

T. E. GARDNER

AUG 18 1981

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To: A.M. P.M.

All Managers and Supervisors

August 14, 1981

From:

Copy to:

C. W. Spangle

Subject:

Memorex-Burroughs Merger

As a key Memorex employee, you no doubt have been asked serious questions from employees, prospective employees, customers and vendors regarding the proposed Memorex-Burroughs merger. It is important that you understand the background of the merger of Memorex and Burroughs so that you can answer customer questions accurately and positively.

As you know, both the Memorex and Burroughs Boards of Directors unanimously gave preliminary approval to the merger. There are many reasons that these men and women feel so strongly that the move is a good one for all parties concerned. We expect that a definitive agreement will be reached quickly and will be submitted to Memorex shareholders for their approval soon.

To begin with, through this merger, the combined company will become, overnight, the second-largest data processing company in the world. In the Datamation Magazine list of the 1980 top 100 companies in the DP industry, Burroughs ranked sixth, with revenues of \$2.90 billion, and Memorex was tenth, with 1980 revenues of \$769 million. Together, they would rank a strong second in the industry. With the completion of this merger, the combined company should approach a \$5 billion revenue running rate in 1982.

This size gives the company the critical mass necessary to fully support ongoing research, new product developments, process technology, and new production capabilities--all areas that are so vital in such a dynamic industry as that in which we compete. In these areas, both companies have expertise and resources that will benefit each other. Prime examples are Memorex's and Burroughs' efforts in thin film head and advanced media technology and Burroughs' work in the area of optical storage and VLSI. Within the area of VLSI, Burroughs has committed to a \$100 million program to expand its capabilities.

It has been stated by the top Burroughs executives from the start that Memorex will operate as a wholly owned subsidiary of Burroughs with all appropriate functions. What does this mean to Memorex employees and customers? Perhaps Computerworld said it best in their page-one story of August 10... "Because the two firms will retain their own sales and service units, it is highly unlikely that end users of Memorex products will be impacted by the acquisition."--except to add that we would expect to see our service to them improve.

MEMOREX

Interoffice
Correspondence

Memorex will continue to operate under the name that has meant quality and service to customers for the past twenty years...Memorex. Under the name Memorex, we will continue to service and support our strong customer base, both domestically and internationally.

Memorex will stay in the IBM plug-compatible market where we have years of proven expertise and experience. Memorex will continue the R&D and manufacturing investment necessary to introduce and support competitive new products for this base.

Memorex will continue to be an innovative, independent leader in the OEM and end user equipment field. To help strengthen our position, we will immediately examine the Burroughs product lines to determine what new products may be added to both our OEM and end user product markets.

Our Communications products' IBM plug-compatible orientation also adds a new dimension to the Burroughs product line. Burroughs has communications equipment which is compatible with its own systems, but not with IBM equipment. Together, we should be able to offer a much stronger product line for both markets.

As an important customer of Memorex media products over the years, Burroughs knows the importance of media products to the data processing market. Burroughs is a highly successful supplier of business forms and consumable data processing supplies. It is, therefore, positively committed to the media business. Memorex media products will continue to be marketed aggressively, domestically and internationally, under the new arrangement.

In a recent address to Memorex key managers, Burroughs Chairman and Chief Executive Officer W. Michael Blumenthal stated that it was his desire to see Burroughs listed as one of the best-managed companies in the world within five years. The size and strength of the new company should provide greatly expanded career opportunities for all employees. I agree with these observations and, with all of us working together, I am sure they will become a reality.

Burroughs in suggesting a merger with Memorex recognized the obvious strengths of our company. They, like we, believe that we are on the right track toward profitability. It is, therefore, more important than ever that we keep a strong focus on the many improvement programs underway throughout the company which are aimed at returning Memorex to a stable profit position. I feel that we are better positioned today than we have been in recent years to achieve this goal and know that we can count on all of you to meet or exceed our third and fourth quarter profit and cash commitments.

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Interoffice
Correspondence

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For your added information, there are three attachments (1) two stories which I feel tell the story of the merger in a factual vein, one from Electronic News and one from Business Week, (2) a copy of an internal Burroughs memo from J. Jacobson, Vice Chairman of the Burroughs Board of Directors, to the Burroughs Field operation, clarifying the attitude of the company toward any change in our current operation and (3) a copy of a letter being sent to our customers.



C. W. Spangle

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Attachments

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Burroughs Outbids STC With \$105M Memorex Offer

Continued From Page One
roughs announcement over the weekend of Aug 1.

Commenting on the Burroughs move, Jesse Awelda, chairman of STC said: "While we believe that the Memorex shareholders would be better served by a merger with STC, we have no intention at this time of entering into a bidding contest with Burroughs for Memorex."

He called the exchange ratio of 0.4 to 1 which STC had offered "fair and equitable," and stated STC became involved in the first place because the company "was approached by a Memorex representative to re-open merger discussions."

STC had offered Memorex \$193 million in a stock exchange in October, 1979, which was subsequently rejected.

Michael Blumenthal, Burroughs chairman, said that, upon approval by shareholders, the execution of a merger agreement, and a restructuring of Memorex' long-term debt on acceptable terms, the two companies would continue to serve their user bases in memory products and other lines through separate sales and service channels.

Mr. Blumenthal, noting Memorex' position in the magnetic media market, said "Their capability in this field will neatly complement Burroughs' skills in memory devices."

Separate Subsidiary

William Conlin, Burroughs senior vice-president of product management, last week said that initially Memorex would not be combined with existing Burroughs operations "Memorex will be a separate subsidiary to put emphasis on serving their current users," he explained.

Mr Conlin went on to say that Burroughs sees disk storage systems as the Number Two strategic product area in the data processing hardware business, second only to mainframe processors. He said Burroughs had been discussing various joint opportunities with Memorex "for months," but denied that last week's takeover bid was spurred by the Storage Technology bid a week earlier.

He said industry speculation that Burroughs was particularly interested in acquiring Memorex thin film recording head technology was incorrect, as Burroughs has had that technology in-house "for years." He did confirm earlier reports (EN, Data Topics, Aug 31) that Burroughs has held discussions with Magnetic Peripherals, Inc., which industry observers pointed out last week is another source of the advanced disk technology — including thin-film recording — which Burroughs needs. Mr Conlin said talks with MPI, which is jointly owned by Control Data, Honeywell and CII-Honeywell Bull, never materialised.

Combined Debt

Mr. Conlin echoed Mr. Blumenthal's optimism that Burroughs would be able to restructure Memorex' debt, which stands at approximately \$223 million. Combined with Burroughs debt, which stood at \$981 million at the end of June, the merged Burroughs-Memorex corporation would have debt of some \$1.2 billion.

Burroughs is interested in maintaining all current Memorex product lines. Mr Conlin said these include both IBM-compatible storage systems and IBM-compatible terminal systems as well as a consumer tape operation. He said it is "too early to tell" which, if any, Memorex operations might be discontinued if the merger succeeds. Memorex has pared several product lines in recent months, including its IBM General

Systems division-compatible peripherals operation, which was sold last month to Applied Technology Ventures (EN, July 27).

Memorex reported a loss of \$24 million in the second quarter of this year, its fifth consecutive quarter loss. The company recently began negotiations with nine banks under an \$80 million unsecured revolving credit agreement, with two insurance companies under its \$50 million unsecured term loan agreement, and with an additional bank under a short-term unsecured line of credit of \$10 million.



AM OFFEROR THEY COULDN'T REFUSE: W. Michael Blumenthal, Burroughs chairman, conducted some behind-the-scenes discussions over the past few months with Memorex before offering \$105 million cash for the peripherals firm.

STC Bid for Memorex Upstaged by Burroughs

DETROIT — Storage Technology Corp. last week said it would not attempt to counter a cash offer of \$106 million made by Burroughs Corp. for Memorex.

The Burroughs offer pre-empted a proposed stock deal under which STC offered to buy the ailing peripherals manufacturer for approximately \$85 million.

The Memorex board and its principal lender, Bank of America, quickly endorsed the Burroughs package, which will involve the purchase of all Memorex common at \$14.40 a share.

As reported earlier, Burroughs' interest in Memorex was disclosed at the time of the STC offer (EN, Aug. 3) but Burroughs had declined to make any public statement until after the close of trading on the Big Board. Memorex had traded between 10 and 11 until the STC offer, and reached a high of 13 last week after the Bur-

See BURROUGHS, Page 26

How Memorex may pay off for Burroughs

Burroughs Corp's Aug. 2 announcement that it will purchase Memorex Corp. for \$105.2 million in cash involves a big risk for the Detroit-based company. Memorex has lost money for five straight quarters. Moreover, its business in memory-storage devices that work with computers made by International Business Machines Corp. seems to have little fit with Burroughs. But if W. Michael Blumenthal, Burroughs' chairman, can succeed in turning around the ailing peripherals maker, he may have made a strategic acquisition that will pay off in the long

run. "We don't do this sort of thing for what it's going to do in three months," he says. "We want to position ourselves strongly for the period past 1983."

While the Memorex purchase still leaves Burroughs without certain kinds of product*, notably in small computers and communications, it puts Burroughs into the original equipment market for peripheral gear—a major strategic move. And it will beef up Burroughs' nearly obsolete line in peripheral memory devices, which account for a large part of a computer system's cost and are increasingly important in determining its performance. Of greatest interest to Burroughs are Memorex's high-density memory devices, which will offer greater storage capacity than anything else now available.

Compatibility. At least for now, Memorex will continue to sell its line of IBM-compatible storage devices, although it may later make products for Burroughs. Industry watchers say that getting the Memorex line to work with Burroughs' computers could be accomplished in six to nine months, and Blumenthal points out that his company already buys from Memorex much of the raw storage material for the memory products that Burroughs manufactures. "The big expense is to get into disk technology," explains William D. Easterbrook, an analyst with

The acquisition could boot up a nearly obsolete line of computer memory devices

Kidder, Peabody & Co. "To make it compatible with a particular computer is a much smaller part of the job."

Also important to Burroughs is Memorex's strong international network of original equipment makers (OEMs), who take its products and repackage them in larger systems. Although Burroughs currently gets 45% of its annual revenues of \$2.9 billion from abroad, most of these sales are made through its direct sales force. "Moving a lot of products through the [OEM] market would be beneficial to Burroughs," says Blumenthal.

Making the marriage work will not be easy, however. Wall Street analysts point out that Blumenthal already has his hands full correcting the management, manufacturing, and marketing problems that caused net earnings at Burroughs to plummet 73% last year, to \$81.9 million. And he is struggling to reduce Burroughs' \$981 million of debt. Burroughs' management "is already up to its eyeballs with the existing challenge of trying to stave off becoming a dinosaur," says Stephen T. McClellan, an analyst at Salomon Bros. in New York.

The current financial picture is even bleaker at Memorex, where sales are



Blumenthal: "We want to position ourselves for the period past 1983."

stagnant and losses totaled \$31.5 million for the first half of 1981. Memorex's \$223 million in debt is two times its \$111.5 million shareholder equity, and many on Wall Street believe that only Memorex gets any clear advantages in Use deal. Over the past two years, Memorex turned down merger proposals from Amdahl Corp. and Storage Technology Corp. This time, however, Memorex's worsening financial position may have caused Bank of America and other creditors to "put a gun to Memorex's head and say, 'Sell out,'" suggests James R. Berdell, a partner at Montgomery Securities in San Francisco.

Expectations. Blumenthal is convinced, however, that Memorex will not be the burden these analysts expect. He explains that Memorex's most recent losses stemmed from phasing out old product lines and manufacturing foul-ups that prevented the company from reaching profitable volumes.

It is in the area of manufacturing, says Blumenthal, that Burroughs has the most to offer Memorex. He figures that the combined company could easily achieve sales of \$800 million to \$1 billion in memory products, and at far greater profit than each company could earn separately. To start to obtain such economies of scale, Blumenthal says he will quickly combine research and development, engineering, and purchasing.

Looking back, Memorex's earnings have been on a yo-yo. The company lost money in the early 1970s, sliding \$90 million into the red in 1973, but bounced back in 1977 to a high of \$56 million in earnings. Since then, they have steadily declined. Clarence W. Spangle, the chief executive of Memorex since January, 1980, has already cut the work force by 10%, consolidated sales operations, and eliminated some product lines, so Blumenthal thinks Memorex can once again become profitable. "Next year," he predicts, "Memorex will not be a drain on our earnings; in fact, we expect to make money on it."

To: Burroughs Managers

August 13, 1981

From: J. Jacobson

Until the Memorex merger is completed and for some time after that, we will not know precisely how we may wish to coordinate selected common activities or functions. In the meantime you can appreciate that Memorex people—particularly in the field—will be very sensitive to any indications that long-term decisions effecting them personally have been made—when indeed such is clearly not the case.

Already one well-meaning Burroughs employee called his Memorex counterpart and indicated that the Memorex office would be moved into the local Burroughs location. This call rather unnerved the Memorex sales manager. It was entirely inappropriate for such a statement to be made at this time.

It is clearly our joint intention to optimize the total capabilities and resources of both Memorex and Burroughs following the merger, but at this time any speculation as to how and when this might be accomplished is out of order. Everyone—both Memorex and Burroughs people—can be assured that when such decisions are made all factors will be considered carefully. Therefore, if our people have an occasion to become acquainted with their Memorex counterparts, let them avoid any suggestions that they know how our activities are to be coordinated.

Memorex Corporation

San Tomas at Central Expressway
Santa Clara, California 95052
408/987 2000

C. W. Spangle
Chairman and Chief Executive Officer

August 17, 1981

Dear Friends:

As a Memorex customer you must be interested in the recent news that Memorex's Board of Directors has accepted an offer from Burroughs Corporation to merge with Memorex. I would like to take this opportunity to explain to you how the merger is expected to benefit both companies and yourselves.

When the merger is completed—which should be well before the end of the year—Memorex will become a stand-alone subsidiary of Burroughs Corporation. Both Memorex and Burroughs are strongly supportive of the merger and are preparing a definitive agreement that will be submitted to Memorex shareholders for their approval.

We believe that a merger of the two companies will enhance Memorex's ability to serve its customers and will result in a very strong company. The combination of the companies' revenues would make us the second largest firm in the data processing industry—approaching \$4.5 billion of revenues in 1981.

Memorex will continue to develop and support its current customer equipment base. We will continue to introduce and support competitive new products for the IBM plug-compatible storage and communications equipment markets. The OEM market for current Memorex products will continue to be served. In addition, we expect a stream of new products for the OEM market from the development efforts of both Burroughs and Memorex.

Memorex's original business, Computer Media, will continue as an important activity.

During a recent visit to Memorex, Mr. W. Michael Blumenthal, Chairman and Chief Executive Officer of Burroughs, said that within the next five years, it is his desire to have the company recognized as one of the five best managed companies in the world. We believe that Memorex can make an effective contribution toward that goal.

MEMOREX

Memorex brings a wealth of experience, technology, quality products, customers, and talented employees to Burroughs. Burroughs has a broad computer system, office products and system development product line. Both companies cover the world markets for information processing. Our strengths in various countries complement each other. The combined research and development commitment for 1981 will be in excess of \$250 million for information processing products.

We are enthusiastic about the merger because we believe the combined forces will enable us to bring more and better products and services to our industry.

As a valued customer, we thank you for your past business and look forward to continuing our association.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "C. W. Spangle".

C. W. Spangle

CWS:lh