Memorex Changes Accounting

NEW YORK - Memorex Corp. last week disclosed that it would amortize earnings from peripheral equipment sold to its affiliate, ILC Peripherals Leasing Corp., over the 48-month estimated payout life of the equipment.

The decision, revealed in an unaudited preliminary annual report issued; last week, had the immediate effect of depressing Memorex, stock. The stock tumbled l0 1/2 points last Monday, but began drifting back up throughout the week.

The reason is that Memorex, on the advice of its accounting firm, Arthur Andersen & Co., is deferring earnings rather than crediting them immediately at the time the equipment is turned over to ILC.

Other peripherals companies, which also must work through leasing affiliates to meet the competition of IBM Corp.'s short-term "non-payout" leases, will watch the Memorex experience closely, for clues to their own future.

The accounting firm had recommended that since Memorex and ILC were "financially related companies," this meant that although Memorex receives the money for the equipment at the time of the transfer to ILC. is liable for taxes on it and transfers ownership of the equipment to ILC, the transactions between the two organizations should not be included in Memorex' net sales and revenues, and the earnings should be deferred.

In the preliminary report, Memorex showed sales of $78,996,817 (excluding another $42,345,105 billed to ILC and earnings of $3,188,585, good for 83 cents a share, for the year ended Dec. 31.

The, firm said the comparable 1969 figures — $6,902,161 in net earnings, or $1.85 per share, on a volume of $74,066,759, are not really illustrative, since Memorex' business underwent a transition in 1970. Previously a seller of equipment to OEM firms, Memorex last year began a switchover to leasing peripherals to end-users.

This transition is still under way. and Lawrence L. Spitters. Memorex president, predicted the company would report losses for the last quarter of 1970 and the first quarter of this year, but would break even by mid-year and show a profit in the second half.

He also disclosed more facts about Memorex' relationship with ILC: Memorex owns 20 per cent of ILC's common stock and elects one member of its five-man board of directors. Memorex can buy out the remaining 80 per cent during the first 90 days of 1974.

Under a master sales and maintenance agreement between Memorex and ILC, the latter will purchase $197 million worth of disk drives; controllers, computer output microfilm printers and terminals by Dec. 31, 1972,. This includes the $42 million already shipped in 1970.

The day after the financial report began circulating. Memorex filed a $1 billion countersuit against IBM Corp. in the California Superior Court in Santa Clara.

The suit was in response to an earlier IBM trade secrets suit (EN. Dec. 7) in which IBM charged Memorex with wrongful appropriation and use of trade secrets and inducement of IBM employes to leave the firm for Memorex.

Last week's Memorex suit, which called for actual damages of $5 million in addition to the $1 billion in exemplary damages, charged that IBM was illegally attempting to halt the migration of its employes, impeding the financing of ILC and discouraging potential customers.

Regarding the leasing affiliate, the Memorex suit alleges that Memorex, because of IBM's action, lost a portion of the financing. The result was "the withdrawal of esteemed institutional lenders from the financing of Independent Leasing Corp., caused by the weakening of Memorex' (and ILC's) bargaining positions as a result of the action by IBM." .

The IBM response, issued last week from corporate headquarters at Armonk. N.Y.. was "IBM considers the Memorex cross-complaint to be without merit and an expected tactical reaction to IBM's trade secrets suit against that company."

Page 1 of 2 is a corrected OCR version of page 2 of 2.

Page 2 of 2 has had its contrast enhanced but is otherwise unchanged from the scanned original.

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