



	<i>Year ended December 31</i>	
	<i>1966</i>	<i>1965</i>
Net sales	\$24,417,000	\$13,099,000
Income before provision for Federal and foreign income taxes	5,181,000	2,481,000
Net income after taxes	2,724,000	1,331,000
Net income per share (based upon average number of shares outstanding during year)	2.67	1.35
Depreciation expense	828,000	423,000
Research and development expense	1,454,000	747,000
Net working capital	8,738,000	1,977,000
Long-term debt	12,055,000	2,352,000
Shareholders' equity	6,673,000	3,909,000
Return on shareholders' equity (average during year)	51.5%	41.1%
Shares outstanding at year's end	1,036,891	1,004,016
Employees at year's end	918	442

Memorex Corporation manufactures precision magnetic tapes which are used for the recording and storage of information by computers and scientific instrumentation recorders, and the recording and reproduction of television pictures and sound by video tape recorders. Memorex has currently under development a diversification into the allied field of disc memory media.

The Company's products are sold world-wide to customers operating computers, commercial broadcast and closed-circuit television installations, and government agencies and private contractors in the missiles and space field.

This Annual Report is designed to be read in a few minutes and, in addition to the report of results for 1966, necessarily contains an abbreviated description of operations. More detailed information on the technology, markets and applications of Memorex's products is set forth in our 1965 Annual Report, copies of which are available from the Company.

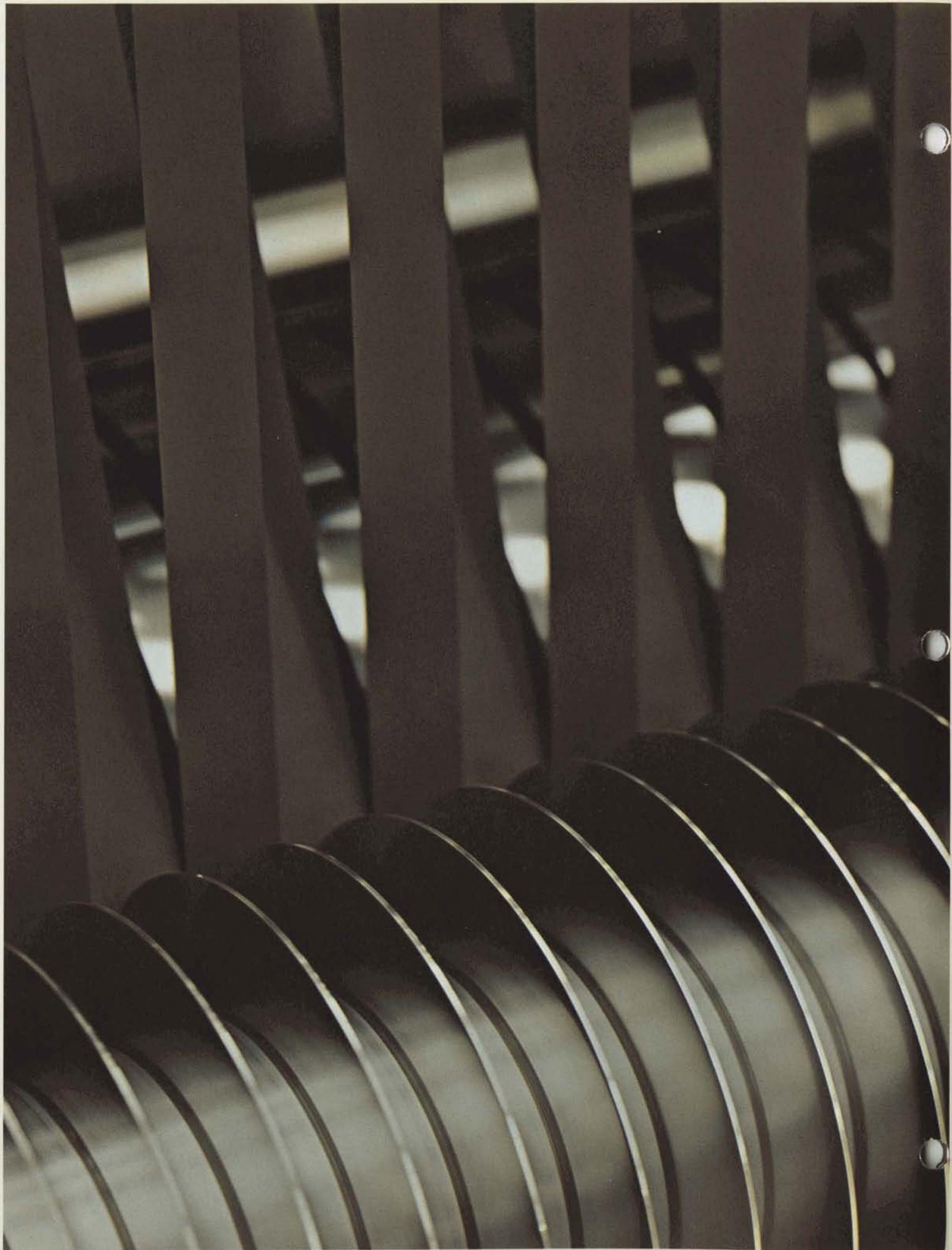


TO SHAREHOLDERS AND FRIENDS

To characterize the sixth year of Memorex business in a phrase, it was a year of high-level growth and maturation.

The summarized financial highlights of 1966 on the preceding page show the growth. For the fourth consecutive year, sales, net income, and earnings per share increased by sizable increments: 86%, 105% and 98%, respectively. Again in 1966, the Company maintained its ranking as one of the world's two leading developers and manufacturers of precision magnetic tapes. This last fact is true in terms of dollar sales, in terms of market share, and, perhaps most important, in terms of the endorsement of the excellent quality of Memorex products by the most critical magnetic tape users in the world.

The increasing figures of our financial statements—as important as they are to us all—are only one evidence of the growth and maturation of our business. To add another dimension to this record, we should like to tell you about seven significant achievements during 1966, each of which represents a basic improvement in our capabilities. We believe that these achievements provide a platform for further Memorex progress in 1967 and in the years to follow.



DOUBLED CAPACITY

One achievement of major significance in 1966 was that Memorex doubled its production capacity. Additions of new, highly-automated production lines were completed and brought on-stream by mid-year to end the production limitations on sales that had prevailed earlier.

Further expansion of capacity, including a project for construction of European manufacturing facilities, is being made in 1967.

Most of the equipment added in the doubling of our capacity is proprietary—designed, constructed and installed by the Memorex engineering staff.

The scope of the 1966 expansion is evidenced by the fact that more than 5,000 engineering drawings for equipment were prepared during the project.

The complexity and precision of Memorex manufacturing equipment result from its requirement to apply a chemically, physically and magnetically homogeneous coating less than a thousandth of an inch thick to a surface 25 inches wide and often over a mile long. The thickness of coating varies by less than 1/60th of that of a human hair, and this degree of precision is maintained for mile after mile of tape, day after day of round-the-clock production.

Production and quality control staffs were expanded during the year to handle the increased sales volume. To assure the uniformity of quality of Memorex products during 1966, notwithstanding the production expansion, the Company maintained a ratio of one person engaged in quality control activities for every person engaged in production work.



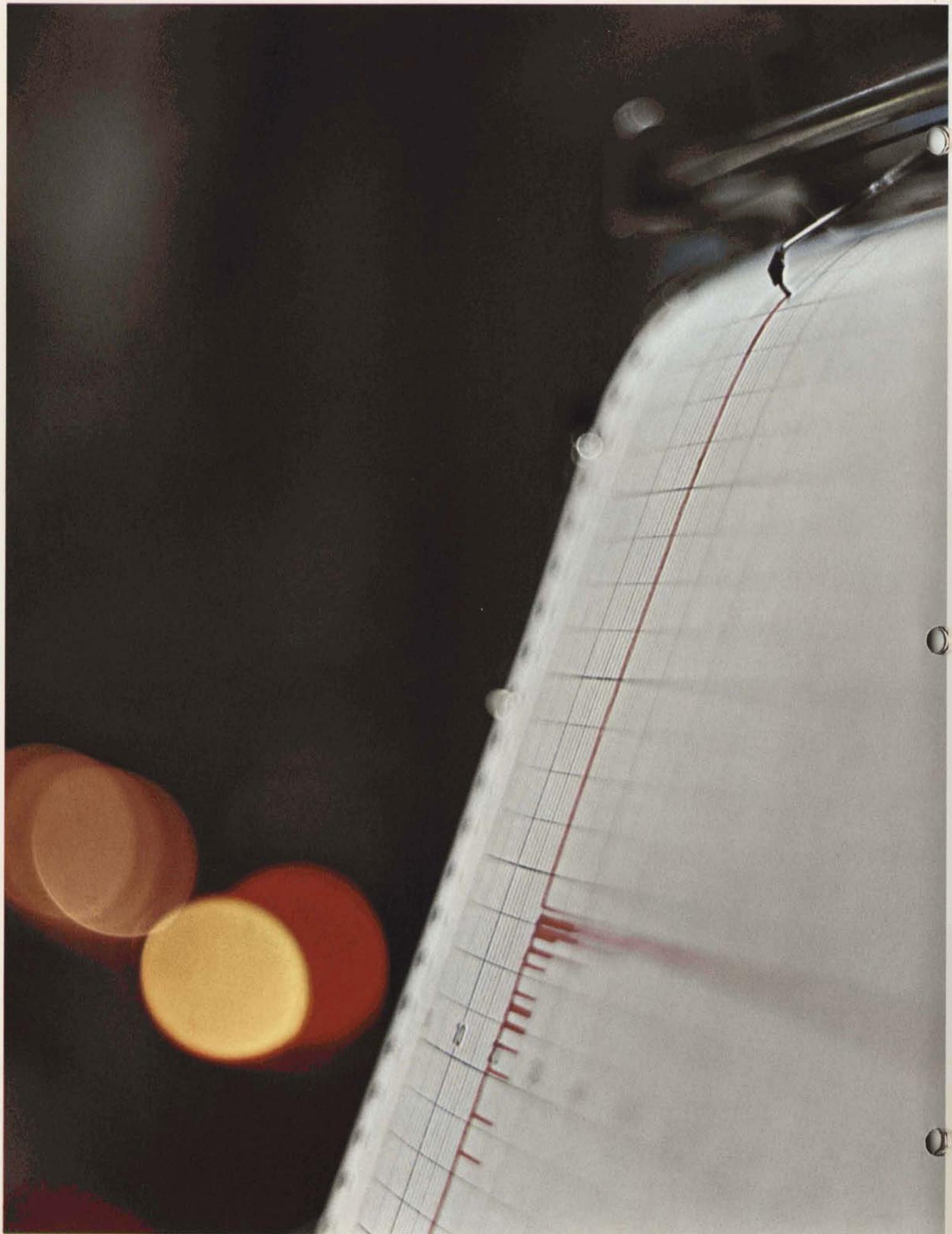
STRONGER SELLING CAPABILITY

Improvements in our production capacity and the competitive excellence of our products were paralleled by a third significant accomplishment: strengthening of our selling capability.

In the United States, the number of Memorex sales engineers doubled. New sales offices were established in Denver, Houston, St. Louis, Birmingham, Syracuse, and Boston, bringing the total number of branch offices at year end to 18. This not only achieved wider coverage of new customers, but allowed the personnel of existing branch offices in large markets such as New York and Chicago to better concentrate activities in their own important areas.

Overseas, the sales staff tripled and sales volume also tripled. A sales subsidiary in Brussels was added in 1966 to those in London, Paris and Cologne.

For some years the growth of European markets for precision tape lagged behind those in the United States, but now they are growing at a faster rate. Memorex's aggressive penetration of these markets in 1966 increased the Company's international sales to approximately 20% of total volume compared to 10% in 1965.



LARGER CAPITALIZATION

A fourth important step in 1966 was Memorex's offering of \$12,000,000 of 5% Convertible Subordinated Debentures with its favorable effects of increasing the Company's stability and broadening its horizons, and with a minimum of potential dilution (14%) in the ownership of Common Shareholders.

This substantial financing together with the year's net profit brought the Memorex total capitalization to \$18,672,784 at year end. Prior to the financing, the Company suffered the disadvantage of undercapitalization. The current capital base relative to the size of Memorex's business is significant in several ways.

First, it will permit a major expansion of sales, as well as increase the Company's ability to borrow additional capital as future needs arise.

Second, it will permit the Company to withstand an unanticipated period of adversity, if such occurs in the future.

Third, it provides the Company sufficient capital to explore new business opportunities opened by its enlarged technical and marketing capabilities.



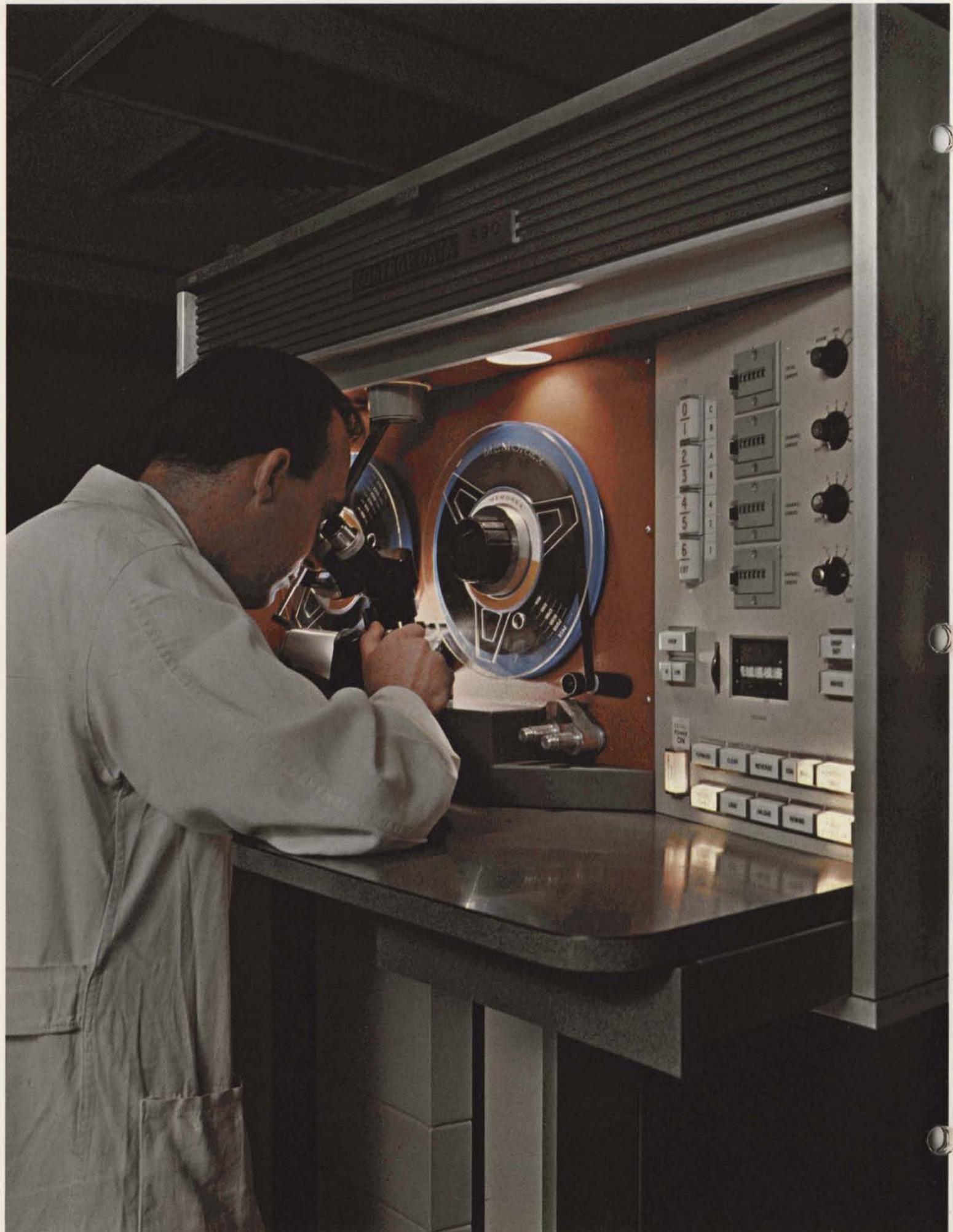
Memorex's fifth achievement in 1966 was a significant improvement in its operating efficiency.

Recognizing the organizational problems that commonly face a rapidly growing company, management undertook in 1966 to study and restructure its organization and systems, as necessary, to enable it to meet the challenges of its proposed continued growth.

Cost reduction programs were undertaken throughout the Company. Improved production yields were achieved through greater use of statistical sampling methods and intensified process control. Other programs for improving manufacturing capability include the installation of an underground tank facility for more efficient purchasing, storage and handling of liquid raw materials in bulk form, and the installation of a conveyORIZED handling system that greatly speeds the packaging and shipping of finished goods. Comdata Corporation, a Memorex subsidiary, for the first time manufactured virtually all of the precision metal reels required for video and instrumentation tapes, effecting cost savings and providing an assured source of supply of these high quality components.

IMPROVED OPERATIONS

These are examples of the advances in efficiency being pursued in every area of our operations. They have paid off in 1966 and will continue to do so in the coming years.



EXPANDED RESEARCH

A sixth achievement in 1966: to maintain its competitive position and to anticipate the requirements of a rapidly advancing technology, Memorex doubled the size of its Research facility.

The work of the Research staff in three basic areas of polymer chemistry, magnetic materials and fine particle physics, and magnetic tape recording technology has contributed greatly to the excellence of the products we now market. Beyond this, the Memorex research program works toward basic long-term breakthroughs and toward the opening of new avenues in materials and processes applicable to magnetic memory storage media.

It is this effort now that will assure the competitive excellence and profit potential of Memorex products in the future.



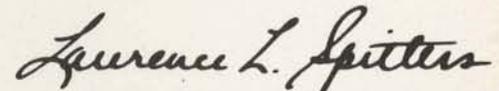
DIVERSIFICATION

A seventh accomplishment in 1966 — not the least significant though I mention it last — was the action taken to launch a new subsidiary, Disc Pack Corporation. Originally the owner of a minority interest, Memorex contracted to support all Disc Pack Corporation operations during 1966 and then acquired full ownership of the subsidiary at year end. Its business is the development and manufacture, expected to begin during 1967, of disc pack devices which will constitute a diversification for Memorex. Disc Packs are rapid access data storage devices used by IBM and other computers to complement lower cost but slower access magnetic tapes.

This step is a logical extension of Memorex's business into another area of magnetic coated memory devices and media. It involves much of our existing tape technology in magnetic materials and in magnetic coatings formulations, as well as extensive research, development and engineering of disc manufacturing processes and quality control techniques. Disc Pack devices will be marketed by Memorex's established domestic and international sales organizations to many of the same customers who now use Memorex's computer tapes.

These substantial accomplishments achieved by the skills, enthusiasm and round-the-clock efforts of the people who make up Memorex, and the year's excellent financial results made 1966 successful by qualitative and quantitative measures. I think you will agree that both the accomplishments and the people who made them are assets which underlie continued success.

Sincerely,



President

	<i>For the Years Ended December 31</i>	
	1966	1965
Net Sales	<u>\$24,417,253</u>	<u>\$13,098,835</u>
Operating Costs and Expenses (including depreciation of \$828,085 in 1966 and \$422,950 in 1965) :		
Cost of manufacture	13,506,697	7,751,303
Research and development expense	1,454,351	746,647
Selling, general and administrative expenses	3,330,142	1,708,151
Employee profit sharing expense	575,479	280,185
	<u>18,866,669</u>	<u>10,486,286</u>
Operating Income	5,550,584	2,612,549
Interest Expense	369,488	131,216
Income before Federal and Foreign Income Taxes	5,181,096	2,481,333
Provision for Federal and Foreign Income Taxes	2,457,000	1,150,000
Net Income	<u>\$ 2,724,096</u>	<u>\$ 1,331,333</u>
Net Income per Share (Note 6)	<u>\$2.67</u>	<u>\$1.35</u>

The accompanying notes are an integral part of this statement.

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS, MEMOREX CORPORATION

We have examined the consolidated statement of financial position of MEMOREX CORPORATION (a California corporation) and subsidiaries as of December 31, 1966, and the related consolidated statements of income, shareholders' equity, and source and use of funds for the year 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. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the financial statements referred to above present fairly the financial position of Memorex Corporation and subsidiaries as of December 31, 1966, and the results of their operations and the sources and uses of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

San Jose, California,
February 3, 1967.

	<i>December 31</i>	
	<i>1966</i>	<i>1965</i>
CURRENT ASSETS:		
Cash	\$ 577,334	\$ 389,958
Temporary investments in government obligations, at cost	4,079,234	—
Accounts receivable	5,653,595	2,938,494
Inventories, at the lower of cost (first-in, first-out) or market	3,067,455	1,700,074
Prepayments	172,515	55,253
	<u>13,550,133</u>	<u>5,083,779</u>
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 3)	55,085	605,702
Accounts payable	2,005,398	1,026,930
Accrued liabilities—		
Salaries, wages and commissions	273,450	170,940
Profit sharing	575,479	280,085
Federal and foreign income taxes	1,133,287	661,400
Other	469,120	61,465
Product warranty reserve	300,000	300,000
	<u>4,811,819</u>	<u>3,106,522</u>
WORKING CAPITAL	<u>8,738,314</u>	<u>1,977,257</u>
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 3):		
Land	478,256	476,849
Buildings and improvements	4,925,355	2,465,128
Machinery and equipment	5,686,098	2,017,158
Furniture and fixtures	407,236	238,565
	<u>11,496,945</u>	<u>5,197,700</u>
Less accumulated depreciation	1,637,272	770,488
	<u>9,859,673</u>	<u>4,427,212</u>
OTHER ASSETS	<u>746,226</u>	<u>88,714</u>
DEDUCT OTHER LIABILITIES:		
Deferred Federal income taxes (Note 2)	616,344	232,050
Long-term debt (Note 3)	12,055,085	2,352,007
Commitments (Note 4)	—	—
	<u>12,671,429</u>	<u>2,584,057</u>
SHAREHOLDERS' EQUITY	<u>\$ 6,672,784</u>	<u>\$3,909,126</u>
REPRESENTED BY (Notes 3, 5, 6 and 7):		
Common stock	\$ 1,036,891	\$1,004,016
Paid-in surplus	855,247	848,560
Retained earnings	4,780,646	2,056,550
	<u>\$6,672,784</u>	<u>\$3,909,126</u>

The accompanying notes are an integral part of this statement.

For the Year Ended December 31, 1966

	<u>Total</u>	<u>Common Stock</u>	<u>Paid-in Surplus</u>	<u>Retained Earnings</u>
Balance December 31, 1965	\$3,909,126	\$1,004,016	\$848,560	\$2,056,550
Net income for the year	2,724,096	—	—	2,724,096
Proceeds from sale of common stock to employees under stock option plan	24,562	7,875	16,687	—
Acquisition of Disc Pack Corporation (Note 7):				
25,000 shares issued	76,783	25,000	51,783	—
10,000 shares returned to treasury incident to the transaction	(61,783)	—	(61,783)	—
Balance December 31, 1966	<u>\$6,672,784</u>	<u>\$1,036,891</u>	<u>\$855,247</u>	<u>\$4,780,646</u>

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Years Ended December 31
1966 1965

FUNDS WERE OBTAINED FROM:

Net income	\$ 2,724,096	\$1,331,333
Depreciation	828,085	422,950
Increase in deferred Federal income taxes	384,294	118,050
Total funds from operations	<u>3,936,475</u>	<u>1,872,333</u>
Net increase in long-term debt	9,703,078	1,314,739
Proceeds from issuance of common stock	39,562	46,296
Total funds obtained	<u>\$13,679,115</u>	<u>\$3,233,368</u>

FUNDS WERE USED FOR:

Additions to property, plant and equipment, net	\$ 6,260,546	\$2,185,429
Increase in other assets	657,512	31,761
Costs of registration of common stock with S.E.C.	—	33,237
Increase in working capital	6,761,057	982,941
Total funds used	<u>\$13,679,115</u>	<u>\$3,233,368</u>

The accompanying notes are an integral part of this statement.

December 31, 1966

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and all wholly-owned subsidiaries after elimination of intercompany accounts and transactions. Investments in unconsolidated subsidiaries, which are not significant, are stated at cost, adjusted for the company's equity in their undistributed net income.

2. DEFERRED FEDERAL INCOME TAXES

Deferred Federal income taxes have been provided to recognize differences in reporting certain expenses (principally depreciation) in the tax returns from those recorded in the books. As a result, \$616,344 of income taxes otherwise payable have been deferred; however, such amount has been charged to income and credited to Deferred Federal Income Taxes in the 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.

3. LONG-TERM DEBT

Long-term debt at December 31, 1966, consisted of the following:

5% convertible subordinated debentures, due August 1, 1986	\$12,000,000
6% note payable secured by deed of trust on certain land, due in annual installments through April, 1968	110,170
	<u>12,110,170</u>
Less — Current Portion	55,085
	<u>\$12,055,085</u>

The debentures are convertible into shares of the company's common stock at \$72 per share, subject to certain adjustments provided in the Indenture. 166,666 shares have been reserved for issuance upon conversion. The debentures are redeemable at the company's option at the prices set forth in the Indenture. The company will pay, into a sinking fund, an amount sufficient to redeem \$960,000 of debenture principal annually on August 1 from 1976 through 1985. The debentures are subordinated to all senior indebtedness, as defined in the Indenture. The Indenture also restricts cash dividend payments to retained earnings after June 30, 1966. Retained earnings at that date were \$3,272,211.

4. 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 these lease contracts were \$594,000 at December 31, 1966, of which \$227,000 was due within one year.

As of December 31, 1966, the outstanding commitments for

additions to property, plant and equipment were approximately \$1,000,000.

5. STOCK OPTION PLANS (PARENT COMPANY)

Changes during 1966 in the status of options granted under the Stock Option Plans were:

Year Granted	Option Price	Shares Under Option—Changes During Year				
		Jan. 1, 1966	Granted	Exercised	Terminated	Dec. 31, 1966
1962 ⁽¹⁾	\$20	3,750	—	1,875	—	1,875
1963 ⁽¹⁾	.50 to 3.33	12,000	—	3,750	—	8,250
1964 ⁽¹⁾	3.67 to 6.67	6,750	—	2,250	—	4,500
1966 ⁽²⁾	32.87 to 65.13	—	22,400	—	200	22,200
		<u>22,500</u>	<u>22,400</u>	<u>7,875</u>	<u>200</u>	<u>36,825</u>

(1) Options were granted under a Restricted Stock Option Plan adopted in 1961. No additional shares will be issued under this plan.

(2) Options were granted under a Qualified Stock Option Plan adopted in 1965. Under this plan, options may be issued to key employees to purchase common stock at 100% of market value of the shares at the dates the options are granted. 70,000 shares of the company's common stock were reserved for issuance under this plan.

Both plans provide, among other things, that the options may be exercised at one-fourth the total shares each year on a cumulative basis, beginning 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.

6. COMMON STOCK AND NET INCOME PER SHARE

Authorized and outstanding shares of \$1 par value common stock were as follows:

	December 31	
	1966	1965
Authorized	<u>5,000,000</u>	<u>5,000,000</u>
Outstanding (including 10,000 shares held in treasury at Dec. 31, 1966)	<u>1,036,891</u>	<u>1,004,016</u>

Net income per share is based on the average number of shares outstanding during the year, excluding 10,000 shares held in treasury.

7. ACCOUNTING FOR DISC PACK CORPORATION ACQUISITION

In January 1967 the company exercised its option to acquire the remaining 60% ownership of Disc Pack Corporation by issuing Memorex common stock. Inasmuch as the decision to acquire Disc Pack was made in 1966, and its operations in 1966 were wholly supported by the company, the acquisition has been accounted for as a "pooling of interests" and reflected in the 1966 consolidated financial statements.

Disc Pack was organized in late November 1965, and its financial condition as of December 31, 1965, was not significant; therefore, it was not necessary to restate the 1965 consolidated financial statements.



MANAGEMENT: LAURENCE L. SPITTERS, *President and Chairman of the Board of Directors*

W. L. NOON,
Vice President, Administration

EUGENE L. ROGERS,
Vice President, Administration

REX D. LINDSAY, *Vice President*

EDWARD S. SEAMAN, *Vice President*

CARL A. ANDERSON, *Secretary*

GORDON O. SHEPPARD, *Treasurer*

HOWARD N. BURKHART,
Assistant Treasurer

RICHARD D. BOUCHER
(Director of Manufacturing Division)

ROBERT M. BRUMBAUGH
(President, Peripheral Systems Corporation, a subsidiary)

FREEMAN M. CRANK
(General Manager, Comdata Corporation, a subsidiary)

ERIC D. DANIEL
(Director of Research Division)

D. JAMES GUZY
(Managing Director, International Operations, London)

GORDON MACBETH *(Director of Chemical Development Division)*

STANLEY W. MEYER
(Director of Quality Control Division)

RAYMOND STUART-WILLIAMS
(President, Disc Pack Corporation, a subsidiary)

BOARD OF DIRECTORS: ALGER CHANEY, *Chairman of the Board of Medford Corporation*

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W. L. NOON, *Vice President*

EUGENE L. ROGERS, *Vice President*

T. ROBERT SANDBERG, *Vice President Cutter Laboratories, Inc.*

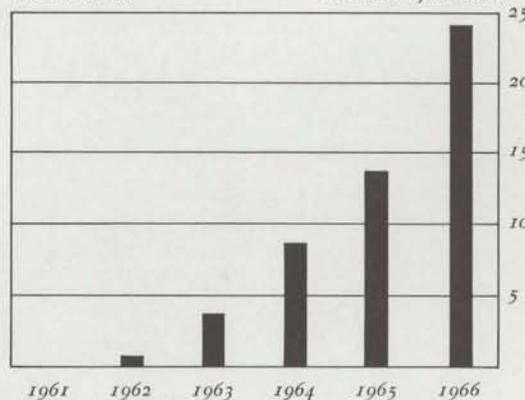
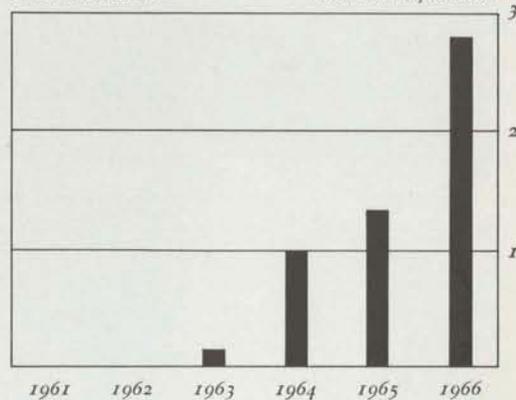
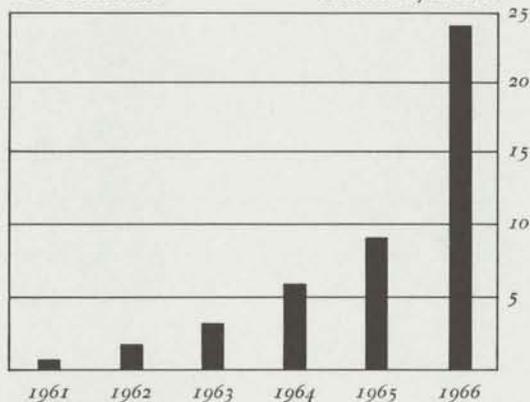
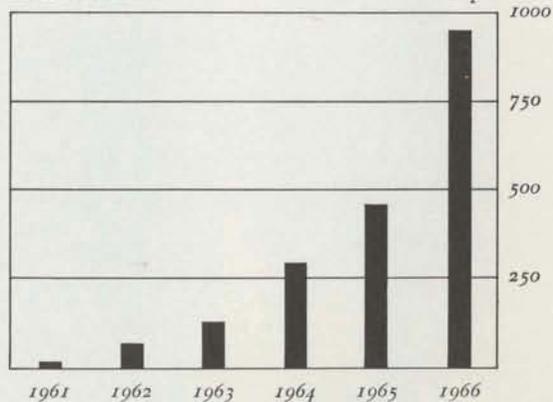
LAURENCE L. SPITTERS, *President*

FRED M. VAN ECK, *Partner J. H. Whitney & Co.*

DR. THEODORE VERMEULEN,
Professor of Chemical Engineering, University of California

*(Dollar amounts in thousands except per share earnings)**Years Ended December 31*

	1966	1965	1964	1963	1962	1961
OPERATING DATA						
Net Sales	\$24,417	\$13,099	\$8,042	\$3,486	\$ 475	\$—
Net Income:						
Before Taxes	5,181	2,481	1,962	454	(694)	(314)
After Taxes	2,724	1,331	1,002	218	(694)	(314)
Per Common Share . . .	2.67	1.35	1.04	.23	(.85)	(.42)
Depreciation	828	423	252	141	93	28
Research and Development	1,454	747	452	288	457	308
FINANCIAL DATA						
Working Capital	8,738	1,977	994	642	331	586
Total Assets	24,156	9,600	5,377	2,089	1,710	1,363
Long-term Debt	12,055	2,352	1,037	—	—	—
Shareholders' Equity . . .	6,673	3,909	2,565	1,594	1,515	1,263
Average Number of Common Shares Outstanding . . .	1,020,745	987,590	964,050	955,650	817,770	750,000
Number of Employees at Year's End	918	442	306	146	78	24

NET SALES *Millions of Dollars*NET INCOME *Millions of Dollars*TOTAL ASSETS *Millions of Dollars*EMPLOYMENT *People*

MEMOREX EXECUTIVE OFFICES: Memorex Corporation
Santa Clara, California 95050

MEMOREX SUBSIDIARIES: Comdata Corporation
Los Angeles, California
Disc Pack Corporation
Hawthorne, California
Peripheral Systems Corporation
Mountain View, California

MEMOREX BRANCH OFFICES: Boston (*Lowell*)
(617) 454-1582
Hartford (*Vernon*)
(203) 643-9616
Syracuse
(315) 458-6672
New York (*Totowa, N. J.*)
(201) 256-4100
Philadelphia (*Pennsauken, N. J.*)
(609) 662-3047
Washington, D. C. (*Bethesda, Md.*)
(301) 654-2545
Atlanta
(404) 231-4865
Orlando
(305) 424-3302
Detroit (*Southfield*)
(313) 353-2670
Dayton
(513) 223-9552
Chicago (*Elmhurst*)
(312) 834-8926
Birmingham
(205) 252-1169
St. Louis
(314) 961-7070
Houston
(713) 622-1413
Dallas
(214) 363-8977
Denver
(303) 244-5473
Los Angeles
(213) 477-1018
San Francisco (*Belmont*)
(415) 593-1691

MEMOREX INTERNATIONAL OPERATIONS: Memorex Precision Products Ltd.
Maidenhead, Berkshire, England
Memorex S.A.
Brussels, Belgium
Memorex S.A.R.L.
Paris, France
Memorex GmbH
Cologne, West Germany
Memorex AB
Stockholm, Sweden
Memorex A/S
Oslo, Norway
Memorex S.R.L.
Milan, Italy
Memorex AG
Zurich, Switzerland

MEMOREX