

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 13-3667696
(State of Incorporation) (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 September 30, 2001, the aggregate number of outstanding shares of the Registrant's Class A Common Stock, \$.01 par value, was 59,936,996. There were no outstanding shares of the Registrant's Class C Common Stock, \$0.01 par value.

AMPEX CORPORATION
FORM 10-Q

Quarter Ended September 30, 2001

INDEX

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

PART I -- FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Consolidated Balance Sheets (unaudited) at September 30, 2001 and December 31, 2000	
	Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2001 and 2000	
	Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended September 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	3

PART II -- OTHER INFORMATION

Item 1.	Legal Proceedings	3
Item 2.	Changes in Securities and Use of Proceeds	3
Item 3.	Defaults Upon Senior Securities	3
Item 4.	Submission of Matters to a Vote of Security Holders	3
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)

ASSETS

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

Current assets:

Cash and cash equivalents
Short-term investments
Prepaid royalties
Other current assets

Total current assets

Property, plant and equipment, net
Intangible assets, net
Investments in affiliate
Deferred pension asset
Other assets
Net assets of business held for sale

Total assets

LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT

Current liabilities:

Notes payable
Accounts payable
Net liabilities of discontinued operations
Interest payable
Other accrued liabilities

Total current liabilities

Long-term debt
Other liabilities
Net liabilities of discontinued operations
Deferred income taxes

Total liabilities

Commitments and contingencies (Note 8)

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 in 2000

Mandatorily redeemable preferred stock, \$2,000 liquidation value:

Authorized: 21,859 shares in 2001 and in 2000
Issued and outstanding - 15,562 shares in 2001; 17,173 in 2000

Convertible preferred stock, \$2,000 liquidation value:

Authorized: 10,000 shares in 2001 and in 2000
Issued and outstanding - 409 shares in 2001; 1,125 in 2000

Stockholders' deficit:

Preferred stock, \$1.00 par value:

Authorized: 898,171 shares in 2001 and in 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 - 59,936,996 shares in 2001; 58,075,396 in 2000

Class C:

Authorized: 50,000,000 shares in 2001 and in 2000
Issued and outstanding - none in 2001 and in 2000

Other additional capital

Notes receivable from stockholders

Accumulated deficit

Accumulated other comprehensive loss

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

Total stockholders' deficit

Total liabilities, redeemable preferred stock and stockholders' deficit

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

3

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

	For the three months ended	
	September 30,	
	2001	2000
		(unau
Royalty income	\$ 2,088	\$ 2,908
Intellectual property costs	96	(57)
Selling and administrative	1,419	1,471
Total costs and operating expenses	1,515	1,414
Operating income	573	1,494
Interest expense	1,365	1,355
Amortization of debt financing costs	88	88
Interest income	(17)	(349)
Other (income) expense, net	117	1
Income (loss) from continuing operations before income taxes	(980)	399
Provision for income taxes	210	306
Income (loss) from continuing operations	(1,190)	93
Loss on disposal of discontinued operations (net of taxes of none in 2001 and 2000)	-	-
Loss from discontinued operations (net of taxes of none in 2001 and 2000)	-	(10,878)
Income (loss) of business held for sale (net of taxes of none in 2001 and 2000)	(714)	243
Net loss	(1,904)	(10,542)
Benefit from extinguishment of mandatorily redeemable		

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

preferred stock	1,716	516
	-----	-----
Net loss applicable to common stockholders	(188)	(10,026)
Other comprehensive loss, net of tax:		
Unrealized loss on marketable securities	-	-
Foreign currency translation adjustments	-	-
	-----	-----
Comprehensive loss	\$ (188)	\$ (10,026)
	=====	=====
Basic income (loss) per share:		
Income (loss) per share from continuing operations	\$ (0.02)	\$ 0.00
Loss per share from discontinued operations	\$ (0.01)	\$ (0.19)
Loss per share applicable to common stockholders	\$ 0.00	\$ (0.18)
	-----	-----
Weighted average number of common shares outstanding	59,228,864	56,463,285
	=====	=====
Diluted income (loss) per share:		
Income (loss) per share from continuing operations	\$ (0.02)	\$ 0.00
Loss per share from discontinued operations	\$ (0.01)	\$ (0.15)
Loss per share applicable to common stockholders	\$ 0.00	\$ (0.14)
	-----	-----
Weighted average number of common shares outstanding	59,228,864	72,092,352
	=====	=====

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

4

AMPEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the nine months ended	
	Sept 30, 2001	Sept 2000
	-----	-----
	(unaudited)	
Cash flows from operating activities:		
Net loss	\$ (25,873)	\$ (25,873)
Loss from discontinued operations	22,486	22,486
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and accretion	636	636
Changes in operating assets and liabilities:		
Deferred pension asset	377	377
Other assets	1,359	1,359
Accounts payable	(356)	(356)
Other accrued liabilities and income taxes payable	4,140	4,140
Net liabilities of discontinued operations	3,648	3,648

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

Other liabilities	(2,284)	-----
Net cash provided by (used in) continuing operations	4,133	(
Net cash used in discontinued operations	(12,071)	1)
	-----	-----
Net cash used in operating activities	(7,938)	(2)
	-----	-----
Cash flows from investing activities:		
Purchases of short-term investments	-	(2
Proceeds received on the maturity of short-term investments	5,001	5
Proceeds from the sale of short-term investments	-	
	-----	-----
Net cash provided by continuing operations	5,001	2
Net cash used in discontinued operations	(2,168)	(
	-----	-----
Net cash provided by investing activities	2,833	2
	-----	-----
Cash flows from financing activities:		
Borrowings under working capital facilities	753	
Repayments under working capital facilities	(1,742)	
Repayment of notes payable-affiliates	-	
Proceeds from issuance of common stock	9	
	-----	-----
Net cash provided by (used in) continuing operations	(980)	
Net cash used in discontinued operations	-	
	-----	-----
Net cash provided by (used in) financing activities	(980)	
	-----	-----
Effects of exchange rates on continuing operations	-	
	-----	-----
Effects of exchange rates on discontinued operations	(40)	
	-----	-----
Net increase (decrease) in cash and cash equivalents	(6,125)	
Cash and cash equivalents, beginning of period	10,384	1
	-----	-----
Cash and cash equivalents, end of period	\$ 4,259	\$ 1
	=====	=====

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 the closure of iNEXTV's operations in New York City and termination of the development of Internet video technology in Redwood City, California. The Company also announced that it will discontinue making investments in iNEXTV's majority-owned subsidiary, Alternative Entertainment Network, Inc. ("AENTV" or

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

"AENTV.com") in Los Angeles and in iNEXTV's partially-owned affiliate, TV1 Internet Television, ("TV1" or "TV1.de") in Munich, Germany. iNEXTV's investment in a majority-owned subsidiary, TV on the WEB, was written off in September 2000 when the Company discontinued funding operations and the business closed. 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. However, the assets and liabilities of iNEXTV are included in the Consolidated Balance Sheet as of December 31, 2000.

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 offer Data Systems for sale but does not currently anticipate that it will close a transaction in 2001, if at all.

As of the year ended 2000, Ampex discontinued 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

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 prompting negotiations between the Company and the holders of the Discount Notes and Senior Notes to restructure their indebtedness. The restructuring plan would apply substantially all future royalty receipts, net of operating expenses, as well as the net proceeds of certain asset sales, to repay interest and principal on the indebtedness. The Company agreed with holders of its 12% Senior Notes to defer an interest payment of approximately \$2.6 million to January 31, 2002 to provide time to complete the restructuring. Ampex has terminated a previously announced agreement to sell and leaseback certain real estate, the net proceeds from which would have been applied to repay the Senior Discount Notes. Data Systems and the holders of the Discount Notes have agreed to extend the maturity of the Discount Notes to March 31, 2002. Data Systems is currently seeking a mortgage financing of the real estate and will continue to pursue new sale and leaseback opportunities. There can be no assurance that these financing efforts will be successful or be completed by the due date of the Discount Notes. As part of the restructuring, the Company and the holders of the Senior Discount Notes are discussing a long-term extension of the Notes and repayment of principal and accrued interest from future net royalty receipts in the event that the mortgage financing or sale and leaseback of real estate do not materialize or do not raise sufficient proceeds.

AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Ampex Corporation (cont'd.)

Subsequent to the end of the third quarter (see Note 14), Data Systems obtained a short-term financing commitment of up to \$2.5 million through March 2002. Borrowings under the line are secured by inventories and bear interest at 8% per annum. The facility will be used to reduce accounts payable, a significant portion of which at September 30, 2001 had become past due. The Company believes that the new inventory line of credit will bridge the liquidity gap that existed pending realization of recently enacted operational cost savings and inventory liquidation initiatives. Management's current projections indicate that Data Systems should generate sufficient liquidity to continue as a going concern subject to refinancing of the Senior Discount Notes. As described above, the Company is actively seeking a restructuring of its indebtedness, but if this is not concluded successfully, the Company may be unable to continue as a going concern and could be required to seek bankruptcy protection. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 nine-month periods ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year.

Note 3 - 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 were 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

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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 has adopted 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 September 30, 2001 there was no goodwill and goodwill amortization on the Company's financial statements.

7

AMPEX CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Recent Pronouncements (cont'd.)

In August 2001, the FASB issued Statement No. 143 ("FAS 143"), Accounting for Asset Retirement Obligations. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which the obligation is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. The standard is effective for 2003. The company is currently reviewing the requirements of this new standard and has not yet determined its impact on the company's financial position or results of operations.

In October 2001, the FASB issued Statement No. 144 ("FAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets, which supercedes Statement No. 121 ("FAS 121"), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and certain provisions of APB Opinion No. 30, Reporting Results of Operations / Reporting the Effects of Disposal of a Segment of a Business. FAS 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. As a result, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. FAS 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that can be distinguished and eliminated from the rest of the entity's ongoing operations. The provisions of FAS 144 are effective for fiscal years beginning after December 15, 2001. The company is currently reviewing the requirements of this new standard and has not yet determined its impact on the company's financial position or results of operations.

Note 4 - 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

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

manufacturers and sells high performance, tape-based mass data storage products. The Company continues to offer Data Systems for sale but does not currently anticipate that it will close a transaction in 2001, if at all.

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

	Three months ended		N
	Sept 30, 2001	Sept 30, 2000	
	(in thousands)		
Revenues	7,500	11,547	25
Costs and operating expenses	(7,753)	(11,232)	(29)
Operating income (loss)	(253)	315	(3)
Interest expense	(460)	(159)	(1)
Income (loss) of business held for disposition	(714)	243	(4)

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

	Sept 30, 2001	D
	(in thousands)	
Current assets	\$ 22,021	\$
Property, plant and equipment, net	5,477	
Other assets	136	
Senior Discount Notes	(9,509)	
Current liabilities	(10,274)	
Other liabilities	(376)	
Other	(601)	
Net assets of segment to be sold	\$ 6,874	\$

AMPEX CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Business Held for Disposition (cont'd.)

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. These Notes have been extended to March 31, 2002. Data Systems is currently seeking mortgage financing and new sale and leaseback opportunities on the real estate that collateralizes the Discount Notes in order to repay the

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

Notes, but there can be no assurance that these efforts will be successful.

In the three months ended June 2001, Data Systems recorded a restructuring charge of \$0.8 million, consisting principally of costs associated with the elimination of approximately 73 U.S. positions in engineering, manufacturing and administration. At September 30, 2001, Data Systems had paid and charged \$0.8 million against the liability accounts related to termination benefits set up for the 2001 restructuring and terminated 73 employees. At September 30, 2001, the Company included the remaining balance of the Data Systems accrued restructuring of \$0.1 million as part of its net liabilities of discontinued operations.

Note 5 - 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 has liquidated MicroNet's assets which were not significant. The Consolidated Balance Sheet as of September 30, 2001 and December 31, 2000 did not include any assets or liabilities of MicroNet.

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

	Three months ended		
	Sept 30, 2001	Sept 30, 2000	Se
	-----	-----	---
			(in thousand)
Revenues	-	2,460	
Costs and operating expenses excluding amortization	-	(4,011)	
Goodwill amortization	-	(304)	
Operating loss	-	(1,855)	
Loss from discontinued operations	-	(1,855)	

At September 30, 2001, the Company had paid and charged \$1.1 million against the restructuring reserve. At September 30, 2001, the Company included the remaining balance of the MicroNet accrued restructuring of \$0.9 million as part of its net liabilities of discontinued operations. The remaining accrued restructuring is mainly related to a lease obligation related to a vacated or abandoned lease which has not been discounted to present value.

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.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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

	Three months ended		
	Sept 30, 2001	Sept 30, 2000	Sep 2000
	(in thousands)		
Revenues	-	1,721	
Costs and operating expenses excluding amortization ...	-	(5,998)	
Goodwill amortization and writedown of assets	-	(4,514)	
Operating loss	-	(8,791)	
Equity loss of unconsolidated subsidiary	-	(226)	
Loss from discontinued operations	-	(9,023)	

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 and which closed down operations in September 2000. For the three and nine months ended September 30, 2000, TV onthe WEB reported a net loss of \$5.5 million and \$9.7 million, respectively.

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

	Three months ended		
	Sept 30, 2001	Sept 30, 2000	Sep 2000
	(in thousands)		
Reserve for closure	-	-	
Impairment charge	-	-	
Loss on disposal of discontinued operations	-	-	

The impairment charge was recorded in the quarter ended June 30, 2001 and reflects the write-off of the Company's unamortized investment in the Internet businesses including an additional investment in TV1 during the first quarter of 2001 of \$1.7 million. 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. In addition to the reserve for closure, the net liabilities of discontinued operations for iNEXTV included the reclassification of certain liabilities at the time of closure of \$1.1 million. During the three months ended September 30, 2001, the Company paid and recorded charges of \$1.7 million against the net liabilities of discontinued operations. The unamortized balance in the net liabilities of discontinued operations totaled \$5.1 million at September 30, 2001.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - 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):

	Three months ended		N Sept 20
	Sept 30, 2001	Sept 30, 2000	
Numerator - Basic and Diluted			
Income (loss) from continuing operations	\$ (1,190)	\$ 93	\$ (3)
Net loss applicable to common stockholders	\$ (188)	\$ (10,026)	\$ (21)
Denominator - Basic			
Weighted average common stock outstanding	59,229	56,463	58
Basic income (loss) per share from continuing operations	\$ (0.02)	\$ 0.00	\$ (
Basic income (loss) per share applicable to common stockholders	\$ 0.00	\$ (0.18)	\$ (
Denominator - Diluted			
Weighted average common stock outstanding	59,223	56,463	58
Contingent shares due to acquisition	-	720	
Effect of dilutive securities			
Stock options	-	178	
Redeemable and convertible preferred stock	-	14,731	
Warrants	-	-	
	59,223	72,092	58
Diluted income (loss) per share from continuing operations	\$ (0.02)	\$ 0.00	\$ (
Diluted income (loss) per share applicable to common stockholders	\$ 0.00	\$ (0.14)	\$ (

In the nine months ended September 30, 2001, holders of 716 shares of Convertible Preferred Stock converted their holdings into 572,800 shares of Common Stock and 1,611 shares of Redeemable Preferred Stock were redeemed into 1,288,800 shares of Common Stock. In the nine months ended September 30, 2000,

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

holders of 760 shares of Convertible Preferred Stock converted their holdings into 380,000 shares of Common Stock and 1,611 shares of Redeemable Preferred Stock were redeemed into 1,119,879 shares of Common Stock. Such shares of common stock are included in the weighted average common stock outstanding from the dates of exchange. The remaining shares of Common Stock potentially issuable on conversion of Convertible Preferred Stock and redemption of the Redeemable Preferred Stock have been included in the computation of diluted weighted average common stock outstanding in the periods where their deemed issuance would have a dilutive effect. If the Company was to make all remaining redemption payments in Common Stock based on the floor conversion price, an additional 12,654,100 shares of Common Stock would be issued over the number of common shares included in the diluted income per share computation at September 30, 2001.

11

AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIALS STATEMENTS

Note 6 - Computation of Basic and Diluted Loss per Share (cont'd.)

Stock options to purchase 2,857,083 shares of Common Stock at prices ranging from \$0.26 to \$6.00 per share were outstanding at September 30, 2001, but were not included in the computation of diluted loss per share as they are anti-dilutive.

Stock options to purchase 3,684,584 shares of Common Stock at prices ranging from \$1.0625 to \$6.00 per share were outstanding at September 30, 2000, but were not included in the computation of diluted loss per share for the three months ended September 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 12. 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 nine months ended September 30, 2001 and the three months ended September 30, 2000, respectively, since they are anti-dilutive.

Note 7 - Supplemental Schedule of Cash Flow Information

	Nine months ended September 30,	
	2001	2000
	(in thousands)	
Interest paid	\$ 2,640	\$ 5,283
Income taxes paid	676	993
Redeemable preferred stock	(1,611)	(3,222)
Convertible preferred stock	(716)	(1,520)
Issuance of common stock	2,327	4,742

Note 8 - Commitments and Contingencies

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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.

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 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. In July 2001, the Company's subsidiary, iNEXTV, wrote off its investment in AENTV and believes that it has no further obligations with respect to AENTV.

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.

12

AMPEX CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIALS STATEMENTS

Note 8 - Commitments and Contingencies (cont'd.)

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.

Note 9 - 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

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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 nine months ended September 30, 2001, the Company issued 572,800 shares of Common Stock to satisfy the quarterly redemption requirements, leaving 409 shares of Convertible Preferred Stock outstanding. In the nine months ended September 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 nine months ended September 30, 2001, the Company issued 1,288,800 shares of its Common Stock to satisfy the quarterly redemption requirements, leaving 15,562 shares of Redeemable Preferred Stock outstanding. In the nine months ended June 30, 2000, the Company issued 1,119,879 shares of its Common Stock to satisfy the quarterly redemption requirements. The Company is obligated to redeem approximately \$5.1 million face amount of Convertible and Redeemable Preferred Stock over the next twelve months. The Company has the option to make mandatory redemption payments 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 10 - 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.

AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - 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

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

Current period change	-
September 30, 2001	\$ 17,553

Note 12 - Debt

	Sept 30, 2001
	----- (in th
Notes Payable	
Data Systems senior secured notes	\$ 9,509
Liability included in net assets of business held for sale	(9,509)
Hillside notes payable	300
Note payable - other	157
Total	----- \$ 457 =====
Long-term Debt	
Working capital facilities	\$ 661
Hillside notes payable	453
Senior notes	43,798
Total	----- \$ 44,912 =====

Data Systems Senior Secured Notes

In November 2000, Data Systems issued Senior Discount Notes, which are included in "Net Assets of Business Held for Sale" in the Consolidated Balance Sheet, providing net proceeds of \$8 million that have accreted in value to \$9.5 million at September 30, 2001. The Senior Discount Notes are secured by certain assets of the Company and Data Systems. Data Systems has terminated a previously announced agreement to sell and leaseback certain real estate, the net proceeds from which would have been used to repay the Senior Discount Notes. Data Systems and the holders of the Senior Discount Notes have agreed to extend their maturity to March 31, 2002. The Company is currently seeking a mortgage financing of the real estate and will continue to pursue new sale and leaseback opportunities. There can be no assurance that these financing efforts will be successful or be completed by the due date of the Senior Discount Notes.

Note Payable - Other

The note is a noninterest-bearing demand promissory note held by NH Holding Incorporated. The outstanding balance is expected to be paid or converted into shares of Common Stock in 2002.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

AMPEX CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 12 - Debt (cont'd.)

Working Capital Facilities

Ampex has a revolving credit line with a domestic financial institution to finance working capital requirements. The Company's domestic revolving credit agreement permits borrowings up to \$7.0 million, based on eligible accounts receivable as defined in the agreement, less a standby letter of credit facility in the amount of \$2.5 million. At September 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. The Company pays a monthly commitment fee of 0.5% per annum based on the average daily unused amount. The borrowings are collateralized by certain current assets of the Company.

Hillside Notes

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. At the Company's request, Hillside has made pension contributions totaling \$0.7 million through September 30, 2001 and has been issued notes by the Company in the amount of the pension contributions. Under the terms of the Notes, \$150,000 is due on the first anniversary of the Note with the remainder due on the fourth anniversary of the Notes. The Hillside Notes provide for interest payable quarterly at 175% of the applicable Federal rate at the time of issuance.

Senior Notes

In 1998, the Company issued \$44.0 million of 12% Senior Notes ("Notes"), due March 15, 2003, 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 at \$765,000 using the Black-Scholes model. Warrants are being amortized against interest expense over the term of the Notes. Interest on the Notes is payable semi-annually on March 15 and September 15 of each year.

The Company agreed with holders of its 12% Senior Notes to defer an interest payment of approximately \$2.6 million to January 31, 2002 to provide time to complete a restructuring of the Company's Senior Notes. The restructuring plan would apply substantially all future royalty receipts, net of operating expenses, as well as the net proceeds of certain asset sales, to repay interest and principal on the indebtedness. If the Company is unable to restructure the Notes, the Company may be required to seek bankruptcy protection.

Note 13 - 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.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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

15

AMPEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - Segment Reporting (cont'd)

	Nine Months Ended September 30, 2001		
	Licensing of Intellectual Property	Eliminations and Corporate	Totals
Revenues from external customers	\$ 6,605	\$ -	\$ 6,605
Interest income	-	217	217
Interest expense	-	4,055	4,055
Depreciation, amortization and accretion	-	636	636
Segment income (loss)	6,123	(8,834)	(2,711)
Segment assets	-	16,418	16,418

	Nine Months Ended September 30, 2000		
	Licensing of Intellectual Property	Eliminations and Corporate	Totals
Revenues from external customers	\$ 9,614	\$ -	\$ 9,614
Interest income	-	1,078	1,078
Interest expense	-	4,069	4,069
Depreciation, amortization and accretion	3	604	607
Segment income (loss)	9,063	(7,609)	1,454
Segment assets	2	49,504	49,506

Note 14 - Subsequent Events

In October 2001, Data Systems entered into a revolving credit agreement providing for borrowings of up to \$2.5 million, secured principally by the borrower's inventories. The Company has guaranteed all borrowings. Availability under the agreement declines to \$1.5 million in January 2002, to \$750,000 in February 2002 and the loan is due and payable in full on March 31, 2002. Borrowings bear interest at 8% per annum on the outstanding balance. As a commitment fee the Company issued to the lender 1 million shares of its Common Stock with a market value of approximately \$160,000. The lender, Sherborne & Company Incorporated, is a related party of the Company and is wholly-owned by Edward Bramson, the Chairman and Chief Executive Officer of Ampex Corporation.

16

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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. The Company agreed with holders of its 12% Senior Notes to defer an interest payment of approximately \$2.6 million to January 31, 2002 to allow it to conclude a restructuring of the Company's Senior Notes. The restructuring plan would apply substantially all future royalty receipts, net of operating expenses, as well as the net proceeds of certain asset sales, to repay interest and principal on the Senior Notes.

Data Systems has terminated a previously announced agreement to sell and leaseback certain real estate, the net proceeds from which would have been applied to repay the Senior Discount Notes. Data Systems and the holders of the Senior Discount Notes have agreed to extend the maturity of the Senior Discount Notes to March 31, 2002. The Company is currently seeking a mortgage financing of the real estate and will continue to pursue new sale and leaseback opportunities. There can be no assurance that these financing efforts will be successful or be completed by the due date of the Senior Discount Notes.

The Company is discussing with the holders of the Senior Discount Notes a long-term extension of the Notes and repayment of principal and accrued interest from future net royalty receipts in the event that the sale and leaseback or other financing of real estate does not materialize or does not raise sufficient proceeds. Subject to refinancing of the Senior Discount Notes, management's current projections indicate that Data Systems should generate sufficient liquidity to meet its obligations for at least the next twelve months. As described above, the Company is actively seeking a restructuring of its indebtedness but if this is not concluded successfully the Company may be unable to continue as a going concern and could be required to seek bankruptcy protection. Such an event may result in the Company's Common Stock being

negatively affected or becoming worthless.

17

Discontinuance of Internet Video Development Strategy

As of June 30, 2001, the Company closed iNEXTV's operations in New York City and terminated the development of Internet video technology in Redwood City, California. It also discontinued funding its subsidiary, AENTV in Los Angeles and its partially-owned affiliate, TV1.de in Munich in Germany. In the quarter ended June 30, 2001, Ampex provided a reserve for the cost of closing all Internet-based operations and wrote down its investments in those entities completely because the proceeds from asset sales will not be sufficient to repay third party obligations of those entities.

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. During the quarter ended September 30, 2001, the Company recorded charges of \$1.7 million against the reserve and reclassified certain liabilities totaling \$1.1 million to the reserve. The unamortized balance in the reserve for closure costs totaled \$5.1 million at September 30, 2001. The reserve may be reduced to the extent that the Company is able to sublet its facilities in future periods. 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 September 30, 2001 and December 31, 2000. The Company continues to offer Data Systems for sale but to date has not received any acceptable offers to purchase the company. Accordingly, the Company 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. Accordingly, the operations of MicroNet have been classified as "Discontinued Operations" for all periods presented. At December 31, 2000, the Company established a reserve for the costs of closure and to write-down its investment in MicroNet to estimated net realizable value. During 2001, the Company recorded charges of \$1.1 million against the reserve. The unamortized balance in the reserve for closure costs totals \$0.9 million at September 30, 2001

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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

Results of Operations for the Three and Nine Months Ended September 30, 2001 and 2000

Royalty Income. Royalty income was \$2.1 million and \$2.9 million in the third quarters of 2001 and 2000, respectively, and \$6.6 million and \$9.6 million in the first nine months 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

18

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. As discussed above, the Company and Data Systems are negotiating with holders of the Senior Notes and the Senior Discount Notes to restructure the indebtedness to apply future net royalty receipts to the repayment of interest and principal on the indebtedness.

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 \$1.5 million in the three months ended September 30, 2001 and September 30, 2000, respectively and was \$4.8 million and \$4.1 million in the comparable nine months ended September 30, 2001 and September 30, 2000. The increase in the comparable nine-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 \$1.4 million, respectively, in the three and nine months ended September 30, 2001 compared to \$1.5 million and \$4.9 million, respectively in the three and nine months ended September 30, 2000. The decrease in operating income in the three and nine months ended September 30, 2001 from 2000 was due to a reduction in royalty income.

Interest Expense. Interest expense is associated primarily with \$44.0

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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. Interest expense charged on the Senior Discount Notes and included in the income (loss) of business held for sale was \$0.4 and \$1.3 million in the three and nine months ended September 30, 2001, respectively.

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.

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

Other (Income) Expense, Net. For the three and nine months ended September 30, 2001, other (income) expense, net consists primarily of foreign currency transaction gains and losses. In the three and nine months ended September 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 nine months ended September 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 September 30, 2001, the

19

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.

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 (\$0.7) million and \$(4.9) million in the three and nine months ended September 30, 2001, respectively, and \$0.2 million and \$1.5 million in the three and nine months ended September 30, 2000, respectively.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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

	Three months ended		N
	Sept 30, 2001	Sept 30, 2000	
	(in thousands)		
Revenues	7,500	11,547	25
Costs and operating expenses	(7,753)	(11,232)	(29)
Operating income (loss)	(253)	315	(3)
Interest expense	(460)	(159)	(1)
Income (loss) of business held for disposition	(714)	243	(4)

In the three months ended June 30, 2001, Data Systems recorded a net restructuring charge of \$0.8 million, principally related to costs associated with the elimination of approximately 73 U.S. positions in engineering, manufacturing and administration. At September 30, 2001, Data Systems had paid and charged \$0.8 million against the liability accounts related to the termination benefits set up for the 2001 restructuring and terminated 73 employees. At September 30, 2001, the Company includes the remaining balance of Data Systems accrued restructuring reserve of \$0.1 million as part of its net liabilities of discontinued operations.

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 as of December 31, 2000.

20

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

	Three months ended		N
	Sept 30, 2001	Sept 30, 2000	
	(in thousands)		
Revenues	-	2,460	
Costs and operating expenses excluding amortization	-	(4,011)	
Goodwill amortization	-	(304)	
Operating loss	-	(1,855)	
Loss from discontinued operations	-	(1,855)	

At September 30, 2001, the Company had paid and charged \$1.1 million against the restructuring reserve. At September 30, 2001, the Company included

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

costs of \$5.0 million, which may be mitigated if the facilities are sublet in the future, employee and contractor severance costs of \$0.6 million and other costs of \$0.1 million. In addition to the reserve for closure, the net liabilities of discontinued operations for iNEXTV included the reclass of certain liabilities at the time of closure of \$1.1 million. During the three months ended September 30, 2001, the Company paid and recorded charges of \$1.7 million against the net liabilities of discontinued operations. The unamortized balance in the net liabilities of discontinued operations totaled \$5.1 million at September 30, 2001.

Net Loss. The Company reported a net loss of \$1.9 million and \$25.9 million, respectively, in the three and nine months ended September 30, 2001 compared to a net loss of \$10.5 million and \$25.4 million, respectively, in the three and nine months ended September 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. 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 in the three and nine months ended September 30, 2001 of \$1.7 million and \$4.1 million, respectively, and \$0.5 million for the three and nine months ended September 30, 2000, 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 above, the Company and holders of its 12% Senior Notes and Data Systems' Senior Discount Notes are seeking to restructure the indebtedness and have agreed to defer a scheduled interest payment on the Senior Notes and extend the maturity date on the Senior Discount Notes. The restructuring plan would apply substantially all future royalty receipts, net of operating expenses, as well as the net proceeds of certain asset sales, to repay interest and principal. While the Company is actively negotiating the restructuring described above, if a restructuring is not concluded successfully the Company may be unable to continue as a going concern and could be required to seek bankruptcy protection. Such an event may result in the Company's Common Stock being negatively affected or becoming worthless.

Cash Flow. The decline in cash and short-term investments in the nine months ended September 30, 2001 results primarily from operating losses of the Company's Internet video businesses and operations of the Internet Technology Group that have been closed as of June 30, 2001. These losses more than offset operating income from the Company's non-Internet technology licensing activities. Cash provided by continuing operations totaled \$4.1 million in the nine months ended September 30, 2001 and cash used in continuing operations totaled \$6.8 million in

the nine months ended September 30, 2000 largely as a result of pension plan payments and Data Systems accrued restructuring payments. Cash used in discontinued operations totaled \$12.1 million in the nine months ended September 30, 2001 and \$18.9 million in the nine months ended September 30, 2000.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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. At the Company's request, Hillside has made pension contributions totaling \$0.7 million through September 30, 2001 and has been issued notes by the Company in the amount of the pension contributions. Under the terms of the Notes, \$150,000 is due on the first anniversary of the Note with the remainder due on the fourth anniversary of the Notes.

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 terminated a previously announced agreement to sell and leaseback certain real estate, the net proceeds from which would have been used to repay the Senior Discount Notes. Data Systems and the holders of the Senior Discount Notes have agreed to extend their maturity to March 31, 2002. The Company is currently seeking a mortgage financing of the real estate and will continue to pursue new sale and leaseback opportunities. There can be no assurance that these financing efforts will be successful or be completed by the due date of the Senior Discount Notes.

Data Systems has recently reduced headcount and overhead expenses in order to operate at a cash breakeven level at current sales levels. In the nine month period ended September 30, 2001, Data Systems recorded a restructuring reserve of \$0.8 million in connection with its cost reduction initiatives. Recently, Data Systems has seen an increase in proposal activity from government customers that it believes may result in higher sales levels in future periods. In October 2001, Data Systems entered into a revolving credit agreement providing for borrowings of up to \$2.5 million, secured principally by the borrower's inventories. The Company has guaranteed all borrowings. Availability under the agreement declines to \$1.5 million in January 2002, to \$750,000 in February 2002 and the loan is due and payable in full on March 31, 2002. Borrowings bear interest at 8% per annum on the outstanding balance. As a commitment fee the Company issued to the lender 1 million shares of its Common Stock having a market value of approximately \$160,000. Data Systems had been seeking such financing for several months but was unable to obtain it on commercially reasonable terms. The lender, Sherborne & Company Incorporated, is a related party of the Company and is wholly-owned by Edward Bramson, the Chairman and Chief Executive Officer of Ampex Corporation. The facility will be used to reduce accounts payable, a significant portion of which at September 30, 2001 had become past due. The Company believes that the new inventory line of credit will bridge the liquidity gap that existed pending realization of recently enacted operational cost savings and inventory liquidation initiatives. Management's current projections indicate that Data Systems should generate sufficient liquidity to meet its obligations over at least the next twelve months subject to refinancing the Senior Discount Notes.

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 September 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.

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. The indentures under which the Senior Discount Notes and 12% Senior Notes were issued contain customary affirmative and negative restrictive covenants that limit, among other things, the incurrence of additional senior debt, the payment of dividends, the sale of assets and other actions by the Company and certain restricted subsidiaries. As discussed above, the Company has initiated negotiations to restructure the Senior Discount Notes and the Senior Notes to provide for the repayment of principal and interest out of future net royalty receipts. In connection with the restructuring, the Company may seek to modify the terms of the existing Indentures to the extent that they limit the incurrence of additional senior debt, the sale of assets and other actions by the Company and its restricted subsidiaries. If a restructuring is not concluded successfully the Company may be unable to continue as a going concern and could be required to seek bankruptcy protection. Such an event may result in the Company's Common Stock being negatively affected or becoming worthless.

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 has adopted 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 September 30, 2001 there was no goodwill and goodwill amortization on the Company's financial statements.

In August 2001, the FASB issued Statement No. 143 ("FAS 143"), Accounting for Asset Retirement Obligations. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which the obligation is incurred. When the liability is initially

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. The standard is effective for 2003. The company is currently reviewing the requirements of this new standard and has not yet determined its impact on the company's financial position or results of operations.

In October 2001, the FASB issued Statement No. 144 ("FAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets, which supercedes Statement No. 121 ("FAS 121"), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and certain provisions of APB Opinion No. 30, Reporting Results of Operations / Reporting the Effects of Disposal of a Segment of a Business. FAS 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued

24

operations. As a result, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. FAS 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that can be distinguished and eliminated from the rest of the entity's ongoing operations. The provisions of FAS 144 are effective for fiscal years beginning after December 15, 2001. The company is currently reviewing the requirements of this new standard and has not yet determined its impact on the company's financial position or results of operations.

Risk Factors

Ability to Continue as a Going Concern - Declining Liquidity

As discussed in the Notes to the Unaudited Financial Statements for the three and nine months ended September 30, 2001, there exists substantial uncertainty as to the Company's ability to continue as a going concern. The Company's working capital has declined substantially in recent periods and its cash and marketable securities have declined to \$4.3 million at September 30, 2001. The Company's declining liquidity has prompted negotiations between the Company and the holders of the Senior Discount Notes and Senior Notes to restructure their indebtedness. The restructuring plan would apply substantially all future royalty receipts, net of operating expenses, as well as the net proceeds of certain asset sales, to repay interest and principal on the indebtedness. The Company agreed with holders of its 12% Senior Notes to defer an interest payment of approximately \$2.6 million to January 31, 2002 to provide time to complete the restructuring. Ampex has terminated a previously announced agreement to sell and leaseback certain real estate, the net proceeds from which would have been applied to repay the Senior Discount Notes. Data Systems and the holders of the Senior Discount Notes have agreed to extend the maturity of the Senior Discount Notes to March 31, 2002. Data Systems is currently seeking a mortgage financing of the real estate and will continue to pursue new sale and leaseback opportunities. There can be no assurance that these financing efforts will be successful or be completed by the due date of the Senior Discount Notes. As part of the restructuring, the Company and the holders of the Senior Discount Notes are discussing a long-term extension of the Notes and repayment of principal and accrued interest from future net royalty receipts in the event

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

that the mortgage financing or sale and leaseback of real estate do not materialize or do not raise sufficient proceeds.

Subsequent to the end of the third quarter, Data Systems obtained a short-term financing commitment of up to \$2.5 million through March 2002. Borrowings under the line are secured by inventories and bear interest at 8% per annum. The facility will be used to reduce accounts payable, a significant portion of which at September 30, 2001 had become past due. The Company believes that the new inventory line of credit will bridge the liquidity gap that existed pending realization of recently enacted operational cost savings and inventory liquidation initiatives. 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. Management's current projections indicate that Data Systems should generate sufficient liquidity to meet its obligations for at least the next twelve months. The Company is actively seeking a restructuring of its indebtedness, but if this is not concluded successfully, the Company may be unable to continue as a going concern and could be required to seek bankruptcy protection. Such an event may result in the Company's Common Stock being negatively affected or becoming worthless. (See Liquidity and Capital Resources.)

Risk of Continuing Losses

Ampex has incurred significant operating and net losses in the nine months ended September 30, 2001 and its fiscal years ended December 31, 2000 and 1999. Such losses were primarily due to its Internet video businesses that have been closed 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 indebtedness outstanding and it incurs substantial interest expense. The Company has recently taken

25

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 Associated with Acquisition Strategy

Ampex is not currently seeking to make any acquisitions of new businesses. However, 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 complete any further acquisitions or investments on satisfactory terms. In order to pay for future acquisitions or investments, Ampex may have to:

- . issue additional equity securities of the Company or a subsidiary, which would dilute the ownership interest of existing Ampex stockholders;

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

- . incur additional debt; and/or
- . 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 offer Data Systems for sale but has not received any acceptable offers to purchase Data Systems. 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.

Possible Inability to Complete Restructuring

26

As discussed above, the Company's declining liquidity has prompted negotiations with the holders of the Senior Discount Notes and Senior Notes to restructure their indebtedness. The restructuring plan would apply substantially all future royalty receipts, net of operating expenses, as well as the net proceeds of certain asset sales, to repay interest and principal on the indebtedness. If the Company is unable to restructure 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.

The Company may seek to incur additional indebtedness from time to time, and current restrictions in the indenture governing the Senior Discount Notes and Senior Notes may need to be modified to permit such borrowings. The degree to which the Company is leveraged could have important consequences to investors, including the following:

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

- . under the proposed restructuring plan, a substantial portion of the Company's consolidated cash flow from operations will be dedicated to the payment of principal and interest on outstanding indebtedness, and is therefore unavailable for other purposes;
- . 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;
- . the Company may be more highly leveraged than its competitors, which may place it at a competitive disadvantage;
- . Ampex's leverage may make it more vulnerable to a downturn in its business or the economy in general;

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 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

27

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

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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. A significant portion of Data Systems trade accounts payable had become past due at September 30, 2001. Data Systems expects to enter into agreements

with its trade creditors that provide for the systematic repayment of accounts payable over several months and continue access to critical manufacturing components in future periods. Certain suppliers have required prepayment or payment at the time of delivery of materials or services.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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:

- . quarterly fluctuations in operating results;
- . announcements of acquisitions or new product introductions by Ampex or its competitors;
- . announcements regarding the Company's planned sale of Data Systems;
- . reports and predictions concerning the Company by analysts and other members of the media;
- . issuances of substantial amounts of Common Stock in order to redeem outstanding shares of its Preferred Stock, or otherwise; and
- . fluctuations in trading volume of the Company's Common Stock, and general economic or market conditions.
- . developments in the status of the Company's indebtedness and restructuring negotiations.

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 \$31.9 million at September 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.

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.

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

30

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

The Company does not use derivative financial instruments in its investment portfolio. The investment portfolio generally has been comprised of US Treasury Bills. These securities mature within one year and are classified as available for sale in accordance with FAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Investments in both fixed-rate and floating-rate interest-earning instruments carry a degree of interest-rate risk. Fixed-rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating-rate securities may produce less income than expected if interest rates fall.

At December 31, 2000 the investment portfolio included a fixed-income security, of the quality described above, with a fair market value of approximately \$5 million. This security is subject to interest-rate risk, and will decline in value if interest rates increase. The Company also had a number of cash and cash equivalent accounts whose return varied directly proportionally to US interest rates.

Due to the short duration of the investment portfolio, an immediate, hypothetical 10 percent decrease in interest rates would not have a material effect on the current-year financial condition or results of operations. The new securities the Company replaces them with, when they mature, would yield less interest income, but the impact of the 10 percent reduction would not be material to the Company. If a 10 percent reduction occurred on January 1, 2001 and remained in effect throughout 2001, interest income and cash flow would be reduced by approximately \$29,000 in 2001. The Company does not hold any long-term fixed instruments.

The Company has a revolving credit line with a domestic financial institution to finance working capital requirements. The Company's domestic revolving credit agreement permits borrowings up to \$7.0 million, based on eligible accounts receivable as defined in the agreement, less a standby letter of credit facility in the amount of \$2.5 million. Average borrowings under these agreements during both 2000 and 1999 were less than \$0.1 million at an average interest rate of 9.8% and 8.9%, respectively. Maximum borrowings outstanding at

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

any time during 2000 and 1999 were \$2.4 million and \$1.0 million, respectively. 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. If a 10% increase in interest rates were to occur at January 1, 2001 and remain in effect throughout 2001, and the balance remained the same, interest expense and cash outflow would increase by approximately \$21,000.

Foreign Currency Exchange Rate Risk.

International revenues from the Company's foreign subsidiaries were less than 25% of total revenues. International sales are made mostly from the Company's foreign sales subsidiaries in their respective countries and are typically denominated in the local currency of each country. These subsidiaries also incur most of their expenses in the local currency. Accordingly, all foreign subsidiaries use the local currency as their functional currency.

The Company's international business is subject to risks typical of an international business including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, the Company's future results could be materially adversely impacted by changes in these or other factors.

The Company's exposure to foreign exchange rate fluctuations arises in part from intercompany accounts in which costs incurred in the United States are charged to the Company's foreign sales subsidiaries. These

31

intercompany accounts are typically denominated in the US dollar. The Company is also exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations and adversely impact overall expected profitability. The effect of foreign exchange rate fluctuations on the Company in 2000 and 1999 was not material.

Investment Risk.

The Company invests in equity instruments of technology companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when ownership is less than 20% and the Company does not have significant influence over the business operations. The Company's policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. The Company identifies and records impairment losses on long-lived assets when events and circumstances indicate that such assets might be impaired. Investments, which are in the Internet industry, are subject to significant fluctuations in fair market value due to the volatility of the stock market.

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.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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. In July 2001, the Company's subsidiary, iNEXTV, wrote off its investment in AENTV and believes that it has no further obligations with respect to AENTV.

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 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 sites (including the four Superfund sites) are associated with the operations of the Media subsidiaries formerly

32

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 September 30, 2001, the Company had an accrued liability of \$1.0 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

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

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 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 September 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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

33

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

Not applicable.

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.

AMPEX CORPORATION

Date: November 14, 2001

/s/ EDWARD J. BRAMSON

Edward J. Bramson
Chairman and Chief Executive Officer

Date: November 14, 2001

/s/ CRAIG L. McKIBBEN

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

AMPEX CORPORATION

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

EXHIBIT INDEX

Exhibit No.	Exhibit Description
-----	-----
4.3	Second Amendment to Note Purchase Agreement, dated as of August 13, 2001, among Ampex Data Systems Corporation, Registrant and the several Note Purchasers named therein.
4.4	Third Amendment to Note Purchase Agreement, dated as of October 26, 2001, among Ampex Data Systems Corporation, Registrant and the several Note Purchasers named therein.
4.5	Form of Interest Deferral Agreement, dated as of November 14, 2001, among Ampex Corporation and each of the Holders of the Company's 12% Senior Notes due March 15, 2003.
4.6	Loan Agreement, dated as of October 29, 2001, between Sherborne & Company Incorporated and Ampex Data Systems Corporation to advance funds up to an aggregate amount at any one time outstanding not in excess of \$2,500,000.00.
4.7	Secured Promissory Note, dated as of October 29, 2001, between Ampex Data Systems Corporation and Sherborne & Company Incorporated.

Edgar Filing: AMPEX CORP /DE/ - Form 10-Q

- 4.8 Security Agreement, dated as of October 29, 2001, by Ampex Data Systems Corporation in favor of Sherborne & Company Incorporated.
- 4.9 Guarantee Agreement, dated as of October 29, 2001, between Registrant and Sherborne & Company Incorporated.
- 4.10 Letter Agreement, dated as of October 29, 2001, between Registrant and Sherborne & Company Incorporated providing for the issuance to Sherborne & Company Incorporated of 1,000,000 shares of the Registrant's Class A Common Stock.
- 4.11 Form of Note between Ampex Corporation and Hillside Capital Incorporated to fund pension contributions.