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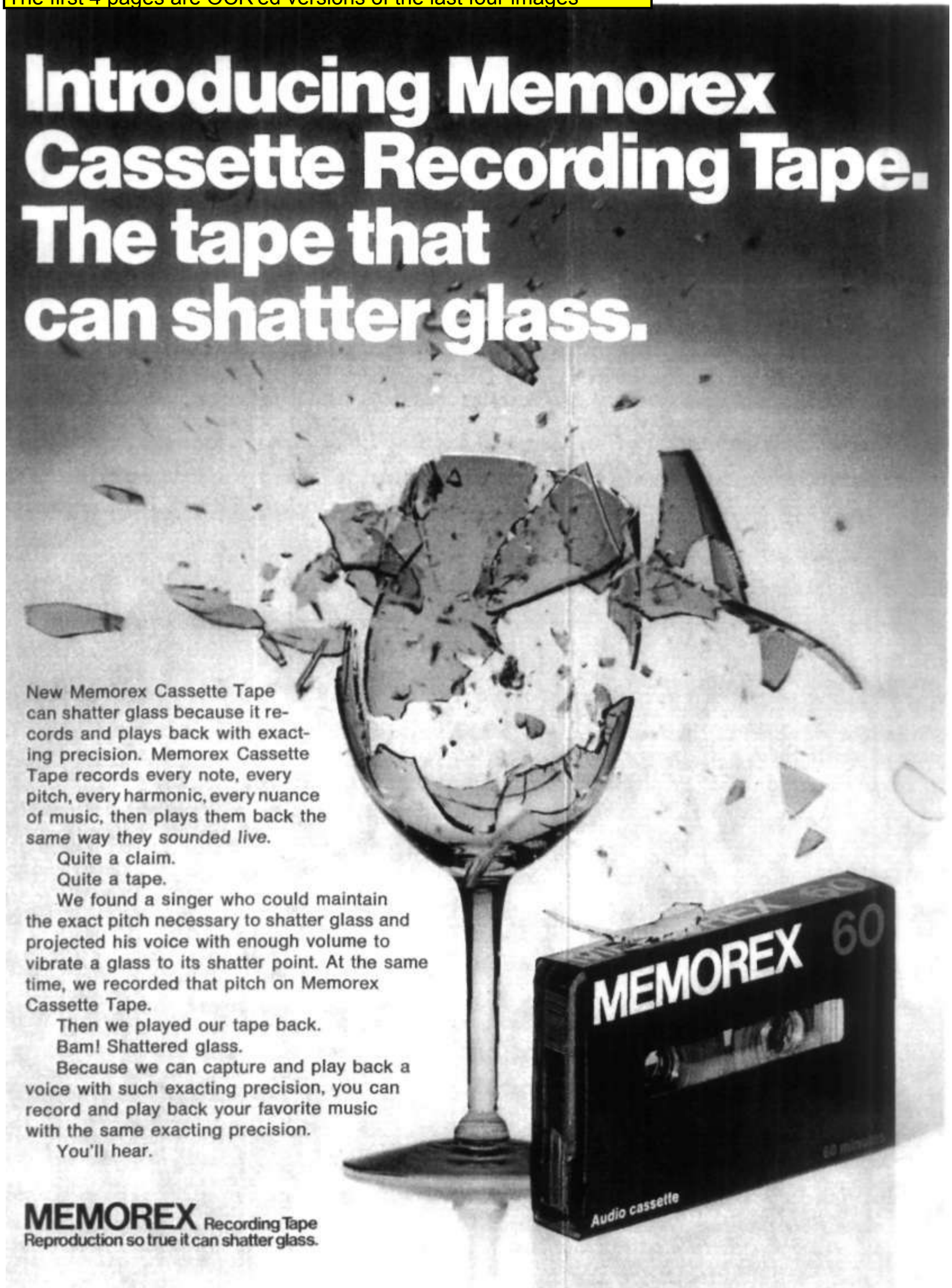

MEMOREX

Interim Report
Nine months ended September 30,1971

To Memorex Shareholders:

November 15, 1971

Progress continued during the Third Quarter in building the base of equipment for lease to computer users in worldwide markets. Combined (Memorex and ILC) rental revenues from this base of equipment for lease exceeded 45% of total revenues in the Third Quarter. By year-end 1971, we project the annual rate of combined rental revenues will approach $70,000,000.

Combined net investment in equipment for lease at September 30, 1971, approximated $100,000,000 and at year-end 1971 is projected to exceed $120,000,000. This investment represents Memorex's total capitalized costs, including all deferred costs, for products which are now commercialized and included in the lease base.

Combined total revenues for the nine months ended September 30, 1971, were $80,600,000. Revenues in 1971 are not comparable to results in 1970 due to the major shift to leasing of our equipment products during the past 12 months. Evidence of the importance of this shift is the six times increase in rental revenues in Third Quarter 1971 compared with the same period a year earlier. The physical volume of shipments continued in the Third Quarter at about the same level as in the Second Quarter of 1971.

Combined net loss for the nine months ended September 30, 1971, was $5,276,000, after credit for income taxes. This net result is reported after charges to income for depreciation and amortization which totalled $17,341,000. The latter are non-cash charges which provide an increasing internal source of funds for re-investment in the growth of our lease base.

Based upon 3,895,000 average shares outstanding, the combined net loss for the nine months was $1.35 per share. The loss in the Third Quarter was $0.37 per share, compared to $0.39 in the Second Quarter and $0.59 in the First Quarter.

Our longer term profitability in operations will materialize with the steady improvement in the relationship between rental revenues and period costs, as investment in the lease base is reflected in the cumulative growth of rental revenues. On the other hand, the principal determinant of immediate results in 1971 has been the lack of profitability in our outright sales business, principally magnetic tape products. To date, in 1971, despite significant unit cost reductions and work force reductions, our media business has not met our profit objectives. Hence, our expected attainment of break-even profit has been delayed to early 1972, at which time the stability of results of operations will also be assured by our leasing business which will then provide the major portion of corporate revenues.

Memorex has achieved, in the period 1970-71, the position of leadership among independent manufacturers of disc drive storage systems for use with IBM computers. Our leadership in the future markets is underpinned by the high performance characteristics of Memorex's next generation disc drive equipment, designated the 3670 Disc Storage System. This product, publicly announced in October, offers attractive price-performance advantages over the counterpart IBM 3330. First shipments are scheduled for Fourth Quarter 1972. Concurrently, Memorex will make initial shipments of the Mark X disc pack, which will be marketed with the 3670 System, as well as to users of IBM 3330 equipment.

Three other recent product announcements are notable. The Memorex 1240 Communications Terminal, with optional higher speed capability, now prints at 120 characters per second. The 1240 previously offered speeds ranging from 10 to 60 characters per second. This new capability makes the Memorex terminal the most versatile and fastest unit on the market with roughly ten times the speed of the most widely used Teletype and IBM terminals.

The Memorex 1600 Computer Output Microfilm product line is enhanced by a new off-line microfilm printer, the 1670 COM System. The new system produces microfilm records from either disc packs or magnetic tape, and complements the on-line 1603 COM equipment which attaches directly to the computer's output channel. Both systems are also now available under a metered usage plan allowing low-cost introduction of microfilm systems to new users. Memorex's COM product line includes microfiche as well as film record capability.

Third, Memorex has added a new media product line of xerographic toners. Toners are dry ink powders for use in office copying machines. These products have a good potential in the ever expanding market for office supplies and represent a promising diversification for our media business.

We have recently restructured our equipment and precision media organizations on a corporatewide functional basis. This structure is designed to reduce administrative costs and to provide for decision making which optimizes results across equipment and precision media product lines on a worldwide basis. Mr. D. James Guzy, Executive Vice President, is now responsible for operations, including development, manufacturing, and marketing. Other vice presidents reporting to me are: Mr. H. J. Krauter, finance; Mr. J. R. Eastling, planning; Mr. D. H. Elliott, personnel, facilities and advertising; and Mr. R. Jaunich II, Consumer Products Division.

Sincerely,

Laurence L. Spitters

Laurence L. Spitters, President

	Nine Months Ended September 30			
	1971			1970
	Memorex Corporation & Majority-Owned Subsidiaries	ILC Peripherals Leasing Corporation	Combined	Combined
Net Sales and Revenues (excluding $57,378,000 and $14,167,000 billed to ILC in 1971 and 1970, respectively)	$78,402,000	$16,593,000	$80,627,000	$60,485,000
Operating Costs and Expenses (excluding $40,940,000 and $11,227,000 applicable to amounts billed to ILC in 1971 and 1970, respectively)**	81,903,000	13,087,000	79,899,000	50,060,000
Operating Income (Loss)	(3,501,000)	3,506,000	728,000	10,425,000
Interest Expense	6,966,000	4,131,000	11,095,000	2,848,000
Income (Loss) Before Taxes and ILC Extraordinary Item	(10,467,000)	(625,000)	(10,367,000)	7,577,000
Credit (Provision) for Income Taxes	5,191,000	267,000	5,140,000	(3,652,000)
Income (Loss) Before ILC Extraordinary Item	(5,276,000)	(358,000)	(5,227,000)	3,925,000
ILC Extraordinary Item — Credits Issued by Memorex to ILC Net of Applicable Income Taxes of $318,000		419,000		
Other Shareholders' Equity Increase in ILC Earnings (80%)			49,000	46,000
Net Income (Loss)	$ (5,276,000)	$ 61,000	$(5,276,000)	$ 3,879,000
Earnings (Loss) per Common Share			$ (1.35)	$ 1.03
**Combined depreciation and amortization charges included in Operating Costs and Expenses above (not including $3,590,000 in 1971 and $858,000 in 1970 capitalized primarily to equipment for lease)			$17,341,000	$ 7,298,000

The following summary notes relate to the above statements:

1. The Company's business has changed from 1970 to 1971 by its large scale manufacture and leasing of data processing equipment to computer users, a business in which it was not engaged until the Second Quarter of 1970. Thus, year-to-year comparisons of the above statements are not necessarily meaningful. Results for the nine months ended September 30, 1971, are not necessarily indicative of results to be expected for the year.

2. The Memorex Corporation and Majority-Owned Subsidiaries' statements include the accounts of Memorex Corporation and all majority-owned subsidiaries after elimination of intercompany accounts and transactions. As explained in Note 1 to the Financial Statements of the Company's 1970 Annual Report, Memorex Leasing Corporation (a wholly-owned subsidiary) was consolidated at year-end 1970, without effect upon net income. The above statement of income for 1970 has been restated accordingly.

The financial statements of ILC Peripherals Leasing Corporation (ILC), in which Memorex holds a minority equity interest (20%), are included and also combined with Memorex's results to disclose the interrelationship between the operations of Memorex and ILC. The Combined Statement of Income represents a combination of the accounts of ILC with the consolidated statement of income of Memorex Corporation and its majority-owned subsidiaries, after elimination of intercorporate accounts in accordance with usual principles of consolidation.

ILC was organized in 1970, pursuant to agreements summarized in Note 2 to the Financial Statements of the Company's 1970 Annual Report. The Company defers all revenues and related costs and expenses applicable to its billings to ILC. These deferrals are subsequently reflected in the Company's statement of income ratably over the ensuing 48 months.

3. Accounting for assets for lease owned by Memorex Corporation and Majority-Owned Subsidiaries is on the operating method with lease revenue reported as earned. In the Combined Statement of Income, accounting for assets for lease (both ILC- and Memorex-owned) is also reported on the operating method, with lease revenue reported as earned and with depreciation recorded on the basis of Memorex's capitalized costs.

4. The above statements for Memorex and ILC reflect credits of $737,000 issued to ILC by Memorex to date during 1971 as a reduction of maintenance charges to ILC from Memorex. This had the effect of increasing the Memorex loss and the Combined loss by $590,000 (80% of $737,000) before income taxes and $271,000 after credit for income taxes. It is projected that additional credits of approximately $200,000 before income taxes will be made during the balance of 1971. These credits were issued primarily to offset the effect upon ILC's income of interest expense which was higher in relation to ILC's rental revenue than was originally projected. This imbalance occurred primarily during the early stages of the build-up of ILC's equipment portfolio and was caused by greater than anticipated time necessary to achieve on-rent status for some equipments. ILC previously accounted for these credits as a reduction of cost of revenue; however, as of September 30, 1971, ILC determined these credits to be an extraordinary item.

Memorex purchased $70,000 of subordinated notes issued by ILC in May 1971, and $330,000 in October 1971. This was in addition to the scheduled purchase of $2,000,000 of such notes made in October 1971.

(continued)

Summary notes (continued)

5. Last year's nine month statement, for the period ended September 30, 1970, was originally issued on November 9, 1970, and was revised on December 15, 1970. The above Statement of Income for the nine months ended September 30, 1970, has been revised to be consistent with the combined (deferral) accounting method adopted by the Company and used in its 1970 Annual Report applicable to leased computer peripheral equipment billed to ILC (including the resultant elimination of an interim provision for profit sharing). As a result, the above Combined Statement of Income for the nine months ended September 30, 1970 reflects a reduction of net income of $2,247,000 (60¢ per common share) from net income as reported on November 9, 1970, and an increase of net income of $266,000 (7¢ per common share) from revised net income as reported on December 15, 1970.

For comparative purposes, only the 1970 Combined results are presented. For the period from June 29, 1970 (inception) to September 30, 1970, ILC's revenues were $256,000; operating income was $99,000; and net income was $58,000.

6. ILC's net investment in equipment-for-lease as of September 30, 1971, amounted to $88,700,000 as compared to $41,700,000 at year-end 1970. The Company's cumulative net balance of deferred profits on billings to ILC (before income taxes) as of September 30, 1971, amounted to $23,400,000 compared to $9,700,000 at year-end 1970. Income taxes applicable to these deferred profits amounted to $11,600,000 at September 30, 1971, compared with $4,600,000 at year-end 1970.

7. Earnings (loss) per common share have been computed based on the average shares outstanding (3,895,000 in 1971 and 3,767,000 in 1970), excluding 10,000 shares held in treasury, after giving retroactive effect to subsidiary minority shares acquired subsequent to September 30, 1970, in a transaction accounted for as a pooling of interests (reducing earnings 1* per common share). As a result of this pooling and the revision of the 1970 nine months net income as described in Note 2 above, earnings per common share for the nine months ended September 30, 1970, have been adjusted to $1.03 from $1.64 reported on November 9, 1970, and $.97 reported on December 15, 1970.

Cover: Memorex recently began nationwide marketing of its first consumer product line — premium quality blank cassette, 8-track cartridge and open-reel audio recording tapes. They are sold under the "Memorex" brand name and are priced competitively with other high quality audio tapes.

The Memorex cassette offers high performance advantages for quality sound reproduction. The use of an improved low-noise/high-output magnetic oxide formulation extends the high frequency response, increases the dynamic range of recording and minimizes tape hiss. In addition, the housing of the cassette, engineered by Memorex for reliability in repeated usage, results in smoother and quieter operation on recorders.

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Memorex Corporation

San Tomas at Central Expressway
Santa Clara, California 95052

Offices in principal cities
throughout the world

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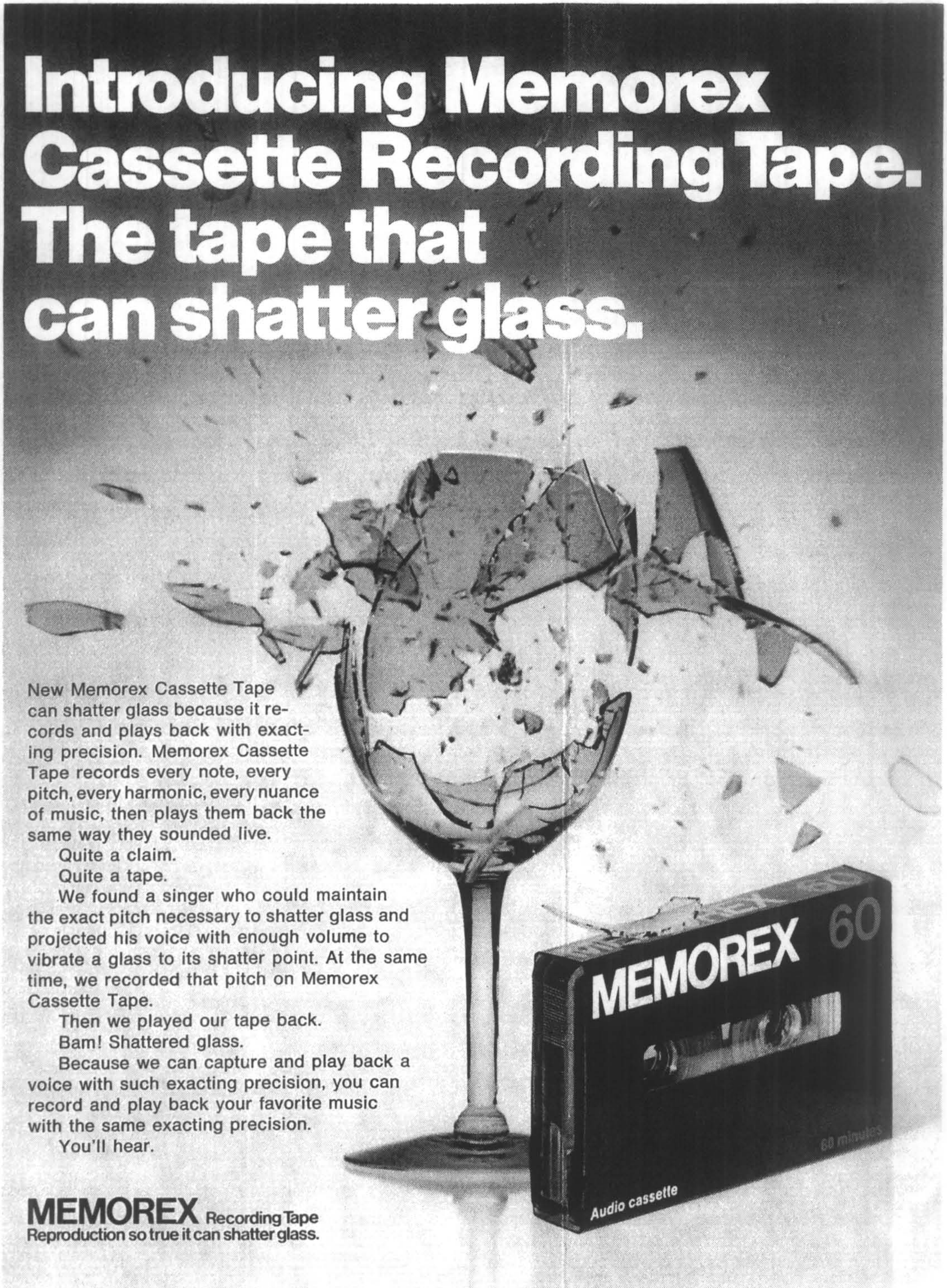

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Sincerely,

Laurence L. Spitters

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Memorex Corporation

Consolidated and Combined Statements of Income (Loss) (Unaudited)

	Nine Months Ended September 30 1971: Memorex Corporation & Majority-Owned Subsidiaries	1971: ILC Peripherals Leasing Corporation	1971: Combined	1970: Combined
Net Sales and Revenues (excluding $57,378,000 and $14,167,000 billed to ILC in 1971 and 1970, respectively)	$78,402,000	$16,593,000	$80,627,000	$60,485,000
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ILC Extraordinary Item — Credits Issued by Memorex to ILC Net of Applicable Income Taxes of $318,000		419,000	—	—
Other Shareholders' Equity Increase in ILC Earnings (80%)			49,000	46,000
Net Income (Loss)	$ (5,276,000)	$ 61,000	$ (5,276,000)	$ 3,879,000
Earnings (Loss) per Common Share			$ (1.35)	$ 1.03
**Combined depreciation and amortization charges included in Operating Costs and Expenses above (not including $3,590,000 in 1971 and $858,000 in 1970 capitalized primarily to equipment for lease)			$17,341,000	$ 7,298,000

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