and Bank of America N. T. & S. A. (the "Trustee"). The Debentures are direct obligations of the Company, but are not secured.

The principal amount of Debentures issuable under the Indenture is limited to \$12,000,000. The Debentures will be issued only in fully registered form in denominations of \$1,000 and multiples of \$1,000, will bear interest from August 1, 1966 at the rate set forth on the cover of this Prospectus and will mature on August 1, 1986, unless converted or redeemed prior to that date. Interest will be payable semi-annually on February 1 and August 1 in each year to holders of record 15 days prior to said interest payment dates. The principal and interest are to be payable, and the Debentures may be presented for transfer, exchange and conversion, at the principal office of the Trustee in San Francisco, California.

A copy of the proposed form of Indenture is filed as an exhibit to the Registration Statement, and the statements under this caption are brief summaries of certain provisions contained therein. Such statements do not purport to be complete and are subject to the detailed provisions of the Indenture. References in italics are to articles and sections of the Indenture and it is intended that such articles or sections shall be incorporated by reference at the points indicated. The material contained herein is qualified in its entirety by such reference to the Indenture.

Redemption

The Debentures will be redeemable at the option of the Company, as a whole or in part, on not less than 30 nor more than 60 days' prior notice, at the following redemption prices (expressed in percentages of the principal amount), during the twelve months' period ending July 31:

1967.....	.....%	1973.....	.....%	1979.....%
1968.....	.....%	1974.....	.....%	1980.....%
1969.....	.....%	1975.....	.....%	1981.....%
1970.....	.....%	1976.....	.....%	1982.....%
1971.....	.....%	1977.....	.....%	1983.....%
1972.....	.....%	1978.....%		

and thereafter at 100% of the principal amount thereof, together, in each case, with accrued interest to the date fixed for redemption (*Sections 3.01 and 3.02*).

The Debentures will also be redeemable as set forth under "Sinking Fund" at a sinking fund redemption price equal to 100% of the principal amount thereof, together in each case with accrued interest to the date fixed for redemption.

Sinking Fund

As a required sinking fund the Company will pay to the Trustee an amount sufficient to redeem \$960,000 principal amount of Debentures on August 1 of each of the years 1976 through 1985, inclusive. At its option the Company may make an additional sinking fund payment in an amount which does not exceed the required sinking fund payment for such year, such optional right being noncumulative. No optional sinking fund payment shall have the effect of reducing any required sinking fund payment. In lieu of cash payments the Company may credit against any sinking fund payment Debentures acquired or redeemed by it (other than through the operation of the sinking fund) or surrendered upon conversion and not previously credited (*Section 3.03*).

Conversion Privilege

A holder of Debentures will have the right to convert, at any time up to and including August 1, 1986 (or if such Debenture is called for redemption prior to such date, then to and including but not after the close of business on the date fixed for such redemption) the principal amount of such Debenture, or any portion thereof which is \$1,000 or a multiple thereof, into shares of Common Stock of the Company at the conversion rate which results in a conversion price shown on the cover of this Prospectus, or such conversion rate as adjusted from time to time as provided in the Indenture (*Section 5.02*).

The conversion rate is subject to adjustment on certain events, including the issuance of Common Stock of the Company as a stock dividend; subdivisions, combinations and reclassifications of the Company's Common Stock; the issuance to all holders of Common Stock of rights or warrants to subscribe for Common Stock at less than the current market price, as defined for the purpose; or the distribution to all holders of the Common Stock of evidences of indebtedness, assets (excluding cash dividends or distributions to the extent permitted by Section 6.03 of the Indenture, summarized below under "Dividend Restrictions"), or rights to subscribe other than those mentioned above. (*Article Five*).

No fractions of shares will be issued upon any conversion, but the Indenture provides that an adjustment in cash will be made based on the current market value of the shares of Common Stock, as defined for the purpose.

Subordination of Debentures

The payment of the principal of, and premium, if any, interest and sinking funds on the Debentures is subordinated in right of payment to the prior payment in full of amounts then due for principal of, and premium, if any, interest and sinking funds in respect of all Senior Indebtedness (*Article Four*). Senior Indebtedness is defined in the Indenture as indebtedness (secured or unsecured) incurred, assumed, or guaranteed by the Company before or after the date of the Indenture and which (a) is for money borrowed or (b) is of any nature whatsoever, including, without limitation, indebtedness incurred in the acquisition of assets of any kind other than in the ordinary course of business, except in each instance indebtedness evidenced by the Debentures and indebtedness with respect to which in the instrument creating or evidencing such other indebtedness or pursuant to which the same is outstanding it is provided that such other indebtedness is not superior in right of payment to the Debentures, and (c) any deferrals, renewals, or extensions of any such Senior Indebtedness (*Section 1.01*).

In the event of default in payment of Senior Indebtedness or another Event of Default, as defined in the Indenture, permitting the acceleration of Senior Indebtedness, no payment on account of principal, premium, if any, interest or sinking fund on the Debentures may be made. By reason of such subordination, in the event of insolvency, creditors of the Company other than holders of Senior Indebtedness or of the Debentures may recover less, ratably, than holders of Senior Indebtedness and may recover more, ratably, than the holders of the Debentures.

Dividend Restrictions

The Indenture restricts the payment of dividends or other distributions on its capital stock (other than stock dividends) and the purchase, redemption, or other acquisition for value of any shares of its capital stock by the Company or any subsidiary to the amount of Consolidated Net Income, as defined in the Indenture, accrued subsequent to June 30, 1966, plus the net proceeds received by the Company from the issuance, exchange or sale subsequent to June 30, 1966 of shares of its capital stock (including shares of Common Stock issued on conversion of indebtedness valued by the Board of Directors of the Company at the principal amount of the indebtedness so converted) but only insofar as such net proceeds do not exceed the aggregate amount of such purchases, redemptions and other acquisitions of, and distributions (other than cash dividends) on, capital stock since June 30, 1966. Such restrictions, however, do not prevent the payment of any dividend within 60 days after the date of declaration thereof, if at such date of declaration said dividend complied with such restrictions, or the payment of cash dividends at the regular rate on any stock of the Company preferred by its terms as to dividends which may in the future be issued for a bona fide cash consideration or property acquisition (*Sections 1.01 and 6.03*).

Defaults and Waiver and Notice Thereof

The Indenture provides that the happening of one or more of the following events shall constitute an Event of Default: (a) default for thirty days in payment of any interest and default in payment of principal, including any required sinking fund installment, or premium, if any, on the Debentures, whether or not any such payments are prohibited by the subordination provisions of the Indenture; (b) default, for sixty days after notice, in the performance of any other covenant in the Indenture; (c) default beyond the expiration of the applicable grace period in respect of the payment of the principal of, or premium, if any, or interest on any other obligations of the Company for borrowed money; (d) default in the performance of any other agreement, term, or condition which results in the acceleration of the maturities of such obligations and of which default notice shall have been given to the Company; and (e) certain events of bankruptcy, insolvency, or reorganization. In the event an Event of Default shall have occurred and be continuing, the Trustee or the holders of at least 25% in principal amount of the Debentures then outstanding may declare the principal of all the Debentures to be due and payable immediately (*Section 8.01*).

The Indenture provides that the Trustee shall, within 90 days after the occurrence of a default, give to the debentureholders notice of all uncured defaults known to it; provided that the Trustee may withhold any such notice of default (except in payment of principal, premium, interest or sinking fund installment) if the Trustee in good faith determines it in the interest of the debentureholders (*Section 8.07*).

The Indenture provides that the Trustee, subject to the duty of the Trustee during default to act with the required standard of care, be indemnified by the holders of the Debentures before proceeding to exercise any right or power under the Indenture at the request of the debentureholders (*Section 9.02*). The Indenture provides that the holders of a majority in principal amount of the outstanding Debentures may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee (*Section 8.06*).

The Indenture provides that the Company will deliver to the Trustee, annually, a certificate of no default, or specifying each such default that exists (*Section 6.05*).

In certain cases the holders of a majority in aggregate principal amount of the outstanding Debentures may on behalf of the holders of all Debentures waive any past default or Event of Default except, unless theretofore cured, a default in payment of the principal and premium, if any, or interest on any of the Debentures (*Sections 8.01 and 8.06*).

Modification of the Indenture

The Company and the Trustee, with the consent of the holders of not less than 66 $\frac{2}{3}$ % in principal amount of the Debentures at any time outstanding, may modify the Indenture or any supplemental Indenture or the rights of the holders of the Debentures; provided, that no such modification may (a) extend the fixed maturity of any Debenture, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon redemption thereof, or impair the right to convert the Debentures upon the terms set forth in the Indenture, or alter the benefits of the sinking fund without the consent of the holder of each Debenture so affected, or (b) reduce the aforesaid percentage of Debentures, the holders of which are required to consent to any such modification, without the consent of the holders of all Debentures then outstanding (*Section 12.02*).

Relationships with the Trustee

Bank of America N. T. & S. A., the Trustee, is the Transfer Agent of the Company's Common Stock, and is Trustee and investment advisor under the Company's Employees' Profit Sharing Plan. The Company has special and general bank deposits with and also has outstanding loans from this bank. Small Business Enterprises Company, a wholly owned subsidiary of the Trustee, is one of the group of shareholders selling shares of the Company's Common Stock pursuant to this Prospectus, see "Selling Shareholders".

DESCRIPTION OF COMMON STOCK

The authorized capitalization of the Company consists of 5,000,000 shares of Common Stock (\$1 par value). The holders of the outstanding Common Stock are entitled to receive such dividends as may be declared by the Board of Directors out of any funds of the Company legally available therefor. Each holder is entitled to one vote for each share held and has cumulative voting rights in electing directors. The Common Stock is not redeemable and does not carry conversion rights. The Common Stock carries no pre-emptive rights or other rights to subscribe to additional shares. In the event of any liquidation, dissolution or winding up of the Company, the holders of the Common Stock are entitled to share equally and ratably in the balance, if any, remaining after payment of all debts and liabilities, including payment on the Debentures. In the opinion of counsel for the Company the shares of Common Stock being offered hereby are full paid and nonassessable. Payment of dividends on the Common Stock (other than stock dividends), and the repurchase or redemption of shares by the Company are restricted by the terms of the Debentures (see "Description of Debentures—Dividend Restrictions"), and see Note 5 to the Consolidated Financial Statements.

Bank of America N. T. & S. A., San Francisco, is Transfer Agent and Wells Fargo Bank, San Francisco, is Registrar for the Common Stock.

LEGAL OPINIONS

Legal matters in connection with the shares offered hereby will be passed upon for the Company and the Selling Shareholders by Morrison, Foerster, Holloway, Clinton & Clark, 120 Montgomery Street, San Francisco, California 94104, and for the Underwriters by McCutchen, Doyle, Brown, Trautman & Enersen, 601 California Street, San Francisco, California 94108.

EXPERTS

The consolidated balance sheet of the Company as of December 31, 1965, and the related consolidated statements of income and shareholders' equity for the five years then ended which appear in this Prospectus have been examined by Arthur Andersen & Co., independent public accountants, as set forth in their opinion, and have been included herein in reliance upon the authority of such firm as experts in giving such an opinion.

UNDERWRITING

The Underwriters named below, for whom Blyth & Co., Inc., and Smith, Barney & Co. Incorporated are acting as Representatives, severally have made a firm commitment, subject to certain conditions, to purchase the principal amount of the Debentures and the number of Shares set forth opposite their respective names, at the prices shown on the cover of this Prospectus. The Underwriters have advised the Company that they may allow a selling concession to certain dealers of \$..... per \$1,000 principal amount of Debentures and \$..... per share and such dealers may allow a concession of not in excess of \$..... per \$1,000 principal amount of Debentures and \$..... per share to certain other dealers. After the initial public offering the Representatives are authorized to change the offering prices and the concessions and reallowances to dealers.

The Underwriting Agreement contains reciprocal covenants against liability in certain instances, including liabilities under the Securities Act of 1933, and the Selling Shareholders have agreed to purchase indemnity insurance for the benefit of the several Underwriters, among others.

The Selling Shareholders have agreed not to sell, without the consent of the Underwriters, any of the shares of Common Stock to be owned by them after the underwritten offering made hereby (see "Selling Shareholders") for a period of days from the date of this Prospectus.

Mr. Thomas E. Morris, a Vice President of Blyth & Co., Inc., is a director of the Company.

Underwriter	Address	Principal Amount of Debentures	Number of Shares
Blyth & Co., Inc.	14 Wall Street, New York, N. Y. 10005		
Smith, Barney & Co. Incorporated.....	20 Broad Street, New York, N. Y. 10005		

ADDITIONAL INFORMATION

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

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

To MEMOREX CORPORATION:

We have examined the consolidated balance sheet of MEMOREX CORPORATION (a California corporation) and subsidiaries as of December 31, 1965, and the related consolidated statements of income (under the caption "Consolidated Statements of Income") and of shareholders' equity for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Memorex Corporation and subsidiaries as of December 31, 1965, and the results of their operations for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

ARTHUR ANDERSEN & Co.

San Jose, California,
January 28, 1966.

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MEMOREX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 1965 and June 30, 1966 (Unaudited)

Assets	December 31, 1965	June 30, 1966 (Unaudited)
CURRENT ASSETS:		
Cash	\$ 389,958	\$ 1,262,609
Accounts receivable (Note 5)	2,938,494	3,197,448
Advances to Disc Pack Corporation (Note 6)	—	191,250
Inventories, at the lower of cost (first-in, first-out) or market (Notes 2 and 5)	1,700,074	2,453,985
Prepayments	55,253	192,505
Total current assets	5,083,779	7,297,797
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 3 and 5):		
Land	476,849	477,999
Buildings and improvements	2,465,128	3,913,307
Machinery and equipment	2,017,158	3,374,442
Furniture and fixtures	238,565	304,335
Less—Accumulated depreciation	5,197,700	8,070,083
	770,488	1,177,522
	4,427,212	6,892,561
OTHER ASSETS:		
Investment in capital stock of Disc Pack Corporation (Notes 1 and 6)	—	60,000
Other	88,714	187,751
	88,714	247,751
	\$9,599,705	\$14,438,109
Liabilities		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 5)	\$ 605,702	\$ 1,550,773
Accounts payable	1,026,930	665,108
Accrued liabilities—		
Salaries, wages and commissions	170,940	259,500
Profit sharing	280,085	260,500
Federal and foreign income taxes	661,400	682,824
Other	61,465	289,987
Product warranty reserve	300,000	300,000
Total current liabilities	3,106,522	4,008,692
DEFERRED FEDERAL INCOME TAXES (Note 4):		
LONG-TERM DEBT (Note 5)	232,050	307,200
COMMITMENTS (Note 6):		
SHAREHOLDERS' EQUITY (Notes 5, 7 and 8):		
Common stock, par value \$1 per share—		
Authorized—5,000,000 shares		
Outstanding—1,004,016 shares at December 31, 1965, and 1,006,641 shares at June 30, 1966....	1,004,016	1,006,641
Paid-in surplus	848,560	857,573
Retained earnings	2,056,550	3,272,211
	3,909,126	5,136,425
	\$9,599,705	\$14,438,109

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

MEMOREX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Five Years and Six Months (Unaudited) Ended June 30, 1966

	Common Stock	Paid-In Surplus	Retained Earnings
BALANCE DECEMBER 31, 1960	\$ —	\$ —	\$ —
Net loss for the year	—	—	(313,959)
Proceeds from sale of common stock	19,000	643,500	—
BALANCE DECEMBER 31, 1961	19,000	643,500	(313,959)
Net loss for the year	—	—	(693,794)
Proceeds from sale of common stock to employees under stock option plan	88	175	—
BALANCE DECEMBER 31, 1962	19,088	643,675	(1,007,753)
Net income for the year (including reduction of Federal income taxes of \$236,000)	—	—	454,096
Proceeds from sale of common stock to employees under stock option plan	50	250	—
BALANCE DECEMBER 31, 1963	19,138	643,925	(553,657)
Net income for the year (including reduction of Federal income taxes of \$277,000)	—	—	1,278,874
Proceeds from sale of common stock to employees under stock option plan	678	7,776	—
Conversion of 6% Convertible subordinated promissory notes	12,754	1,195,246	—
Provision for cost of registering common stock with Securities and Exchange Commission	—	(40,000)	—
Paid-in surplus capitalized in connection with thirty-for-one stock split	944,536	(944,536)	—
BALANCE DECEMBER 31, 1964	977,106	862,411	725,217
Net income for the year	—	—	1,331,333
Proceeds from sale of common stock to employees under stock option plan	26,910	19,386	—
Additional costs of registration of common stock with Securities and Exchange Commission	—	(33,237)	—
BALANCE DECEMBER 31, 1965	1,004,016	848,560	2,056,550
Net income for the six months ended June 30, 1966 (unaudited)	—	—	1,215,661
Proceeds from sale of common stock to employees under stock option plan	2,625	9,013	—
BALANCE JUNE 30, 1966 (unaudited)	\$1,006,641	\$ 857,573	\$3,272,211

The accompanying notes are an integral part of these statements.

MEMOREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Including notes applicable to unaudited period ended June 30, 1966)

1. Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and all totally-held subsidiaries after elimination of intercompany accounts and transactions. In March 1966, the Company acquired a 40% interest in Disc Pack Corporation which was not consolidated inasmuch as it is not a significant subsidiary.

2. Inventories

Inventories used in determining cost of sales were priced at the lower of cost (first-in, first-out) or market, and were as follows:

	December 31,				June 30, 1966 (Unaudited)
	1962	1963	1964	1965	
Raw materials	\$111,671	\$203,057	\$ 565,159	\$ 683,104	\$ 906,392
Work in process	14,770	31,949	50,510	356,494	643,591
Finished goods	41,620	153,907	427,436	660,476	904,002
	<u>\$168,061</u>	<u>\$388,913</u>	<u>\$1,043,105</u>	<u>\$1,700,074</u>	<u>\$2,453,985</u>

The Company was organized in February, 1961. However, production of magnetic tape did not commence until 1962, and accordingly, the company had no inventories as of December 31, 1961.

3. Depreciation and Amortization Policy

The Company and its subsidiaries provide for depreciation by charges to income based upon acquisition cost and estimated useful lives of individual items of property applied on a straight-line basis. The ranges of annual depreciation rates used were:

Buildings and improvements	3 % to 6 2/3 %
Machinery and equipment	10 % to 33 %
Furniture and fixtures	6 2/3 % to 33 %
Leasehold improvements	Life of leases

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

Maintenance and repairs are charged to expense as incurred. The cost of renewals or betterments that increase the property's useful value is capitalized in the appropriate asset account, and such cost is depreciated over the estimated remaining useful life of the property.

The net gain or loss on items of property retired or otherwise disposed of is credited or charged to income and the asset cost and related accumulated depreciation is removed from the accounts.

4. Deferred Federal Income Taxes

The Company uses the straight-line method in computing depreciation for book purposes but uses the declining-balance method for income tax purposes. As a result, \$307,200 of income taxes otherwise payable have been deferred at June 30, 1966; however, such amount has been charged to income and credited to Deferred Federal Income Taxes in the accompanying consolidated financial statements. The deferred credit will be reflected in income in future years when income taxes payable increase as a result of using these tax deductions currently.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Long-Term Debt

Long-term debt at December 31, 1965 and June 30, 1966 (unaudited) was as follows:

	December 31, 1965	June 30, 1966 (Unaudited)
Notes payable to bank—		
6 1/4% note, due in quarterly installments through December 1970	\$2,250,000	\$2,025,000
6 1/4% note, due in quarterly installments through September 1971.....	—	2,000,000
6 1/2% Revolving Credit	—	745,111
6% note, due in monthly installments through May 1974.....	435,909	415,402
Unsecured note, due in annual installments through November 1967	—	23,473
Advance from bank on equipment under construction.....	—	1,170,000
6% notes payable to others—		
Secured by deed of trust on certain land, due in annual installments through April 1968.....	165,255	110,170
Unsecured, due in annual installments through January 1967.....	106,545	47,409
	<hr/> 2,957,709	6,536,565
Less amounts payable within one year	<hr/> 605,702	1,550,773
	<hr/> <hr/> \$2,352,007	\$4,985,792

Notes payable to bank are secured by deeds of trust on certain land and buildings, pledge of all the parent company's equipment, inventory and capital stock of subsidiaries, and assignment of all the parent company's commercial trade receivables. The agreement with the bank provides, among other things, that the Company will:

1. Maintain consolidated working capital (as defined in the agreement) during the period ending December 31, 1966 of not less than \$1,100,000, increasing in quarterly amounts to not less than \$3,500,000 on and after June 30, 1967.
2. Maintain a ratio of consolidated total debt to consolidated shareholders' equity of not more than 1.9 to 1 through March 30, 1967, and 1.4 to 1 thereafter.
3. Not declare or pay any dividends except capital stock or intercompany dividends.

The aggregate maturities of long-term debt for the five years subsequent to June 30, 1966, are as follows:

Due During the Year Ended June 30	Amount
1967.....	\$1,550,773
1968.....	1,252,322
1969.....	1,187,500
1970.....	1,189,500
1971.....	966,500
	<hr/> <hr/> \$6,146,595

In addition to the above regular principal installments, the Company shall pay additional principal on the loans equal to 50 per cent of "net available income" (as defined in the agreement) of the prior fiscal year.

The Company proposes to issue and sell \$12,000,000 principal amount of Convertible Subordinated Debentures as offered by this Prospectus. The Company intends to use a portion of such proceeds to eliminate the above mentioned notes payable to bank and the advance from the bank on equipment under construction.

6. Commitments

The Company and subsidiaries lease certain buildings, equipment and district sales offices under long-term lease contracts which expire at various dates through 1976. Aggregate rentals remaining under such lease contracts were \$525,000 at June 30, 1966, of which \$172,000 was due within one year.

As of June 30, 1966, the Company had outstanding purchase orders to Disc Pack Corporation for approximately \$1,200,000, against which advances of \$191,250 have been made.

As of June 30, 1966, the outstanding commitments for additions to property, plant and equipment were approximately \$1,500,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Stock Option Plans (Parent Company)

As of June 30, 1966, under a Restricted Stock Option Plan adopted in 1961, options granted for 19,875 shares of the company's common stock were outstanding as follows:

Year of Grant	Shares	Option Price	
		Per Share	In Total
1961.....	—	\$.10	\$ —
1962.....	3,375	.20	675
1963.....	375	.50	187
1963.....	11,250	3.33	37,500
1964.....	1,875	3.67	6,875
1964.....	3,000	6.67	20,000
	19,875		\$65,237

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

Year Exercisable	Shares	Option Price		Fair Value	
		Range Per Share	In Total	Range Per Share	In Total
1962	6,844	\$.10	\$ 684	\$.20	\$ 1,369
1963	10,219	.10 to .20	1,360	2.20 to 3.33	30,215
1964	16,218	.10 to 3.33	20,297	3.67 to 6.67	100,304
1965	18,469	.10 to 6.67	33,047	24.50 to 36.13	511,417
1966 (6 mos.).....	5,625	.20 to 6.67	13,531	36.75 to 54.75	265,969
	57,375		\$68,926		\$ 909,274

During the periods, options were exercised as follows:

Year Exercised	Shares	Option Price		Fair Value	
		Range Per Share	In Total	Range Per Share	In Total
1962	2,625	\$.10	\$ 262	\$.20	\$ 525
1963	1,500	.20	300	3.50	5,250
1964	20,340	.10 to 3.33	8,454	6.67 to 20.00	336,817
1965	26,910	.10 to 6.67	46,296	25.00 to 36.75	736,360
1966 (6 mos.).....	2,625	.20 to 6.67	11,638	32.75 to 54.75	122,343
	54,000		\$66,950		\$1,201,295

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

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

The Company reserved 70,000 shares of the company's common stock for issuance under a Qualified Stock Option Plan approved by shareholders in December 1965. Under this plan, options may be issued to key employees to purchase common stock at a price not less than 100% of market value of the shares at the dates options are granted. During the six months ended June 30, 1966, options were granted and are still outstanding for 21,900 shares of the company's common stock. No shares under these options became exercisable during this period. The option price and fair value ranged from \$32.88 to \$51.50 per share and aggregated \$1,025,475.

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

8. Common Stock Reserved for Proposed Convertible Subordinated Debentures

The Company has reserved shares of common stock for issuance upon conversion of the convertible subordinated debentures offered by this Prospectus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Consolidated Supplementary Profit and Loss Information

Classification	Charged to Profit and Loss		
	Cost of Sales	Operating Expenses	Total
YEAR ENDED DECEMBER 31, 1961:			
Maintenance and repairs.....	\$ —	\$ —	\$ —
Depreciation and amortization	—	27,952	27,952
Taxes—			
Payroll	—	4,745	4,745
Property	—	943	943
California franchise	—	100	100
Rent	—	4,244	4,244
YEAR ENDED DECEMBER 31, 1962:			
Maintenance and repairs.....	\$ 12,840	\$ 3,064	\$ 15,904
Depreciation and amortization	31,520	61,678	93,198
Taxes—			
Payroll	14,665	3,047	17,712
Property	5,877	2,727	8,604
California franchise	—	100	100
Rent	17,694	29,960	47,654
YEAR ENDED DECEMBER 31, 1963:			
Maintenance and repairs.....	\$ 30,709	\$ 2,278	\$ 32,987
Depreciation and amortization	81,823	59,503	141,326
Taxes—			
Payroll	26,226	11,669	37,895
Property	15,504	5,366	20,870
California franchise	—	100	100
Rent	71,916	41,695	113,611
YEAR ENDED DECEMBER 31, 1964:			
Maintenance and repairs.....	\$ 47,646	\$ 4,039	\$ 51,685
Depreciation and amortization	176,591	74,996	251,587
Taxes—			
Payroll	57,630	21,316	78,946
Property	26,637	9,213	35,850
California franchise	—	20,517	20,517
Rent	66,927	50,071	116,998
YEAR ENDED DECEMBER 31, 1965:			
Maintenance and repairs.....	\$ 64,254	\$ 5,628	\$ 69,882
Depreciation and amortization	298,202	124,748	422,950
Taxes—			
Payroll	85,230	36,527	121,757
Property	57,865	20,626	78,491
California franchise	—	76,639	76,639
Rent	106,355	47,516	153,871
SIX MONTHS ENDED JUNE 30, 1966 (Unaudited):			
Maintenance and repairs.....	\$ 48,086	\$ 4,322	\$ 52,408
Depreciation and amortization	241,494	123,881	365,375
Taxes—			
Payroll	99,222	43,543	142,765
Property	40,568	14,053	54,621
California franchise	—	46,740	46,740
Rent	63,870	51,043	114,913