Memorex Corp. Says It's Facing Big Writeoffs

Firm Discusses Turning Over Voting Control to Singer in Exchange for $15 Million

Computer Operation Doomed

By RICHARD R. LEGER
Staff Reporter of THE WALL STREET JOURNAL

SANTA CLARA, Calif.-Debt-plagued Memorex Corp. announced that it's facing massive write-offs which could give it a negative net worth, that it will discontinue its ill-starred computer operations and that it's discussing turning over voting control to Singer Co. in exchange for $15 million.

The maker of computers, peripheral computer equipment and magnetic tape announced recently it was seeking to sell a majority interest of its common stock or make some other form of arrangement with another company in an effort to solve its critical cash needs.

Bank of America, which has loaned Memorex some $130 million, announced this spring it wouldn't continue to loan the Santa Clara company all the funds it needed to continue operations this year. Memorex said at the time it needed an additional $79 million to continue full-scale operations.

Memorex said its potential arrangement with Singer would give Singer equity securities that would have a majority vote plus the right to obtain a majority of Memorex's common stock. A Memorex spokesman said officials of his company wouldn't comment beyond its formal release.

The release also said the Singer arrangement is contingent upon, among other things, making arrangements with creditors that would convert some portion of Memorex's senior debt to Memorex preferred stock, the adjustment of principal and interest payments and an investigation and approval by directors of both companies and Memorex shareholders.

Memorex said Bank of America already has agreed, if the discussions with Singer are successful, to convert a portion of its Memorex debt to preferred stock. It said a similar request is being considered by creditors of ILC Peripherals Leasing Corp., a Memorex subsidiary, which has an estimated $80 million to $90 million of Memorex debt. Memorex has more than $200 million in senior debt, (including ILC), plus $75 million face value of 5 1/4% convertible subordinated debentures, due 1990. The company said its negotiations also involve a contemplated exchange offering of other Memorex securities to holders of the debentures, but didn't give any details.

The formal release also didn't disclose how heavy a dilution is facing holders of the company's common stock. It has 4.3 million shares outstanding at Dec. 31. It also has one million preferred shares authorized, but none outstanding.

Prominently missing from the news release issued by Memorex was the name of Laurence L. Spitters, the company's president, chief executive, and founder a little over a decade ago. A company spokesman said the news release was issued to him for dissemination from a directors meeting. He said he didn't know who wrote it or why Mr. Spitters' name was missing, although past news releases from the company of substance almost always quoted Mr. Spitters. The spokesman said Mr. Spitters and other officers weren't available for comment.

Memorex's formal release also said that the company will take huge writeoffs and that it is considering discontinuing its deferral accounting policies, which have been criticized by some conservative financial analysts. The concern has been deferring research-and-development and leasing costs rather than charging such costs to revenue as incurred.

It said the abandonment of its mainframe computer production efforts will involve a writeoff of some $40 million. It said that as part of a mid-year audit, it also may revalue other leasing business assets that could add $10 million more in writeoffs. And if its deferral accounting practices are terminated, it would have a further writeoff of some $35 million, it said.

The total potential writeoff, therefore, is about $85 million—far higher than the company's stated net worth at Dec. 31 of $32.2 million. Memorex asserted, however, that if its creditors agreed to convert their debt into preferred stock as planned and it received the $15 million from Singer, it would have a. positive tangible net worth. Otherwise, it said, its net worth would be negative.

The achievement of a positive net worth after the massive writeoffs indicates Memorex's principal lenders will suffer a substantial paper loss on conversions of their Memorex loans to preferred stock.

Memorex didn't say in its release what its plans are should its efforts fail to find a business partner, such as Singer. It said that if it successfully concludes it negotiations with Singer and its creditors, Bank of America has agreed to provide ongoing credit to finance its operations. It said its lenders, including Bank of America, have made interim arrangements to finance continuing operations while negotiations with Singer continue.

- Mr. Spitters at Memorex's annual meeting in May indicated the company would have to solve its debt problems before the end of September. A shareholder asked him at the time whether interest payments on the convertible debentures due Oct. 1 were in jeopardy. Mr. Spitters said at the time that he wouldn't comment on the interest payments, but that he company's financing needs "must be resolved before then."

Exactly what Singer, the diversified sewing machine company, plans to do with Memorex, should the transaction be completed, wasn't explained in the Memorex release. Memorex said the proposed transaction would constitute an investment by Singer and wouldn't be an acquisition or merger. It said Singer wouldn't assume any of Memorex's debt.

Memorex, in its little more than a decade's existence, enjoyed a spectacular boom before collapsing. Its common shares sold at $173.375 in its brighter days in 1970. Friday it closed at $4.875.

The company, in retrospect, appears to have expanded at a rate faster than could be sustained. In March 1972, for example, it announced it was entering the main-frame computer market even though it didn't have a commitment for financing to make and market the computers.

When the computers were announced at a joint meeting with the press and security analysts, one questioner told D. James Guzy, then executive vice president and considered by some the company's chief operating officer, that there was "talk the computer would be a last-ditch effort" to solve financial problems.

Mr. Guzy replied that such talk wasn't appropriate. The company announced his resignation in January of this year without explanation.

Mr. Spitters, who was generally regarded as the financial architect of Memorex, has been promising to find a financial solution to the company's problems for more than a year. Although the concern announced a partial, temporary plan last fall, it never was successful in raising enough cash to meet its big debt load incurred in its growth. Interest payments on its debt alone last year cost the company more than $20 million of its $145.1 million total revenue, and it had some $50 million principal amount of debt falling due this year.

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