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AMPEX CORP /DE/
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 0-20292

AMPEX CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

13-3667696
(I.R.S. Employer Identification Number)

500 Broadway
Redwood City, California 94063-3199
(Address of principal executive offices, including zip code)

(650) 367-2011
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

As of June 30, 2001, the aggregate number of outstanding shares of the Registrant's Class A Common Stock, \$.01 par value, was 59,220,996. There were no outstanding shares of the Registrant's Class C Common Stock, \$.01 par value.

AMPEX CORPORATION
FORM 10-Q

Quarter Ended June 30, 2001

INDEX

PART I -- FINANCIAL INFORMATION

Item 1.	Financial Statements.....	
	Consolidated Balance Sheets (unaudited) at June 30, 2001 and December 31, 2000.....	
	Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2001 and 2000.....	
	Consolidated Statements of Cash Flows (unaudited) for the three and six months ended June 30, 2001 and 2000.....	
	Notes to Unaudited Consolidated Financial Statements.....	
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	1
Item 3.	Quantitative and Qualitative Disclosure about Market Risk.....	2

PART II -- OTHER INFORMATION

Item 1.	Legal Proceedings.....	2
Item 2.	Changes in Securities and Use of Proceeds.....	2
Item 3.	Defaults Upon Senior Securities.....	2
Item 4.	Submission of Matters to a Vote of Security Holders.....	2
Item 5.	Other Information.....	3
Item 6(a).	Exhibits.....	3
Item 6(b).	Reports on Form 8-K.....	3
Signatures	3

AMPEX CORPORATION
 CONSOLIDATED BALANCE SHEETS
 [in thousands, except share and per share data]

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		(una
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$	6,364
Short-term investments.....		10
Accounts receivable (net of allowances of nil in 2001 and in 2000).....		66
Other current assets.....		1,892

Total current assets.....		8,332
Property, plant and equipment, net.....		1,732
Intangible assets, net.....		--
Investments in affiliate.....		--
Deferred pension asset.....		61
Other assets.....		929
Net assets of business held for sale.....		9,134

Total assets.....	\$	20,188
		=====
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable.....	\$	157
Accounts payable.....		57
Net liabilities of discontinued operations.....		3,872
Other accrued liabilities.....		9,058

Total current liabilities.....		13,144
Long-term debt.....		44,448
Other liabilities.....		26,072
Net liabilities of discontinued operations.....		4,604
Deferred income taxes.....		1,213

Total liabilities.....		89,481

Commitments and contingencies (Note 7)		
Mandatorily redeemable nonconvertible preferred stock, \$1,000 liquidation value:		
Authorized: 69,970 shares in 2001 and in 2000		
Issued and outstanding - none in 2001 and 2000.....		--
Mandatorily redeemable preferred stock, \$2,000 liquidation value:		
Authorized: 21,859 shares in 2001 and in 2000		
Issued and outstanding - 16,099 shares in 2001; 17,173 in 2000.....		32,198
Convertible preferred stock, \$2,000 liquidation value:		
Authorized: 10,000 shares in 2001 and in 2000		
Issued and outstanding - 767 shares in 2001 and 1,125 in 2000.....		1,534
Stockholders' deficit:		
Preferred stock, \$1.00 par value:		
Authorized: 898,171 shares in 2001 and 2000		
Issued and outstanding - none in 2001 and in 2000.....		--
Common stock, \$.01 par value:		
Class A:		
Authorized: 175,000,000 shares in 2001 and in 2000		
Issued and outstanding - 59,220,996 shares in 2001; 58,075,396 in 2000.....		592
Class C:		
Authorized: 50,000,000 shares in 2001 and in 2000		
Issued and outstanding - none in 2001 and in 2000.....		--

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Other additional capital.....	424,441
Notes receivable from stockholders.....	(4,642)
Accumulated deficit.....	(505,863)
Accumulated other comprehensive loss.....	(17,553)

Total stockholder's deficit.....	(103,025)

Total liabilities, redeemable preferred stock and stockholders' deficit.....	\$ 20,188
	=====

The accompanying notes are an integral part of these unaudited consolidated statements.

3

AMPEX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2001	2000	2001	2000

	(unaudited)			
Royalty income.....	\$ 2,181	\$ 3,587	\$ 4,517	\$ 6,
	-----	-----	-----	-----
Intellectual property costs.....	213	238	386	
Selling and administrative.....	1,412	1,661	3,333	2,
	-----	-----	-----	-----
Total costs and operating expenses.....	1,625	1,899	3,719	3,
	-----	-----	-----	-----
Operating income.....	556	1,688	798	3,
Interest expense.....	1,359	1,359	2,690	2,
Amortization of debt financing costs.....	87	87	175	
Interest income.....	(74)	(204)	(200)	(
Other (income) expense, net.....	(49)	223	(136)	
	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes..	(767)	223	(1,731)	1,
Provision for income taxes.....	219	365	466	
	-----	-----	-----	-----
Income (loss) from continuing operations.....	(986)	(142)	(2,197)	
Loss on disposal of discontinued operations (net of taxes of none in				

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2001 and 2000).....	(10,338)	--	(10,338)	
Loss from discontinued operations (net of taxes of none in 2001 and in 2000).....	(3,759)	(8,469)	(7,294)	(16,
Income (loss of business held for sale (net of taxes of none in 2001 and 2000)).....	(2,230)	693	(4,140)	1,
	-----	-----	-----	-----
Net loss.....	(17,313)	(7,918)	(23,969)	(14,
Benefit from extinguishment of mandatorily redeemable preferred stock.....	1,505	--	2,337	
	-----	-----	-----	-----
Net loss applicable to common stockholders.....	(15,808)	(7,918)	(21,632)	(14,
Other comprehensive loss, net of tax:				
Unrealized gain (loss) on marketable securities.....	--	(11)	--	(
Foreign currency translation adjustments.....	--	1	--	
	-----	-----	-----	-----
Comprehensive loss.....	\$ (15,808)	\$ (7,928)	\$ (21,632)	\$ (14,
	=====	=====	=====	=====
Basic and diluted loss per share:				
Income (loss) per share from continuing operations.....	\$ (0.02)	\$ 0.00	\$ (0.04)	\$ 0
Loss per share from discontinued operations.....	\$ (0.28)	\$ (0.14)	\$ (0.37)	\$ (0
Loss per share applicable to common stockholders.....	\$ (0.27)	\$ (0.14)	\$ (0.37)	\$ (0
	-----	-----	-----	-----
Weighted average number of common shares outstanding.....	58,512,864	55,916,857	58,296,491	72,762,
	=====	=====	=====	=====

The accompanying notes are an integral part of these unaudited consolidated financial statements.

AMPEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

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June 30, 2001

	(u)
Cash flows from operating activities:	
Net loss.....	\$ (23,9
Loss from discontinued operations.....	21,7
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation, amortization and accretion.....	4
Changes in operating assets and liabilities:	
Accounts receivable.....	3
Deferred pension asset.....	2,0
Other assets.....	(3
Accounts payable.....	2,8
Other accrued liabilities and income taxes payable.....	(8
Net liabilities of discontinued operations.....	(6
Other liabilities.....	1,5
Net cash provided by continuing operations.....	(7,5
Net cash used in discontinued operations.....	(5,9
Net cash used in operating activities.....	5,0
Cash flows from investing activities:	
Purchases of short-term investments.....	(1,2
Proceeds received on the maturity of short-term investments.....	3,7
Proceeds from the sale of short-term investments.....	5,0
Additions to property, plant and equipment.....	(1,2
Net cash provided by continuing operations.....	3,7
Net cash used in discontinued operations.....	(1,7
Net cash provided by investing activities.....	(1,7
Cash flows from financing activities:	
Borrowings under working capital facilities.....	(1,7
Repayments under working capital facilities.....	(1,7
Repayment of notes payable-affiliates.....	(1,7
Proceeds from issuance of common stock.....	(1,7
Net cash provided by (used in) continuing operations.....	(1,7
Net cash used in discontinued operations.....	(1,7
Net cash provided by (used in) financing activities.....	(1,7
Effects of exchange rates on discontinued operations.....	(
Effects of exchange rates on discontinued operations.....	(4,0
Net increase (decrease) in cash and cash equivalents.....	10,3
Cash and cash equivalents, beginning of period.....	6,3
Cash and cash equivalents, end of period.....	\$ 6,3

The accompanying notes are an integral part of these unaudited consolidated financial statements.

AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Ampex Corporation

Ampex Corporation ("Ampex" or the "Company") is a leading innovator of visual information technology. In recent years, the Company launched a program to reposition itself in the Internet video industry, providing programming, services and technology. The Company's internal Internet video operations, acquisitions and strategic investments were consolidated into iNEXTV Corporation ("iNEXTV" or "iNEXTV.com"), a wholly-owned subsidiary. In July 2001, the Company announced that it will close iNEXTV's operations in New York City and will terminate the development of Internet video technology in Redwood City, California. It will also discontinue making investments in its partially-owned affiliates, Alternative Entertainment Network, Inc. ("AENTV" or "AENTV.com") in Los Angeles and TV1 Internet Television, ("TV1" or "TV1.de") in Munich, Germany. As a result, the operations of iNEXTV have been classified as "Discontinued Operations" in the Consolidated Statements of Operations for all periods presented. At June 30, 2001, the Company established a reserve for the costs of closure and to write-off its investment in iNEXTV which is included in "Loss on Disposal of Discontinued Operations." The liabilities of iNEXTV and reserve for closure costs are included in "Net liabilities of Discontinued Businesses" in the Consolidated Balance Sheet as at June 30, 2001. The assets or liabilities of iNEXTV are included in the Consolidated Balance Sheet as of December 31, 2000.

In September 2000, the Company discontinued making investments in its partially-owned affiliate TV onthe WEB, Inc. ("TV onthe WEB") and wrote off its remaining investment in the subsidiary and ceased to include it in the Company's Consolidated Financial Statements. As a result, there are no assets or liabilities of TV onthe WEB included in the Consolidated Balance Sheet for all periods presented.

As of the year ended 1999, the Company announced plans to sell Ampex Data Systems Corporation, ("Data Systems"), its subsidiary that makes high performance tape-based mass data storage products. For accounting reporting purposes, the results of operations of Data Systems have been classified as a "Business Held for Sale" in the Consolidated Statements of Operations for all periods presented. The book value of the net assets to be sold is reflected in "Net Assets of Business Held for Sale" in the Consolidated Balance Sheets. The Company continues to have discussions with prospective buyers but does not currently anticipate that it will close a transaction in 2001, if at all.

As of the year ended 2000, Ampex decided to discontinue the operations of MicroNet Technology, Inc. ("MicroNet"), its wholly-owned subsidiary that made high performance disk arrays and storage area network products. The operations of MicroNet have been classified as "Discontinued Operations" in the Consolidated Statements of Operations for all periods presented. As a result, there are no assets or liabilities of MicroNet included in the Consolidated Balance Sheet for all periods presented.

The Company's continuing operations consist of Ampex's intellectual property licensing activities.

Liquidity and Going Concern Considerations

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The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred operating losses for several quarters and has restructured certain of its businesses and discontinued certain businesses. The Company's liquidity has declined substantially in recent periods and it requires additional capital to meet its obligations which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company's working capital has declined substantially from December 31, 1999 to December 31, 2000 and further declined in the first half of 2001. The Company has experienced a substantial reduction in its cash and marketable securities which declined to \$6.4 million at June 30, 2001. In November 2000, Data Systems issued Senior Secured Notes providing net proceeds of approximately \$8 million. The Notes are secured by certain assets of the Company and Data Systems. Ampex has entered into an agreement to sell and leaseback certain real estate and would apply the net proceeds from the transaction to repay the Notes. The sale and leaseback agreement is subject to a number of material contingencies, including the buyer obtaining financing for a significant portion of the purchase price, and there can be no assurance that this transaction will be completed. The Notes as amended are scheduled to mature on the earlier of August 31, 2001 or the sale of Data Systems. The Company and representatives of the Noteholders have reached an agreement in principal to extend the maturity date to October 31, 2001 to complete the sale and leaseback. Pursuant to an agreement between the Company, Hillside Capital Incorporated ("Hillside") and certain other parties, Hillside is obligated to fund pension contributions in the event the Company is unable to do so. The Company has notified Hillside that it does not have sufficient liquidity to make currently scheduled pension contributions and pursuant to its agreement has requested Hillside to fund the pension contributions. The Company will issue to Hillside a Note in the amount of the required contributions. Data

6

AMPEX CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Ampex Corporation (cont'd.)

Systems requires additional working capital financing in order to fund outstanding payables and other obligations. To date, Data Systems has been unable to obtain additional financing, although it is currently exploring potential financing sources. The Company is scheduled to make an interest payment of approximately \$2.6 million on its Senior Notes due September 15, 2001. Management intends to seek to negotiate a deferral of this obligation and a restructuring of the indebtedness. While the Company is actively addressing each of these issues, if the Company is unable to restructure its indebtedness or if Data Systems is unable to conclude new financing arrangements, either or both companies may be required to seek bankruptcy protection. In this event the Company's Stock may be negatively affected or rendered worthless. The Company has entered into discussions with certain consumer electronics manufacturers to license the Company's intellectual property for use in the manufacture of digital camcorders, DVDs and computer games. These capital raising strategies are in preliminary stages, and there can be no assurance that they will be successful or raise sufficient resources in time for the Company to remain a going concern. Furthermore, the Company's debt indentures include provisions that may adversely impact the ability to complete a sale of all or substantially all of its assets.

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Note 2 - Basis of Presentation

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In addition, certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation. The statements should be read in conjunction with the Company's report on Form 10-K for the year ended December 31, 2000 and the Audited Consolidated Financial Statements included therein.

In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three and six-month periods ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141 ("FAS 141"), Business Combinations, and No. 142 ("FAS 142"), Goodwill and Other Intangible Assets. FAS 141 addresses financial accounting and reporting for business combinations and supercedes APB16, Business Combinations. The provisions of FAS 141 are required to be adopted July 1, 2001. The most significant changes made by FAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) establishing specific criteria for the recognition of intangible assets separately from goodwill, and (3) requiring unallocated negative goodwill to be written off immediately as an extraordinary gain.

FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition and supercedes APB 17, Intangible Assets. The provisions of FAS 142 are required to be adopted in fiscal years beginning after December 15, 2001. The most significant changes made by FAS 142 are: (1) goodwill and indefinite lived intangible assets will no longer be amortized, (2) goodwill will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (4) the amortization period of intangible assets with finite lives will no longer be limited to forty years.

The Company will adopt FAS 141 effective July 1, 2001 which will result in the Company accounting for any business combination consummated on or after that date under the purchase method of accounting. The Company will also apply the non-amortization provisions of FAS 142 for any business combination consummated on or after July 1, 2001.

The Company will adopt FAS 142 effective January 1, 2002. At June 30, 2001 there was no goodwill and goodwill amortization on the Company's financial statements.

Note 3 - Business Held for Disposition

In February 2000, the Board of Directors of the Company authorized management to pursue a sale of Data Systems, its wholly-owned subsidiary that manufactures and sells high performance, tape-based mass data storage products. Ampex continues to seek a buyer for the Data Systems business, but due to economic and market conditions believes that it will be difficult to consummate a successful sale until late 2001 or 2002, if at all.

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AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Business Held for Disposition (cont'd.)

A summary of the operating results of Data Systems is as follows:

	Three months ended		Six months ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
	(in thousands)			
Revenues	8,128	12,029	17,953	23,768
Costs and operating expenses	(9,938)	11,426	(21,277)	22,716
Operating income (loss)	(1,810)	603	(3,323)	1,052
Interest expense	(435)	(13)	(842)	(26)
Income (loss) of business held for disposition.....	(2,230)	693	(4,140)	1,241

A summary of the assets and liabilities of Data Systems is as follows:

	June 30, 2001	December 31, 2000
	(in thousands)	
Current assets	\$ 24,314	\$ 26,040
Property, plant and equipment, net..	5,660	6,010
Other assets	139	159
Senior Discount Notes	(9,064)	(8,240)
Current liabilities	10,979)	(11,062)
Other liabilities	(375)	(552)
Other	(561)	(695)
Net assets of segment to be sold....	\$ 9,134	\$ 11,660

In November 2000, Data Systems issued Senior Discount Notes providing net proceeds of \$8 million to fund the Company's short-term working capital requirements. The Notes are secured by certain assets of the Company and Data Systems. Ampex has entered into an agreement to sell and leaseback certain real estate which is subject to a number of significant closing conditions, including the buyer obtaining a financing commitment for a substantial portion of the purchase price. There can be no assurance that the sale and leaseback will be completed. The Company would apply the net proceeds from the transaction to repay the Senior Discount Notes. The Notes, as amended, are scheduled to mature on the earlier of August 31, 2001 or the sale of Data Systems. The Company and representatives of the Noteholders have reached an agreement in principal to extend the Note maturity date to October 31, 2001 to facilitate the completion

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of the sale and leaseback of certain real estate discussed above.

In the three months ended June 2001, Data Systems recorded a net restructuring charge of \$0.8 million. The \$0.8 million restructuring charge are costs associated with the elimination of approximately 73 U.S. positions in engineering, manufacturing and administration. At June 30, 2001, Data Systems had paid and charged \$0.5 million against the liability accounts related to the termination benefits set up for the 2001 restructuring and terminated 71 employees. At June 30, 2001, the Company includes the remaining balance of Data Systems accrued restructuring of \$0.5 million as part of its net liabilities of discontinued operations. Included in the Data Systems accrued restructuring are prior year lease obligations totaling \$32 thousand related to vacated or abandoned leases which have not been discounted to present value.

Note 4 - Discontinued Operation

As of the year-end 2000, the Board of Directors of the Company authorized management to close MicroNet and to establish a reserve for the costs of closure and to write-off its investment. Management is attempting to liquidate MicroNet's assets and plans to distribute the proceeds to MicroNet's creditors. The Consolidated Balance Sheet as of June 30, 2001 and December 31, 2000 did not include any assets or liabilities of MicroNet.

8

AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Discontinued Operation (cont'd.)

A summary of the operating results of MicroNet are as follows:

	Three months ended		Six months e
	June 30,	June 30,	June 30,
	2001	2000	2001
	-----	-----	-----
	(in thousands)		
Revenues	--	2,990	--
Costs and operating expenses excluding amortization	--	(4,045)	--
Goodwill amortization	--	(303)	--
Operating loss	--	(1,358)	--
Loss from discontinued operations	--	(1,358)	--

In July 2001, the Board of Directors of the Company authorized management to close iNEXTV and to cease future funding of its other Internet-based affiliates, AENTV and TV1, and to establish a reserve for the costs of closure at the end of the quarter ended June 30, 2001.

A summary of the operating results of iNEXTV are as follows:

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	Three months ended		Six months ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
	(in thousands)			
Revenues	58	488	188	1,188
Costs and operating expenses excluding amortization	(3,233)	(6,203)	(6,277)	(11,713)
Goodwill amortization	(84)	(1,156)	(211)	(1,156)
Operating loss	(3,259)	(6,871)	(6,300)	(11,681)
Equity loss of unconsolidated subsidiary	(502)	(226)	(999)	(1,000)
Loss from discontinued operations	(3,759)	(7,111)	(7,294)	(11,111)

Internet revenues in 2000 were principally from webcasting, video production and event marketing services, substantially all of which were provided by the Company's subsidiary, TV onthe WEB, which the Company ceased funding in October 2000. For the three and six months ended June 30, 2000, TV onthe WEB reported a net loss of \$2.2 million and \$4.2 million, respectively. Since October 1, 2000, the Company has not recognized any revenues or expenses of TV onthe WEB in its consolidated financial statements.

A summary of the loss on disposal of iNEXTV is as follows:

	Three months ended		Six months ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
	(in thousands)			
Reserve for closure	(5,736)	--	(5,736)	--
Impairment charge	(4,602)	--	(4,602)	--
Loss on disposal of discontinued operations	(10,338)	--	(10,338)	--

The impairment charge recorded in the quarter ended June 30, 2001 reflects the write-off of the Company's unamortized investment in the Internet businesses. The reserve for closure costs includes future payments to be made over a seven year period for facility rental commitments and related costs of \$5.0 million, which may be mitigated if they are sublet in the future, employee and contractor severance costs of \$0.6 million and other costs of \$0.1 million.

AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Computation of Basic and Diluted Loss per Share

In accordance with the disclosure requirements of SFAS 128, a reconciliation of the numerator and denominator of basic and diluted loss per common share is provided as follows (in thousands, except per share amounts):

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	Three months ended		S
	June 30, 2001	June 30, 2000	
Numerator - Basic and Diluted			
Income (loss) from continuing operations.....	\$ (986)	\$ (142)	\$ (2)
Net loss applicable to common stockholders.....	\$ (15,808)	\$ (7,918)	\$ (21)
Denominator - Basic			
Weighted average common stock outstanding.....	58,513	55,917	58
Basic income (loss) per share from continuing operations.....	\$ (0.02)	\$ 0.00	\$ (
Basic loss per share applicable to common stockholders.....	\$ (0.27)	\$ (0.14)	\$ (
Denominator - Diluted			
Weighted average common stock outstanding.....	58,513	55,917	58
Contingent shares due to acquisition.....	--	--	
Effect of dilutive securities			
Stock options.....	--	--	
Redeemable and convertible preferred stock.....	--	--	
Warrants.....	--	--	
	58,513	55,917	58
Diluted income (loss) per share from continuing operations.....	\$ (0.02)	\$ 0.00	\$ (
Diluted loss per share applicable to common stockholders.....	\$ (0.27)	\$ (0.14)	\$ (

In the six months ended June 30, 2001, holders of 358 shares of Convertible Preferred Stock converted their holdings into 286,400 shares of Common Stock and 1,074 shares of Redeemable Preferred Stock were redeemed into 859,200 shares of Common Stock which are included in the weighted average common stock outstanding from the date of exchange. In the six months ended June 30, 2000, holders of 760 shares of Convertible Preferred Stock converted their holdings into 380,000 shares of Common Stock and 1,074 shares of Redeemable Preferred Stock were redeemed into 690,279 shares of Common Stock which are included in the weighted average common stock outstanding from the date of exchange. The remaining shares of Common Stock potentially issuable on conversion of Convertible Preferred Stock and redemption of the Redeemable Preferred Stock have not been included in the computation of diluted weighted average common stock outstanding for the three and six months ended June 30, 2001 and the three months ended June 30, 2000, respectively, since they are anti-dilutive. If the Company was to make all remaining redemption payments in Common Stock based on the floor conversion price, an additional 13,262,700 shares of Common Stock would be issued over the number of common shares included in the diluted income per share computation. At June 30, 2001 such additional shares of Common Stock would be anti-dilutive to

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the diluted loss per share reported.

Stock options to purchase 3,767,940 shares of Common Stock at prices ranging from \$0.26 to \$6.00 per share were outstanding at June 30, 2001, but were not included in the computation of diluted loss per share as they are anti-dilutive.

10

AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Computation of Basic and Diluted Loss per Share (cont'd.)

Stock options to purchase 3,324,922 shares of Common Stock at prices ranging from \$1.0625 to \$6.00 per share were outstanding at June 30, 2000, but were not included in the computation of diluted loss per share for the three months ended June 30, 2000 as they are anti-dilutive.

In January 1998, Warrants to purchase 1,020,000 shares of Common Stock at \$2.25 per share were issued in connection with the issuance of the Senior Notes. See Note 11. On May 10, 1999, Warrants were exercised for 204,000 shares of Common Stock, which are included in the weighted average common stock outstanding since the date of the exchange. The remaining outstanding warrants are excluded from the computation of weighted average common stock outstanding for the three and six months ended June 30, 2001 and the three months ended June 30, 2000, respectively, since they are anti-dilutive.

Note 6 - Supplemental Schedule of Cash Flow Information

	Six months ended June 30,	
	2001	2000
	(in thousands)	
Interest paid	\$ 2,640	\$ 2,641
Income taxes paid	466	697
Redeemable preferred stock....	(1,074)	(2,148)
Convertible preferred stock...	(716)	(1,520)
Issuance of common stock.....	1,790	3,668

Note 7 - Commitments and Contingencies

Legal Proceedings

The Company is currently a defendant in lawsuits that have arisen in the ordinary course of its business. Certain subsidiaries have been assessed income and value-added taxes together with penalties and interest. Management does not believe that any such lawsuits or unasserted claims will have a material adverse effect on the Company's financial position, results of operations or cash flows.

On May 17, 2001, Sumitomo Marine Management (USA), Inc. and Great American Insurance Company filed suit in the Superior Court of New Jersey as subrogees of Casio, Inc. against AENTV and others, alleging that Arnold Schwarzenegger had sought and obtained payment from Casio based on its use in an ad of an image of

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Schwarzenegger as the Terminator, which had been purchased from the defendants and was extracted from a television show on the making of "The Terminator" created by defendants. Plaintiffs allege they paid "millions" in settlement of Schwarzenegger's claim. Suit seeks unspecified damages and costs.

Environmental Matters

Ampex's facilities are subject to numerous federal, state and local laws and regulations designed to protect the environment from waste emissions and hazardous substances. Owners and occupiers of sites containing hazardous substances, as well as generators and transporters of hazardous substances, are subject to broad liability under various federal and state environmental laws and regulations, including liability for investigative and cleanup costs and damages arising out of past disposal activities. Ampex has been named from time to time as a potentially responsible party by the United States Environmental Protection Agency with respect to contaminated sites that have been designated as "Superfund" sites, and are currently engaged in various environmental investigation, remediation and/or monitoring activities at several sites located off Company facilities. Management has provided reserves, which have not been discounted, related to investigation and cleanup costs and believes that the final disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company has not accrued any liability for costs that might be assessed against it by federal or state environmental agencies involving sites owned by the Company's former subsidiary Media. Media is primarily responsible for the cleanup at its facilities and at off site locations. The Company believes that it has no material contingent liability in connection with the Media properties.

11

AMPEX CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Preferred Stock

Each share of Convertible Preferred Stock and Redeemable Preferred Stock entitles the holder thereof to receive noncumulative dividends at the rate of 8% per annum, if declared by the Company's Board of Directors. Each share of Convertible Preferred Stock may be converted, at the option of the holder thereof, at a conversion price of \$4.00 per share, into 500 shares of Common Stock, subject to adjustment under certain circumstances. Beginning in June 2001, the Company became obligated to redeem any remaining Convertible Preferred Stock in quarterly installments through December 2008. In the six months ended June 30, 2000, the Company issued 286,400 shares of Common Stock to satisfy the quarterly redemption requirements, leaving 767 shares of Convertible Preferred Stock outstanding. In the six months ended June 30, 2000, the holders of 760 shares of Convertible Preferred Stock converted their holdings into 380,000 shares of Common Stock. Beginning in June 1999, the Company became obligated to redeem the Redeemable Preferred Stock in quarterly installments through March 2008. In the six months ended June 30, 2001, the Company issued 859,200 shares of its Common Stock to satisfy the quarterly redemption requirements, leaving 16,099 shares of Redeemable Preferred Stock outstanding. In the six months ended June 30, 2000, the Company issued 690,279 shares of its Common Stock to satisfy the quarterly redemption requirements. The Company is obligated to redeem approximately \$5.8 million face amount of Convertible and Redeemable Preferred Stock over the next twelve months. The Company has the option to redeem the Redeemable Preferred Stock at any time and the Convertible Preferred Stock beginning in June 2001, and has the option to make mandatory redemption payments

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either in cash or in shares of Common Stock. In the event that the Company does not have sufficient funds legally available to make any mandatory redemption payment in cash, the Company will be required to make such redemption payment by issuing shares of Common Stock. Shares of Common Stock issued to make any optional or mandatory redemption payments will be valued at the higher of \$2.50 or fair market value per share of Common Stock. The Company intends to issue shares of Common Stock to satisfy its redemption obligation on the Redeemable Preferred Stock through December 31, 2001. To the extent that the floor redemption price exceeds the fair value of shares issued to redeem the Convertible Preferred Stock and the Redeemable Preferred Stock the Company recognizes a benefit from extinguishment of preferred stock.

Note 9 - Income Taxes

As of December 31, 2000, the Company had net operating loss carryforwards for income tax purposes of \$125 million expiring in the years 2005 through 2014. As a result of the financing transactions that were completed in April 1994 and February 1995, the Company's ability to utilize its net operating losses and credit carryforwards as an offset against future consolidated federal income tax liabilities will be restricted in its application, which will result in a material amount of the net operating loss never being utilized by the Company.

Note 10 - Accumulated Other Comprehensive Income

The balances of each classification within accumulated other comprehensive income are as follows:

	Minimum Pension Liability

	(in thousands)
December 31, 2000.....	\$ 17,553
Current period change.....	--

June 30, 2001.....	\$ 17,553
	=====

Note 11 - Senior Notes

In January 1998, the Company issued \$30.0 million of its 12% Senior Notes ("Notes"), together with Warrants to purchase 1.02 million shares of Common Stock. The Warrants are exercisable at \$2.25 per share at any time on or prior to March 15, 2003. At the time of issuance, the Warrants were valued using the Black-Scholes model. The value assigned to the Warrants was \$765,000, which is being amortized against interest expense over the term of the Notes. At the end of June 1998, the Company issued an additional \$14.0 million Senior Notes. Interest on the Notes is payable semi-annually on March 15 and September 15 of each year. The Notes will mature on March 15, 2003. The Company may redeem the Notes, in whole or in part, at any time after March 15, 2000, at redemption prices expressed as percentages of the principal amount of the Notes ranging from 100% to 106% depending on the redemption date, together with accrued and unpaid interest, if any, to the date of redemption. The Notes are senior unsecured obligations of the Company and rank pari passu in right of payment with all existing and future subordinated indebtedness of the Company.

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AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - Senior Notes (cont'd.)

The Company is scheduled to make an interest payment of approximately \$2.6 million on its Senior Notes due on September 15, 2001. Management intends to seek to negotiate a deferral of this obligation and a restructuring of the Notes. If the Company is unable to restructure the Notes, the Company may be required to seek bankruptcy protection which might result in the Company's Common Stock becoming worthless.

Note 12 - Segment Reporting

The Company has one operating segment: licensing of intellectual property. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The Company evaluates segment performance based on return on operating assets employed. Profitability is measured as income or loss from continuing operations before income taxes excluding goodwill amortization and asset writedowns.

Intersegment sales and transfers are accounted for at current market prices but they were not significant to revenues.

	Six Months Ended June 30, 2001		
	Licensing of Intellectual Property	Eliminations and Corporate	Totals
Revenues from external customers	\$ 4,517	\$ --	\$ 4,517
Interest income	--	200	200
Interest expense	--	2,690	2,690
Depreciation, amortization and accretion	--	423	423
Segment income (loss)	4,131	(5,862)	(1,731)
Segment assets	--	20,188	20,188
Expenditures for segment assets	--	--	--

	Six Months Ended June 30, 2000		
	Licensing of Intellectual Property	Eliminations and Corporate	Totals
Revenues from external customers	\$ 6,706	\$ --	\$ 6,706
Interest income	--	729	729
Interest expense	--	2,714	2,714
Depreciation, amortization and accretion	2	405	405

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Segment income (loss)	6,098	(5,043)	1,055
Segment assets	1	60,032	60,033
Expenditures for segment assets	--	108	108

Forward-Looking Statements

This Form 10-Q contains predictions, projections and other statements about the future that are intended to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others, those described under "Risk Factors," below. These forward-looking statements speak only as of the date of this Report. The Company disclaims any obligation or undertaking to disseminate updates or revisions of any forward-looking statements contained or incorporated herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. IN ASSESSING FORWARD-LOOKING STATEMENTS CONTAINED IN THIS FORM 10-Q, READERS ARE URGED TO READ CAREFULLY ALL SUCH CAUTIONARY STATEMENTS.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of the Company and its subsidiaries should be read in conjunction with the unaudited Consolidated Financial Statements and the Notes thereto, included elsewhere in this Report, and the Consolidated Financial Statements and the Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission (file no. 0-20292) (the "2000 Form 10-K").

Going Concern

The Company has previously disclosed that it may not be able to continue as a going concern. As discussed below, the Company's subsidiary, Data Systems, requires additional working capital financing to fund outstanding payables and other liabilities and will be required to repay short-term debt secured by certain real estate in the near future. The Company is scheduled to make an interest payment of approximately \$2.6 million on its Senior Notes which is due September 15, 2001. The Company intends to seek to negotiate a deferral of this obligation and a restructuring of the Notes. If the Company is unable to restructure its indebtedness or if Data Systems is unable to conclude new financing arrangements, either or both companies may be required to seek bankruptcy protection. Such an event may result in the Company's Common Stock being negatively affected or becoming worthless.

In 1999, Ampex launched a program to reposition the Company in the Internet video industry, providing programming, services and technology. The Company's Internet video operations, acquisitions and strategic investments were consolidated into iNEXTV Corporation, a wholly-owned subsidiary.

In order to provide funding for its Internet video operations the Company

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announced in February 2000, plans to sell Ampex Data Systems Corporation, ("Data Systems"), its subsidiary which makes high performance tape-based mass data storage products. Data Systems has since been accounted for as a discontinued operation.

Discontinuance of Internet Video Development Strategy

To date, Ampex has been unable to conclude an acceptable sale of Data Systems or to raise capital from other sources to fund the cash requirements of iNEXTV. Accordingly, on July 20, 2001, the Company announced that it will close iNEXTV's operations in New York City and will terminate the development of Internet video

14

technology in Redwood City, California. It will also discontinue making investments in its partially-owned affiliates, AENTV in Los Angeles and TV1.de in Munich, Germany. The Company intends to sell the assets of iNEXTV but does not currently expect that it will generate significant proceeds from such sales. In the quarter ended June 30, 2001, Ampex wrote off its investments in those entities completely and provided a reserve for the costs of closing all operations.

Prior to its closure iNEXTV became one of the most active video websites. Traffic grew materially from approximately 163 thousand minutes of video in Q4 2000 to approximately 808 thousand minutes in Q1 2001 and 3.2 million minutes in Q2 2001, due to success in expanding its distribution network. iNEXTV also reduced its operating expenditures significantly while increasing its program production to in excess of 200 video segments per month. However, while management continues to believe that the use of video for branding on the Internet will, in the future, become widely accepted, current advertising market conditions are extremely adverse. As a result, the Company's ability to generate advertising revenues was severely limited. Ampex approached numerous potential financial or strategic investors for iNEXTV but was unsuccessful in raising additional capital. In view of Ampex's inability to provide additional funding, iNEXTV was required to suspend its operations. In the second quarter of 2001, Ampex recorded a charge of approximately \$4.6 million to write-off its investments in iNEXTV and its affiliates. In addition, the Company recorded a charge of approximately \$5.7 million to reflect other costs of closure, principally real estate leases. Such costs may be mitigated to the extent that the Company is able to sublet its facilities. The impairment charge and reserve for closure costs are included in Loss on Disposal of Discontinued Operations.

Ampex continues to seek a buyer for Data Systems. For accounting purposes, the results of operations of Data Systems have been classified as a "Business Held for Sale" in the Consolidated Statements of Operations for all periods presented. The book value of the net assets to be sold of this segment is reflected in "Net Assets of Business Held for Sale" in the Consolidated Balance Sheets as of June 30, 2001 and December 31, 2000. The Company continues to have discussions with prospective buyers but does not currently anticipate that it will close a transaction in 2001, if at all.

As of year-end 2000, Ampex determined to discontinue the operations of MicroNet, its subsidiary which manufactured disk arrays and storage area network products. At December 31, 2000, the Company established a reserve for the costs of closure and to write-off its investment in MicroNet. Accordingly, the operations of MicroNet have been classified as "Discontinued Operations" for all periods presented.

The Company's continuing operations consist of Ampex's intellectual

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property licensing activities.

Results of Operations for the Three and Six Months Ended June 30, 2001 and 2000

Royalty Income. Royalty income was \$2.2 million and \$3.6 million in the second quarters of 2001 and 2000, respectively, and \$4.5 million and \$6.7 million in the first half of 2001 and 2000, respectively. The Company's royalty income derives from patent licenses. The Company receives most of its royalty income from licenses with companies that manufacture consumer video products (such as VCRs and camcorders) and, in certain cases, professional video tape recorders. The Company is assessing whether manufacturers of digital camcorders and cameras, computer video games and DVD recorders are using its patented technology and has entered into preliminary discussions with certain manufacturers to license the Company's patents for such use. There can be no assurance that the manufacturers of these products are utilizing the Company's technology or, if used, whether the Company will be able to negotiate license agreements with the manufacturers. Royalty income has historically fluctuated widely due to a number of factors that the Company cannot predict or control such as the extent of use of the Company's patented technology by third parties, the materiality of any nonrecurring royalties received as the result of negotiated settlements for products sold by manufacturers prior to entering into licensing agreements with the Company, the extent to which the Company must pursue litigation in order to enforce its patents, and the ultimate success of its licensing and litigation activities.

15

Intellectual Property Costs. Intellectual property costs relate to those expenditures incurred by the Company's in-house patent department in procuring royalty income and expenditures associated with patent enforcement litigation. The costs of patent litigation can be material, and the institution of patent enforcement litigation may also increase the risk of counterclaims alleging infringement by the Company of patents held by third parties or seeking to invalidate patents held by the Company. See "Legal Proceedings," below

Selling and Administrative. Selling and administrative expenses not allocated to Discontinued Operations was \$1.4 million and \$1.7 million in the three months ended June 30, 2001 and June 30, 2000, respectively and was \$3.3 million and \$2.7 million in the comparable six months ended June 30, 2001 and June 30, 2000. The increase in the comparable six-month period relates to one-time occupancy costs charged in the first three months of 2001 offset in part by a recovery of \$0.2 million of legal fees through an insurance claim in the three months ended June 30, 2001.

Operating Income. The Company had operating income of \$0.6 million and \$0.8 million, respectively, in the three and six months ended June 30, 2001 compared to \$1.7 million and \$3.4 million, respectively in the three and six months ended June 30, 2000. The decrease in operating income in the three and six months ended June 30, 2001 from 2000 was due to a reduction in royalty income.

Interest Expense. Interest expense is associated primarily with \$44.0 million of 12% Senior Notes, due 2003 and Warrants to purchase approximately 1.02 million shares of Common Stock in January and July 1998. Interest expense associated with the Senior Discount Notes issued in November 2000 is included in Loss of Business Held for Sale.

Amortization of Debt Financing Costs. These amounts reflect periodic amortization of financing costs over the remaining terms of the debt. Financing costs associated with the issuance of the 12% Senior Notes are being charged to expense over five years.

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Interest Income. Interest income is earned on cash balances and short and long-term investments. In the three and six months ended June 30, 2001 the Company had significantly lower investment balances compared to the three and six months ended June 30, 2000, which resulted in lower interest income.

Other (Income) Expense, Net. For the three and six months ended June 30, 2001, other (income) expense, net consists primarily of foreign currency transaction gains and losses. In the three and six months ended June 30, 2000, other (income) expense, net, included the value of the settlement of certain litigation between the Company and a shareholder of a former Internet investment.

Provision for Income Taxes. The provisions for income taxes in the three and six months ended June 30, 2001 and 2000 consist primarily of foreign income taxes and withholding taxes on royalty income. The Company was not required to include any material provision for U.S. Federal income tax in any of these periods due to the utilization of net operating loss carry forwards and timing differences. At June 30, 2001, the Company had net operating loss carry forwards for income tax purposes of \$125 million, expiring in the years 2007 through 2015. As a result of financing transactions that were completed in 1994 and 1995, the Company is limited in the amount of net operating loss carry forwards that can offset consolidated Federal taxable income in a given year. The Company derives pretax foreign income from its international operations, which are conducted principally by its foreign subsidiaries. In addition, the Company's royalty income is subject, in certain cases, to foreign tax withholding. Such income is taxed by foreign taxing authorities and the Company's domestic interest and amortization expenses and operating loss carry forwards are not deductible in computing such foreign taxes.

16

Income (Loss) of Business Held for Sale. In February 2000, the Board of Directors of the Company authorized management to pursue a sale of Data Systems, its wholly-owned subsidiary that manufactures and sells high performance, tape-based mass data storage products. To date, no acceptable offers to purchase Data Systems have been received, although the Company continues to offer Data Systems for sale. As a result, for all periods presented, the Company reported as a single line item in the Consolidated Statements of Operations, income (loss) of business held for sale, net of taxes, of (\$2.2) million and \$(4.1) million in the three and six months ended June 30, 2001, respectively, and \$0.7 million and \$1.2 million in the three and six months ended June 30, 2000, respectively.

A summary of the operating results of Data Systems is as follows:

	Three months ended		Six months ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
	(in thousands)			
Revenues	8,128	12,029	17,953	23,768
Costs and operating expenses	(9,938)	11,426	(21,277)	22,716
Operating income (loss)	(1,810)	603	(3,323)	1,052
Interest expense	(435)	(13)	(842)	(26)
Income (loss) of business held for disposition	(2,230)	693	(4,140)	1,241

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In the three months ended June 2001, Data Systems recorded a net restructuring charge of \$0.8 million. The \$0.8 million restructuring charge are costs associated with the elimination of approximately 73 U.S. positions in engineering, manufacturing and administration. At June 30, 2001, Data Systems had paid and charged \$0.5 million against the liability accounts related to the termination benefits set up for the 2001 restructuring and terminated 71 employees. At June 30, 2001, the Company includes the remaining balance of Data Systems accrued restructuring of \$0.5 million as part of its net liabilities of discontinued operations. Included in the Data Systems accrued restructuring are prior year lease obligations totaling \$32 thousand related to vacated or abandoned leases which have not been discounted to present value.

Loss from Discontinued Operations and Loss on Disposal of Discontinued Operations

In February 2001, the Board of Directors of the Company authorized management to close MicroNet, its wholly-owned subsidiary that made high performance disk arrays and Storage Area Networks, and to establish a reserve for the costs of closure at the year ended December 31, 2000.

A summary of the operating results of MicroNet are as follows:

	Three months ended		S
	June 30, 2001	June 30, 2000	June 20
	-----	-----	-----
	(in thousands)		
Revenues	--	2,990	
Costs and operating expenses excluding amortization	--	(4,045)	
Goodwill amortization	--	(303)	
Operating loss	--	(1,358)	
Loss from discontinued operations	--	(1,358)	

In July 2001, the Board of Directors of the Company authorized management to close iNEXTV's operations in New York and to cease future funding of its other Internet-based and partially-owned affiliates, AENTV in Los Angeles and TV1 in Munich, Germany, and to establish a reserve for the costs of closure at the end of the quarter ended June 30, 2001.

A summary of the operating results of iNEXTV are as follows:

	Three months ended		S
	June 30, 2001	June 30, 2000	June 20
	-----	-----	-----

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		(in thousands)	
Revenues.....	58	488	
Costs and operating expenses excluding amortization..	(3,233)	(6,203)	(6
Goodwill amortization.....	(84)	(1,156)	
Operating loss.....	(3,259)	(6,871)	(6
Equity loss of unconsolidated subsidiary.....	(502)	(226)	
Loss from discontinued operations.....	(3,759)	(7,111)	(7

Internet revenues in 2000 were principally from webcasting, video production and event marketing services, substantially all of which were provided by the Company's subsidiary, TV onthe WEB, which the Company ceased funding in October 2000. For the three and six months ended June 30, 2000, TV onthe WEB reported a net loss of \$2.2 million and \$4.2 million, respectively. Since October 1, 2000, the Company has not recognized any revenues or expenses of TV onthe WEB in its consolidated financial statements.

A summary of the loss on disposal of iNEXTV are as follows:

	Three months ended		S
	June 30,	June 30,	June
	2001	2000	20
	-----	-----	-----
	(in thousands)		
Reserve for closure.....	(5,736)	--	(5
Impairment charge.....	(4,602)	--	(4
Loss on disposal of discontinued operations.....	(10,338)	--	(10

The impairment charge recorded in the quarter ended June 30, 2001 reflects the write-off of the Company's unamortized investment in the Internet businesses. The reserve for closure costs includes future payments to be made over a seven year period for facility rental commitments and related costs of \$5.0 million, which may be mitigated if they are sublet in the future, employee and contractor severance costs of \$0.6 million and other costs of \$0.1 million.

Net Loss. The Company reported a net loss of \$17.3 million and \$24.0 million, respectively, in the three and six months ended June 30, 2001 compared to a net loss of \$7.9 million and \$14.9 million, respectively, in the three and six months ended June 30, 2000, primarily as a result of the factors discussed above under "Royalty Income," and "Loss from Discontinued Operations and Loss on Disposal of Discontinued Operations."

Benefit from Extinguishment of Mandatorily Redeemable Preferred Stock. In the three and six months ended June 30, 2001, the Company issued shares of Common Stock valued at \$2.50 per share to satisfy its redemption obligation on the Redeemable and Convertible Preferred Stock, which was higher than fair value per share of Common Stock. As a result the Company recorded a benefit available to common stockholders of \$1.5

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million and \$2.3 million, respectively, representing the difference between the fair value and \$2.50 per share for the number of shares issued, on the Consolidated Statements of Operations.

Liquidity and Capital Resources

Going Concern. The Company has previously disclosed that it may not be able to continue as a going concern. As discussed below, the Company's subsidiary, Data Systems, requires additional working capital financing in order to fund outstanding payables and other obligations. To date, Data Systems has been unable to obtain additional financing although it is currently exploring potential financing sources and will be required to repay short-term debt secured by certain real estate in the near future. The Company is scheduled to make an interest payment of approximately \$2.6 million on its Senior Notes which is due September 15, 2001. Management intends to seek to negotiate a deferral of this obligation and a restructuring of the indebtedness. If the Company is unable to restructure its indebtedness or if Data Systems is unable to conclude new financing arrangements, either or both companies may be required to seek bankruptcy protection. In such event, the Company's Common Stock may be negatively affected or become worthless.

Cash Flow. At June 30, 2001, the Company had cash and short-term investments of \$6.4 million and working capital deficit of \$4.8 million. At December 31, 2000, the Company had cash and short-term investments of \$15.4 million and working capital of \$8.3 million. Data Systems, which is accounted for as a "Business Held for Sale," had working capital of \$0.9 million and \$5.4 million at June 30, 2001 and December 31, 2000, respectively. Working capital of Data Systems has been classified in "Net Assets of Business Held for Sale" at June 30, 2001 and December 31, 2000. The decline in cash and short-term investments in the six months ended June 30, 2001 results primarily from operating losses of the Company's Internet video businesses and operations of the Internet Technology Group as well as cash utilized in Data Systems. These losses more than offset operating income from the Company's non-Internet technology licensing activities. Cash provided by continuing operations totaled \$1.5 million in the six months ended June 30, 2001 and \$1.9 million in the six months ended June 30, 2000. Cash used in discontinued operations totaled \$7.5 million in the six months ended June 30, 2001 and \$13.7 million in the six months ended June 30, 2000.

Pursuant to an agreement between the Company, Hillside Capital Incorporated, ("Hillside") and certain other parties, Hillside is obligated to fund pension contributions in the event the Company is unable to do so. The Company has notified Hillside that, due to its declining liquidity, it is unable to make the pension contribution amounting to \$0.5 million, due no later than August 15, 2001. The Company will issue a Note to Hillside in the amount of the pension contribution.

The Company has announced its intention to sell Data Systems, which manufactures the Company's high performance mass data storage and instrumentation products for entertainment and government applications. At the date of these financial statements, the Company continues to meet with and have discussions with prospective buyers but has not entered into a definitive sale agreement. Accordingly, the Company does not anticipate being able to close a transaction in 2001, if at all.

In November 2000, Data Systems issued Senior Discount Notes providing net proceeds of \$8 million to fund the Company's short-term working capital requirements. The Notes are secured by certain assets of the Company and Data Systems. Ampex has entered into an agreement to sell and leaseback certain real estate which is subject to a number of significant closing conditions, including the buyer obtaining a financing commitment for a substantial portion of the purchase price. There can be no assurance that the sale and leaseback will be

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completed. The Company would apply the net proceeds from the transaction to repay the Senior Discount Notes. The Notes, as amended, are scheduled to mature on the earlier of August 31, 2001 or the sale of Data Systems. The Company and representatives of the Noteholders have reached an agreement in principal to extend the Note maturity date to October 31, 2001 to facilitate the completion of the sale and leaseback of certain real estate discussed above.

19

The Company has recently reduced headcount and overhead expenses of Data Systems in order to operate at a cash breakeven level at current sales levels. In the second quarter ended June 30, 2001, Data Systems recorded a restructuring reserve of \$0.8 million in connection with its cost reduction initiatives. There can be no assurance that the cost savings to be realized will be adequate for Data Systems to return to profitability.

The Company has available, through a subsidiary, a working capital facility that allows it to borrow or obtain letters of credit totaling \$7.0 million, based on eligible accounts receivable, through May 2002. At June 30, 2001, the Company had borrowings outstanding of \$0.7 million and had letters of credit issued against the facility totaling \$1.1 million. At December 31, 2000, the Company had borrowings outstanding of \$2.4 million and had letters of credit issued against the facility totaling \$1.1 million. Data Systems inventories have increased beyond desired levels due to customer deferral of shipping dates and postponed orders pending government funding. The increase in inventories has decreased the liquidity of Data Systems. The Company is seeking to expand its working capital facilities to provide additional borrowing capacity at Data Systems as it realizes operational cost savings and reduces its investment in inventories. Data Systems has been required to delay payment to its suppliers and vendors pending new working capital facilities and, at June 30, 2001, past due amounts were significant. If an expanded working capital facility is not made available, Data Systems may be required to sell other assets to raise liquidity, which if unsuccessful may adversely impact Data Systems' ability to remain a going concern.

In April 2001, the staff of the American Stock Exchange ("Amex") notified the Company that it would conduct a review of the Company's eligibility for continued listing on the Amex, and requested certain additional information and financial data concerning the Company's business and financial condition. The Company submitted this information and in July the Exchange informed the Company that it would continue the Company's listing pending a review of the September 30, 2001 Form 10-Q, subject to continued monitoring of the Company's public disclosures.

Debt Agreements. In 1998, the Company issued \$44.0 million of its 12% Senior Notes due March 15, 2003, together with Warrants to purchase 1.02 million shares of its Class A Common Stock (the "Class A Stock"). The Company has applied a substantial portion of the debt proceeds to fund acquisitions and the Company's Internet video businesses, that have subsequently become impaired and have been written off due to the Company's inability to raise additional capital for them. The Company has recently restructured Data Systems so that it is capable of breaking even at a lower level of sales. Until these cost savings are fully realized and cash can be generated through the reduction in inventories, the Company has been required to invest additional cash to fund Data Systems' operating losses. The Company is seeking to expand its working capital facility to provide the requisite amount of liquidity for Data Systems. The Company expects to seek approval from the Company's lenders for the Data Systems working capital facility as well as the Hillside notes discussed above. The indenture under which the 12% Senior Notes were issued contains customary affirmative and negative restrictive covenants that limit, among other things, the incurrence of

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additional senior debt, the payment of dividends, the sale of assets and other actions by the Company and certain restricted subsidiaries.

In November 2000, Data Systems issued Senior Discount Notes providing net proceeds of approximately \$8.0 million, which used to fund the Company's short-term working capital requirements. The Notes as amended are secured by certain assets of Data Systems and the Company and are due on the earlier of August 31, 2001 or the divestiture of Data Systems. The Company and representatives of the Noteholders have reached an agreement in principal to extend the Note maturity date to October 31, 2001 to facilitate the completion of the sale and leaseback of certain real estate discussed above. Ampex plans to repay the Senior Discount Notes out of the proceeds of the anticipated sale and leaseback or sale of Data Systems as described above. The sale and leaseback is subject to a number of contingencies and there can be no assurance that it will be completed. If the sale and leaseback is not consummated, the Company believes it will be required to seek to restructure the Senior Discount Notes. Should such a restructuring not be agreed to, it would have a material adverse effect on the Company's liquidity and ability to remain a going concern.

20

The Company is aggressively pursuing its traditional licensing activities and is seeking to accelerate the receipt of royalties. The Company's declining liquidity may necessitate discussions with the Company's lenders to modify the terms of its debt agreement to permit additional debt as discussed above and perhaps to defer or to capitalize impending interest payments. The Company has an interest payment of \$2.6 million due in September 2001 on the 12% Senior Notes and interest of approximately \$1.1 million has accrued on the Senior Discount Notes at June 30, 2001. There can be no assurance that the lenders and the Company will agree to amend the Senior Notes or Senior Discount Notes to permit the deferral of all or a portion of such interest payments. Failure to restructure indebtedness may require the Company to seek to sell assets or raise additional capital on terms that may not be desirable or permitted by its indentures. Failure to raise additional capital may adversely effect the Company's ability to remain a going concern.

Recent Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141 ("FAS 141"), Business Combinations, and No. 142 ("FAS 142"), Goodwill and Other Intangible Assets. FAS 141 addresses financial accounting and reporting for business combinations and supercedes APB16, Business Combinations. The provisions of FAS 141 are required to be adopted July 1, 2001. The most significant changes made by FAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) establishing specific criteria for the recognition of intangible assets separately from goodwill, and (3) requiring unallocated negative goodwill to be written off immediately as an extraordinary gain.

FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition and supercedes APB 17, Intangible Assets. The provisions of FAS 142 are required to be adopted in fiscal years beginning after December 15, 2001. The most significant changes made by FAS 142 are: (1) goodwill and indefinite lived intangible assets will no longer be amortized, (2) goodwill will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (4) the amortization period of intangible assets with finite lives will no longer be limited to forty years.

The Company will adopt FAS 141 effective July 1, 2001 which will result in

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the Company accounting for any business combination consummated on or after that date under the purchase method of accounting. The Company will also apply the non-amortization provisions of FAS 142 for any business combination consummated on or after July 1, 2001.

The Company will adopt FAS 142 effective January 1, 2002. At June 30, 2001 there was no goodwill and goodwill amortization on the Company's financial statements.

Risk Factors

Ability to Continue as a Going Concern

As discussed in the Notes to the Unaudited Financial Statements for the three and six months ended June 30, 2001, there exists substantial uncertainty as to the Company's ability to continue as a going concern. The Company has incurred operating losses in each of the past twelve quarters. Recently, the Company has restructured certain of its businesses and discontinued certain businesses, including its Internet video business in the second quarter ended June 30, 2001, in order to conserve its resources. However, the Company requires additional capital to meet its obligations, which include debt service, severance and other shut down costs. The Company's working capital has declined substantially in recent periods and its cash and marketable securities have declined to \$6.4 million at June 30, 2001. The Company has entered into discussions with prospective licensees of its intellectual property for use in consumer electronics and video games in order to accelerate the receipt of royalty income to fund its operating costs and debt service obligations. In addition, the Company has entered into an agreement to sell and

21

leaseback certain real estate and would use the proceeds to repay Senior Discount Notes issued by Data Systems which mature shortly, as discussed below. The sale and leaseback agreement is subject to a number of material contingencies and there can be no assurance that it will be completed. The Company is seeking to expand its working capital debt facilities and to further reduce operating costs of its Data Systems subsidiary. The Company is continuing to offer its Data Systems subsidiary for sale, but does not currently anticipate closing such a transaction in 2001, if at all. While management is actively addressing these issues, there can be no assurance that these negotiations will be successful or raise sufficient resources for the Company to remain a going concern. If the Company is unable to raise additional liquidity, it will attempt to restructure its debt service obligations to allow additional time for its operations to generate positive cash flow. There can be no assurance that an acceptable restructuring program will be agreed to by all parties and it is possible that the Company may be required to seek bankruptcy protection. In such event, the Company's Common Stock may be negatively affected or become worthless. (See Liquidity and Capital Resources.)

Risk of Continuing Losses

Ampex has incurred significant operating and net losses in the three and six months ended June 30, 2001 and its fiscal years ended December 31, 2000 and 1999. Such losses were primarily due to its Internet video business which have been discontinued at the end of the quarter ended June 30, 2001 as well as from operating losses of MicroNet which were discontinued at the end of December 31, 2000. Although the Company is seeking to increase its traditional licensing activities and hopes to increase the amount of royalty income from such activities, there can be no assurance that such revenues will be sufficient to offset operating costs and interest expense. The Company has substantial

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indebtedness outstanding and it incurs substantial interest expense. The Company anticipates incurring additional interest expense on Notes to be issued to Hillside, as Hillside advances pension contributions to the Ampex Retirement Plan on behalf of the Company. The Company has recently taken steps to reduce headcount and overhead expenses of Data Systems, which is classified as a Discontinued Operation, in order to seek to operate at a cash breakeven level at reduced sales levels, pending a sale of Data Systems. Such actions have given rise to restructuring charges in the second quarter of 2001. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," below, and the other Risk Factors included in this section.

Risks of Declining Liquidity

The Company has experienced a substantial reduction in its cash and marketable securities which declined to \$6.4 million at June 30, 2001. In November 2000, Data Systems issued Senior Discount Notes providing net proceeds of approximately \$8 million, which are included in the above amount and are being used to fund the Company's short-term working capital requirements. The Notes are secured by certain assets of the Company and Data Systems. Ampex has entered into an agreement to sell and leaseback certain real estate and would apply the net proceeds from the transaction to repay the Notes. The sale and leaseback agreement is subject to a number of material contingencies, including the buyer obtaining financing for a significant portion of the purchase price. There can be no assurance that the sale and leaseback will be completed. The Notes as amended are scheduled to mature on the earlier of August 31, 2001 or the sale of Data Systems. The Company and representatives of the Noteholders have reached an agreement in principal to extend the maturity date to October 31, 2001 to complete the sale and leaseback. The Company continues to meet with and have discussions with prospective buyers of Data Systems but has not entered into a definitive sale agreement. Accordingly, the Company does not anticipate being able to close a transaction in 2001, if at all.

The Company has notified Hillside that it does not have sufficient liquidity to make the July 2001 scheduled pension contribution and pursuant to its agreement has requested Hillside to fund the pension contribution. The Company will issue to Hillside a Note in the amount of the contribution. The Company is also negotiating an expansion of its working capital facility to provide additional borrowing capacity at Data Systems and intends to seek the consent of its lenders to enter into the working capital facility if one is ultimately negotiated. The Company has entered into discussions with certain consumer electronics manufacturers to license the

22

Company's intellectual property for use in the manufacture of digital camcorders, DVDs and computer games. No assurance can be given that the Company will be successful in raising any additional funds, or as to the terms of any securities that might be issued or arrangements that might be entered into. In the event that the liquidity of the Company or Data Systems is not improved, either or both companies may be unable to meet their scheduled obligations and in turn may be required to seek bankruptcy protection. In such event, the Company's Common Stock may be negatively affected or become worthless.

Risks Associated with Acquisition Strategy

In order to expand Ampex's products and services, Ampex has made, and may continue to make under the right circumstances, acquisitions of, and/or investments in, other business entities. These entities may be involved in new businesses in which Ampex has not historically been involved. Ampex may not be able to identify or acquire additional acquisition candidates in the future, or

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complete any further acquisitions or investments on satisfactory terms. In order to pay for future acquisitions or investments, Ampex may have to:

- o issue additional equity securities of the Company or a subsidiary, which would dilute the ownership interest of existing Ampex stockholders;
- o incur additional debt; and/or
- o amortize goodwill and other intangibles or incur other acquisition-related charges, which could materially impact earnings.

Acquisitions and investments involve numerous additional risks, including difficulties in the management of operations, services and personnel of the acquired companies, and of integrating acquired companies with Ampex and/or each other's operations. Ampex may also encounter problems in entering markets and businesses in which it has limited or no experience. Acquisitions can also divert management's attention from other business concerns. Ampex has made and may make additional investments in companies in which it has less than a 100% interest. Such investments involve additional risks, including the risk that Ampex may not be in a position to control the management or policies of such entities, and risks of potential conflicts with other investors. Ampex has invested in companies that are in the early stage of development and may be expected to incur substantial losses. Ampex's financial resources may not be sufficient to fund the operations of such companies. Accordingly, there can be no assurance that any acquisitions or investments that Ampex has made, or may make in the future, will result in any return, or as to the timing of any return. All of the Company's acquisitions of Internet companies have been written off during 2000 and 2001. In addition, Ampex elected to discontinue the operations of MicroNet, which it acquired in 1998. It is possible that Ampex could lose all or a substantial portion of any future investments.

Risk that the Company will be Unable to Sell Data Systems

The Company has announced its intention to sell Data Systems, which manufactures high performance mass data storage and instrumentation products for entertainment and government applications. For accounting purposes, the results of operations of Data Systems have been classified as a "Business Held for Sale" for all periods presented. At the date of these financial statements, the Company continues to meet with and have discussions with prospective buyers but has not entered into a definitive sale agreement. Accordingly, the Company does not anticipate being able to close a transaction in 2001. There can be no assurance that the Company will be able to consummate a sale, or as to the terms, conditions or timing of any sale, if consummated. Failure to sell Data Systems would have a significant negative impact on the Company's liquidity and capital resources.

23

Risk of Leverage

As of June 30, 2001, Ampex had outstanding total borrowings of approximately \$44.4 million, which included \$9.1 million of Senior Discount Notes scheduled to mature on August 31, 2001, \$44.0 million principal amount of 12% Senior Notes due 2003 and \$0.7 million of subsidiary indebtedness. The Senior Discount Notes are secured by liens on the Data Systems manufacturing facilities in Colorado Springs, Colorado and on the Company's future patent licensing income stream. As discussed above, the Company has entered into an agreement to sell and leaseback certain real estate and would apply the net proceeds to repay the Senior Discount Notes. The Company and representatives of

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the Noteholders have agreed in principal to extend the maturity date to October 31, 2001 in order to complete the sale and leaseback transaction.

The Company is seeking to increase its working capital facility and in the future may incur additional indebtedness from time to time, subject to the restrictions in the indenture governing the Senior Notes. The degree to which the Company is leveraged, and the types of investments it selects, could have important consequences to investors, including the following:

- o a substantial portion of the Company's consolidated cash flow from operations must be dedicated to the payment of principal and interest on outstanding indebtedness, and is therefore unavailable for other purposes;
- o Ampex's ability to obtain additional financing in the future for working capital needs, capital expenditures, acquisitions and general corporate purposes may be materially limited or impaired, or such financing may not be available on terms favorable to Ampex;
- o the Company may be more highly leveraged than its competitors, which may place it at a competitive disadvantage;
- o Ampex's leverage may make it more vulnerable to a downturn in its business or the economy in general;
- o investments in securities with lower credit quality or longer maturities could subject the Company to potential losses due to nonpayment or changes in market value of those securities. Transactions in derivative securities could expose Ampex to losses caused by stock market fluctuations; and
- o the financial covenants and other restrictions contained in the Senior Discount Notes and Senior Note indentures and other agreements relating to Ampex's indebtedness may restrict Ampex's ability to borrow additional funds, to dispose of assets or to pay dividends on or to repurchase preferred or common stock.

As discussed in Liquidity and Capital Resources, in order to meet their obligations, the Company and Data Systems will be required to obtain new financing and to restructure the terms of existing indebtedness. If the Company is unable to meet its debt obligations it may be required to seek bankruptcy protection, and in such event the Company's common stock may be negatively affected or become worthless.

Fluctuations in Royalty Income

Ampex's results of operations in certain prior periods reflect the receipt of significant royalty income, including material nonrecurring payments resulting from negotiated settlements primarily related to sales of products by manufacturers before negotiating licenses from Ampex. Although Ampex has a substantial number of outstanding and pending patents, and its patents have generated substantial royalties in the past, it is not possible to

predict the amount of royalty income Ampex will receive in the future. Royalty income has historically fluctuated significantly from quarter-to-quarter and year-to-year due to a number of factors that Ampex cannot predict. These factors include the extent to which third parties use its patented technology, the extent to which the Company must pursue litigation in order to enforce its

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patents, and the ultimate success of its licensing and litigation activities. Upon an event of default, the Holders of the Senior Discount Notes will receive additional collateral consisting of the right to receive the proceeds of all future royalties sufficient to repay principal and accrued interest.

The costs of patent litigation can be material. The institution of patent enforcement litigation may also increase the risk of counterclaims alleging infringement by Ampex of patents held by third parties or seeking to invalidate patents held by Ampex. Moreover, there is no assurance that Ampex will continue to develop patentable technology that will be able to generate significant patent royalties in future years to replace patents as they expire.

Dependence on Licensed Patent Applications and Proprietary Technology

Ampex's success depends, in part, upon its ability to establish and maintain the proprietary nature of its technology through the patent process. There can be no assurance that one or more of Ampex's patents will not be successfully challenged, invalidated or circumvented or that it will otherwise be able to rely on such patents for any reason. In addition, there can be no assurance that competitors, many of whom have substantial resources and have made substantial investments in competing technologies, will not seek to apply for and obtain patents that prevent, limit or interfere with Ampex's ability to make, use and sell its products either in the United States or in foreign markets. If any of Ampex's patents are successfully challenged, invalidated or circumvented or its right or ability to manufacture products were to be proscribed or limited, Ampex's ability to continue to manufacture and market its products could be adversely affected, which would likely have a material adverse effect upon Ampex's business, financial condition and results of operations.

Litigation may be necessary to enforce Ampex's patents, to protect trade secrets or know-how owned by the Company or to determine the enforceability, scope and validity of the proprietary rights of others. Any litigation or interference proceedings brought against, initiated by or otherwise involving Ampex may require Ampex to incur substantial legal and other fees and expenses and may require some of its employees to devote all or a substantial portion of their time to the prosecution or defense of such litigation or proceedings.

Rapid Technological Change and Risks of New Product and Services Development

All the industries and markets from which Ampex derives revenues, directly or through its licensing program, are characterized by continual technological change and the need to introduce new products, product upgrades, services and patentable technology. This has required, and will continue to require, that Ampex spend substantial amounts for the research, development and engineering of new products and advances to existing products. No assurance can be given that Ampex's existing products will not become obsolete or that any new products, services or technologies will win commercial acceptance. Obsolescence of existing product lines, or inability to develop and introduce new products and services, could have a material and adverse effect on the Company's sales and results of operations in the future. The development and introduction of new technologies, services and products are subject to inherent technical and market risks, and there can be no assurance that Ampex will be successful in this regard.

Competition

The market for Data Systems products and services is highly competitive and characterized by multiple competitors, most of whom have greater financial resources than Data Systems. Data Systems' products incorporate many high performance features and functions in order to differentiate them from their competitors. However, other companies may develop competing technologies or products that render Data Systems products as inferior.

Dependence on Certain Suppliers

The Company's manufacturing subsidiaries purchase certain components from a single domestic or foreign manufacturer for use in its products. Significant delays in deliveries or defects in such components have adversely affected Ampex's manufacturing operations in the past, pending qualification of an alternative supplier. In addition, Ampex produces highly engineered products in relatively small quantities. As a result, Ampex's ability to cause suppliers to continue production of certain products on which it may depend may be limited. Ampex does not generally enter into long-term raw materials or components supply contracts.

Risks Related to International Operations

International operations are subject to a number of special risks, including limitations on repatriation of earnings, restrictive actions by local governments, and fluctuations in foreign currency exchange rates and nationalization. Additionally, export sales are subject to export regulation and restrictions imposed by U.S. government agencies. Fluctuations in the value of foreign currencies can affect Ampex's results of operations. Ampex does not normally seek to mitigate its exposure to exchange rate fluctuations by hedging its foreign currency positions.

In January 1999, the new "Euro" currency was introduced in certain European countries that are part of the European Monetary Union. Beginning in 2003, all EMU countries are expected to be operating with the Euro as their single currency. A significant amount of uncertainty exists as to the effect the Euro will have on the marketplace generally. Some of the rules and regulations relating to the governance of the currency have not yet been defined and finalized. As a result, companies operating or conducting business in Europe will need to ensure that their financial and other software systems are capable of processing transactions and properly handling the Euro. Ampex is currently assessing the effect the introduction of the Euro will have on its internal accounting systems and the potential sales of its products. Ampex will take appropriate corrective actions based on the results of such assessment. Ampex has not yet determined the costs related to addressing this issue. This issue is not expected to have a material adverse affect on Ampex's business.

Volatility of Stock Price

The trading price of Ampex's Common Stock has been and can be expected to be subject to significant volatility, reflecting a variety of factors, including:

- o quarterly fluctuations in operating results;
- o announcements of acquisitions or new product introductions by Ampex or its competitors;
- o announcements regarding the Company's planned sale of Data Systems;
- o reports and predictions concerning the Company by analysts and other members of the media;
- o issuances of substantial amounts of Common Stock in order to redeem outstanding shares of its Preferred Stock, or otherwise; and

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- o fluctuations in trading volume of the Company's Common Stock, and general economic or market conditions.
- o Developments in the status of the Company's indebtedness and restructuring negotiations.

26

The stock market in general, and Internet and technology companies in particular, have experienced a high degree of price volatility, which has had a substantial effect on the market prices of many such companies for reasons that often are unrelated or disproportionate to operating performance. These broad market and industry fluctuations may adversely affect the price of Ampex's Common Stock, regardless of its operating performance. The Company has been notified by the American Stock Exchange ("Amex") that it will continue to list the Company's Common shares pending a review of the Company's September 30, 2001 Form 10-Q and public disclosures. If the Company's Common Shares become delisted from Amex, the share price might become more volatile and an active market may no longer be maintained.

In addition, if the Company's efforts to refinance its indebtedness are unsuccessful, there is a risk that the Company's Common Stock may become worthless.

Dependence on Key Personnel

Ampex is highly dependent on its management. Ampex's success depends upon the availability and performance of key executive officers and directors. The Company has not entered into employment agreements with its key employees, and the loss of the services of key persons could have a material adverse effect upon Ampex. The Company does not maintain key man life insurance on any of these individuals.

Anti-Takeover Consequences of Certain Governing Instruments

Ampex's Certificate of Incorporation provides for a classified Board of Directors, with members of each class elected for a three-year term. The Certificate of Incorporation provides for nullification of voting rights of certain foreign stockholders in certain circumstances involving possible violations of security regulations of the United States Department of Defense. The instrument governing Ampex's outstanding Preferred Stock, which has an aggregate liquidation value of approximately \$33.7 million at June 30, 2001, requires that Ampex make mandatory offers to redeem those securities out of legally available funds in the event of a change of control. For this purpose, a change of control includes the following events: a person or group of people acting together acquires 30% or more of Ampex's voting securities; Ampex merges, consolidates or transfers all or substantially all of its assets; or the dissolution of Ampex. The Certificate of Incorporation authorizes the Board of Directors to issue additional shares of Preferred Stock without the vote of stockholders. The indenture governing Ampex's outstanding Senior Notes, in the total principal amount of \$44 million, requires Ampex to offer to repurchase the Senior Notes at a purchase price equal to 101% of the outstanding principal amount thereof together with accrued and unpaid interest in the event of a change of control. Under the indenture, a change of control includes the following events: a person or group of people acting together acquires 50% or more of the Company's voting stock; or the transfer of substantially all of the Company's assets to any such person or group, other than to certain subsidiaries and affiliates of Ampex. In addition, the Senior Discount Notes issued in November 2000 are mandatorily redeemable in the event of the sale of Data Systems or a change of control (as defined) of Ampex or Data Systems.

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These provisions could have anti-takeover effects by making an acquisition of Ampex by a third party more difficult or expensive in certain circumstances.

Nonpayment of Dividends

Ampex has not declared dividends on its Common Stock since its incorporation in 1992 and Ampex has no present intention of paying dividends on its Common Stock. Ampex is also restricted by the terms of certain agreements and of the outstanding Preferred Stock as to the declaration of dividends.

27

Environmental Issues

Ampex's facilities are subject to numerous federal, state and local laws and regulations designed to protect the environment from waste emissions and hazardous substances. Owners and occupiers of sites containing hazardous substances, as well as generators and transporters of hazardous substances, are subject to broad liability under various federal and state environmental laws and regulations, including liability for investigative and cleanup costs and damages arising out of past disposal activities. Ampex has been named from time to time as a potentially responsible party by the United States Environmental Protection Agency with respect to contaminated sites that have been designated as "Superfund" sites, and are currently engaged in various environmental investigation, remediation and/or monitoring activities at several sites located off Company facilities. There can be no assurance Ampex will not ultimately incur liability in excess of amounts currently reserved for pending environmental matters, or that additional liabilities with respect to environmental matters will not be asserted. In addition, changes in environmental regulations could impose the need for additional capital equipment or other requirements. Such liabilities or regulations could have a material adverse effect on Ampex in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change to the disclosure made in the 2000 Form10-K.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to routine litigation incidental to its business. In the opinion of management, no such current or pending lawsuits, either individually or in the aggregate, are likely to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Sumitomo Marine Management (USA), Inc. and Great American Insurance Company filed suit on May 17, 2001, in the Superior Court of New Jersey as subrogees of Casio, Inc. against AENTV and others, alleging that Arnold Schwarzenegger had sought and obtained payment from Casio based on its use in an ad of an image of Schwarzenegger as the Terminator, which had been purchased from the defendants and was extracted from a television show on the making of "The Terminator" created by defendants. Plaintiffs allege they paid "millions" in settlement of Schwarzenegger's claim. Suit seeks unspecified damages and costs.

The Company's facilities are subject to numerous federal, state and local laws and regulations designed to protect the environment from waste emissions and hazardous substances. Ampex is also subject to the federal Occupational

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Safety and Health Act and other laws and regulations affecting the safety and health of employees in its facilities. Management believes that Ampex is generally in compliance in all material respects with all applicable environmental and occupational safety laws and regulations or has plans to bring operations into compliance. Management does not anticipate that capital expenditures for pollution control equipment for fiscal 2001 or 2002 will be material.

Owners and occupiers of sites containing hazardous substances, as well as generators and transporters of hazardous substances, are subject to broad liability under various federal and state environmental laws and regulations, including liability for investigative and cleanup costs and damages arising out of past disposal activities. The Company has been named as a potentially responsible party by the United States Environmental Protection Agency with respect to four contaminated sites that have been designated as "Superfund" sites on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980. The Company is engaged in six environmental investigation, remediation and/or monitoring activities at sites located off Company facilities, including the removal of solvent contamination from subsurface aquifers at a site in Sunnyvale, California. Some of these activities involve the participation of state and local government agencies. The other five

28

sites (including the four Superfund sites) are associated with the operations of the Media subsidiaries formerly owned by the Company. Although the Company sold Media in November 1995, the Company may have continuing liability with respect to environmental contamination at these sites if Media fails to discharge its responsibilities with respect to such sites. During 2000, the Company spent a total of approximately \$0.1 million in connection with environmental investigation, remediation and monitoring activities and expects to spend a similar amount in fiscal 2001 for such activities.

Because of the inherent uncertainty as to various aspects of environmental matters, including the extent of environmental damage, the most desirable remediation techniques and the time period during which cleanup costs may be incurred, it is not possible for the Company to estimate with any degree of certainty the ultimate costs that it may incur with respect to the currently pending environmental matters referred to above. Nevertheless, at June 30, 2000, the Company had an accrued liability of \$1.1 million for pending environmental liabilities associated with the Sunnyvale site and certain other sites currently owned or leased by the Company. The Company has not accrued any liability for contingent liabilities it may incur with respect to former Media sites discussed above. Based on facts currently known to management, management believes it has no contingent liability in connection with such pending matters, either individually or in the aggregate, will be material to the Company's financial condition or results of operations or material to investors.

While the Company believes that it is generally in compliance with all applicable environmental laws and regulations or has plans to bring operations into compliance, it is possible that the Company will be named as a potentially responsible party in the future with respect to additional Superfund or other sites. Furthermore, because the Company conducts its business in foreign countries as well as in the U.S., it is not possible to predict the effect that future domestic or foreign regulation could have on Ampex's business, operating results or cash flow. There can be no assurance that the Company will not ultimately incur liability in excess of amounts currently reserved for pending environmental matters, or that additional liabilities with respect to environmental matters will not be asserted. In addition, changes in

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environmental regulations could impose the need for additional capital equipment or other requirements. Such liabilities or regulations could have a material adverse effect on the Company in the future.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

For the three months ended June 30, 2001, holders of 537 shares of Redeemable Preferred Stock and holders of 358 shares of Convertible Preferred Stock exchanged their holdings into 429,600 shares and 286,400 shares of Common Stock, respectively. No cash or other consideration was paid by the Company, directly or indirectly, in connection with such conversion or exchange. The shares of Class A Common Stock were issued in reliance upon the exemption from registration contained in Section 3(a)(9) of the Securities Act of 1933, as amended, for the issuance of securities exchanged by the issuer with the existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 1, 2001 the Company held its Annual Meeting of Stockholders. The stockholders elected Edward J. Bramson and William A. Stoltzfus Jr. as its Class I directors. Mr. Bramson received 51,495,209 votes in favor of his election, with 4,126,791 votes withheld and no broker nonvotes. Mr. Stoltzfus Jr. received 52,900,774 votes in favor of his election, with 2,721,226 votes withheld and no broker nonvotes. The stockholders ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent public accountants for the fiscal year 2001, with 54,457,470 votes in favor, 1,026,564 votes against, 137,966 votes abstaining, and no broker nonvotes.

29

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6(a). EXHIBITS

The Exhibits filed with this Report are listed in the Exhibit Index included elsewhere herein and which is hereby incorporated by reference in this Item 6(a).

ITEM 6(b). REPORTS ON FORM 8-K

The Company filed a Current Report on Form 8-K on May 3, 2001 containing information under Item 5 regarding a review by the Amex of the Company's continuing eligibility for listing.

30

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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AMPEX CORPORATION

Date: August 13, 2001

/s/ EDWARD J. BRAMSON

Edward J. Bramson
Chairman and Chief Executive Officer

Date: August 13, 2001

/s/ CRAIG L. MCKIBBEN

Craig L. McKibben
Vice President, Chief Financial Officer and
Treasurer

31

AMPEX CORPORATION

FORM 10-Q FOR THE QUARTER ENDED
June 30, 2001

EXHIBIT INDEX

Exhibit No. -----	Exhibit Description -----
4.1	Amendment to Note Purchase Agreement, dated as of May 30, 2001, among Ampex Data Systems Corporation ("Issuer"), Registrant and the several Note Purchasers named therein.
4.2	First Amendment to Deed of Trust, Security Agreement, Financing Statement and Assignment of Rents and Revenues, dated as of May 30, 2001, between the Issuer and the Trustee named therein.

32