

AMPEX CORP /DE/  
Form 10-Q  
November 14, 2002  
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**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2002

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

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**AMPEX CORPORATION**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

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

**1228 Douglas Avenue**  
**Redwood City, California 94063-3199**  
(Address of principal executive offices, including zip code)

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

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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 ☒ No ☐

As of September 30, 2002, the aggregate number of outstanding shares of our Class A Common Stock, \$.01 par value, was 62,982,596. There were no outstanding shares of our Class C Common Stock, \$.01 par value.

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**FORM 10-Q**  
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**AMPEX CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

	September 30, 2002	December 31, 2001
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,105	\$ 8,015
Accounts receivable (net of allowances of \$131 in 2002 and \$153 in 2001)	4,609	6,002
Inventories	9,218	13,258
Other current assets	2,707	4,426
	<u>23,639</u>	<u>31,701</u>
Total current assets	23,639	31,701
Property, plant and equipment	6,077	6,599
Other assets	783	873
	<u>30,499</u>	<u>39,173</u>
Total assets	\$ 30,499	\$ 39,173
<b>LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Notes payable	\$ 607	\$ 2,584
Accounts payable	1,885	3,665
Net liabilities of discontinued operations	1,034	1,383
Accrued restructuring costs	1,058	2,038
Other accrued liabilities	8,416	17,333
	<u>13,000</u>	<u>27,003</u>
Total current liabilities	13,000	27,003
Long-term debt	66,113	58,790
Other liabilities	42,334	41,740
Deferred income taxes	1,213	1,213
Net liabilities of discontinued operations	3,098	3,874
	<u>125,758</u>	<u>132,620</u>
Total liabilities	125,758	132,620
Commitments and contingencies (Note 8)		
Mandatorily redeemable nonconvertible preferred stock, \$1,000 liquidation value:		
Authorized: 69,970 shares in 2002 and in 2001		
Issued and outstanding none in 2002 and in 2001		
Mandatorily redeemable preferred stock, \$2,000 liquidation value:		
Authorized: 21,859 shares in 2002 and in 2001		
Issued and outstanding 13,414 shares in 2002; 15,025 in 2001	26,828	30,050
Convertible preferred stock, \$2,000 liquidation value:		
Authorized: 10,000 shares in 2002 and in 2001		
Issued and outstanding none in 2002; 51 shares in 2001		102
Stockholders deficit:		
Preferred stock, \$1.00 par value:		
Authorized: 898,171 shares in 2002 and in 2001		
Issued and outstanding none in 2002 and in 2001		
Common stock, \$.01 par value:		
Class A:		
Authorized: 175,000,000 shares in 2002 and in 2001		
Issued and outstanding 62,982,596 shares in 2002; 61,652,996 in 2001	630	616
Class C:		

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Authorized: 50,000,000 shares in 2002 and in 2001

Issued and outstanding none in 2002 and in 2001

Other additional capital	431,471	428,161
Notes receivable from stockholders	(4,642)	(4,642)
Accumulated deficit	(511,915)	(510,023)
Accumulated other comprehensive income	(37,631)	(37,711)
	<u>          </u>	<u>          </u>
Total stockholders' deficit	(122,087)	(123,599)
	<u>          </u>	<u>          </u>
Total liabilities, redeemable preferred stock and stockholders' deficit	\$ 30,499	\$ 39,173
	<u>          </u>	<u>          </u>

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
	(unaudited)			
Royalty income	\$ 891	\$ 2,088	\$ 3,416	\$ 6,605
Product revenue	8,110	7,500	24,885	25,454
<b>Total revenue</b>	<b>9,001</b>	<b>9,588</b>	<b>28,301</b>	<b>32,059</b>
Intellectual property costs	186	96	607	482
Cost of product sales	5,466	5,057	15,261	17,640
Research, development and engineering	648	1,181	1,968	4,655
Selling and administrative	2,926	2,935	7,887	10,680
Restructuring charges				808
<b>Total costs and operating expenses</b>	<b>9,226</b>	<b>9,269</b>	<b>25,723</b>	<b>34,265</b>
<b>Operating income (loss)</b>	<b>(225)</b>	<b>319</b>	<b>2,578</b>	<b>(2,206)</b>
Interest expense	2,127	1,825	6,286	5,357
Amortization of debt financing costs	15	88	446	263
Interest income	(54)	(22)	(332)	(260)
Other (income) expense, net	2	122	194	(1)
<b>Loss from continuing operations before income taxes</b>	<b>(2,315)</b>	<b>(1,694)</b>	<b>(4,016)</b>	<b>(7,565)</b>
Provision for (benefit of) income taxes	(2,402)	210	(2,124)	676
<b>Income (loss) from continuing operations</b>	<b>87</b>	<b>(1,904)</b>	<b>(1,892)</b>	<b>(8,241)</b>
Loss on disposal of discontinued operations (net of taxes of none in 2001)				(10,338)
<b>Loss from discontinued operations (net of taxes of none in 2001)</b>				<b>(7,294)</b>
<b>Net income (loss)</b>	<b>87</b>	<b>(1,904)</b>	<b>(1,892)</b>	<b>(25,873)</b>
Benefit from extinguishment of mandatorily redeemable preferred stock	1,039	1,716	3,162	4,053
<b>Net income (loss) applicable to common stockholders</b>	<b>1,126</b>	<b>(188)</b>	<b>1,270</b>	<b>(21,820)</b>
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(8)	40	80	(94)
<b>Comprehensive income (loss)</b>	<b>\$ 1,118</b>	<b>\$ (148)</b>	<b>\$ 1,350</b>	<b>\$ (21,914)</b>
<b>Basic income (loss) per share:</b>				
Income (loss) per share from continuing operations	\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.14)
Loss per share from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.30)
<b>Income (loss) per share applicable to common stockholders</b>	<b>\$ 0.02</b>	<b>\$ 0.00</b>	<b>\$ 0.02</b>	<b>\$ (0.37)</b>
<b>Weighted average number of common shares outstanding</b>	<b>62,557,717</b>	<b>59,228,864</b>	<b>62,114,666</b>	<b>58,607,282</b>

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Diluted income (loss) per share:								
Income (loss) per share from continuing operations	\$	0.00	\$	(0.03)	\$	(0.03)	\$	(0.14)
Loss per share from discontinued operations	\$	0.00	\$	0.00	\$	0.00	\$	(0.30)
Income (loss) per share applicable to common stockholders	\$	0.02	\$	0.00	\$	0.02	\$	(0.37)
Weighted average number of common shares outstanding		73,288,917		59,228,864		62,114,666		58,607,282

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

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**AMPEX CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>For the Nine Months Ended</b>	
	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>
	<b>(unaudited)</b>	
Cash flows from operating activities:		
Net loss	\$ (1,892)	\$ (25,873)
Loss from discontinued operations		17,632
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization and warrant accretion	906	1,324
Accretion of interest expense	6,031	1,269
Reversal of prior years' tax reserves	(2,500)	
Net loss on disposal of assets	4	
Changes in operating assets and liabilities:		
Accounts receivable	1,488	4,867
Inventories	4,040	(64)
Deferred pension asset		377
Other assets	1,719	807
Accounts payable	(1,807)	772
Other accrued liabilities and income taxes payable	(9,183)	2,032
Accrued restructuring costs	(980)	3,010
Other liabilities	3,094	(2,459)
Net cash provided by continuing operations	920	3,694
Net cash used in discontinued operations	(1,125)	(11,632)
Net cash used in operating activities	(205)	(7,938)
Cash flows from investing activities:		
Proceeds received on the maturity of short-term investments		5,001
Deferred gain on sale of assets	(37)	(101)
Additions to property, plant and equipment	(178)	(142)
Net cash provided by (used in) continuing operations	(215)	4,758
Net cash used in discontinued operations		(1,925)
Net cash provided by (used in) investing activities	(215)	2,833
Cash flows from financing activities:		
Borrowings under debt agreements	17,472	25,499
Repayments under debt agreements	(18,018)	(26,488)
Proceeds from issuance of common stock		9
Net cash used in continuing operations	(546)	(980)
Net cash used in financing activities	(546)	(980)
Effects of exchange rates on continuing operations	56	(40)

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Net decrease in cash and cash equivalents	(910)	(6,125)
Cash and cash equivalents, beginning of period	8,015	10,384
	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 7,105	\$ 4,259
	<u>          </u>	<u>          </u>

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



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**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. The Company, through its wholly-owned subsidiary, Ampex Data Systems Corporation ( Data Systems ) incorporates this technology in the design and manufacturer of very high performance tape-based storage products, principally for digital recording, archiving and rapid restore/backup applications. The Company also leverages its investment in research and development through its Corporate Licensing division that licenses Ampex patents to manufacturers of consumer electronics products.

The Company's continuing operations consist of Ampex's intellectual property licensing department and Data Systems. In the second quarter of 2001, the Company closed the Internet video operations of its wholly-owned subsidiary iNEXTV and affiliates. The Company's Internet operations have been classified as discontinued operations for all periods presented.

***Liquidity***

As a result of continuing losses, the Company's liquidity has declined materially in recent years. In response, the Company has been required to restructure and extend the maturity date of its long-term senior debt, to discontinue unprofitable Internet video operations and to borrow funds from a former affiliate in order to make required contributions to its employee retirement pension plan. The Company has also significantly restructured and down-sized the operations of Data Systems, borrowed funds from an affiliate for working capital purposes and entered into agreements with certain vendors to extend the due date of related accounts payable balances. Management currently believes that these actions, coupled with anticipated royalty collections under licensing agreements presently in effect, should be sufficient to satisfy all projected cash obligations for 2002. The Company's ability to meet its obligations in the normal course of business is dependent upon, among other items, its ability to collect trade accounts receivable, competitively price product sales and services with the market at a profit, and obtain additional working capital financing.

**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, 2001 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, 2002 are not necessarily indicative of the results to be expected for the full year.

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**AMPEX CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 Recent Pronouncements**

In May 2002, the FASB issued SFAS No. 145, Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections (SFAS 145). Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. The Company does not currently anticipate this statement to have any effect on its financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002.

**Note 4 Discontinued Operation**

In July 2001, the Board of Directors of the Company authorized management to close iNEXTV's operations in New York City and to cease future funding its other Internet-based affiliates, AENTV in Los Angeles and TV1.de in Munich, Germany. The Company established a reserve of \$10.3 million at the end of the quarter ended June 30, 2001 to write down its investment to net realizable value and to provide for the costs of closure. In addition, the net liabilities of iNEXTV reflected on its balance sheet after the impairment charge, together with the provision for closure costs, are included in the net liabilities of discontinued operations. During 2001 and the nine months ended September 30, 2002, the Company paid and recorded charges of \$2.0 million and \$1.1 million against the net liabilities of discontinued operations. The unamortized balance in the net liabilities of iNEXTV's discontinued operations totaled \$3.7 million at September 30, 2002. In addition, net liabilities of MicroNet's discontinued operation totaled \$0.4 million at September 30, 2002.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>
	<b>(in thousands)</b>			
Revenues				188
Costs and operating expenses excluding amortization				(6,277)
Goodwill amortization and writedown of assets				(211)
Operating loss				(6,300)
Equity in loss of unconsolidated subsidiary				(999)
Interest income				5
Loss from discontinued operations				(7,294)

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**AMPEX CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4 Discontinued Operation (cont d.)**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>
	<b>(in thousands)</b>			
Reserve for closure				(5,736)
Impairment charge				(4,602)
Loss on disposal of discontinued operations				(10,338)

**Note 5 Computation of Basic and Diluted Income (Loss) per Share**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>
<b>Numerator Basic and Diluted</b>				
Income (loss) from continuing operations	\$ 87	\$ (1,904)	\$ (1,892)	\$ (8,241)
Net income (loss) applicable to common stockholders	\$ 1,126	\$ (188)	\$ 1,270	\$ (21,820)
<b>Denominator Basic</b>				
Weighted average common stock outstanding	62,558	59,229	62,115	58,607
Basic income (loss) per share from continuing operations	\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.14)
Basic income (loss) per share applicable to common stockholders	\$ 0.02	\$ 0.00	\$ 0.02	\$ (0.37)
<b>Denominator Diluted</b>				
Weighted average common stock outstanding	62,558	59,229	62,115	58,607
Effect of dilutive securities:				
Conversion of redeemable preferred stock	10,731			
	73,289	59,229	62,115	58,607
Diluted income (loss) per share from continuing operations	\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.14)
Diluted income (loss) per share applicable to common stockholders	\$ 0.02	\$ 0.00	\$ 0.02	\$ (0.37)

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**AMPEX CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5 Computation of Basic and Diluted Income (Loss) per Share (cont d.)**

In the nine months ended September 30, 2002, the Company issued 40,800 shares of Common Stock to redeem 51 shares of Convertible Preferred Stock and 1,288,800 shares of Common Stock to redeem 1,611 shares of Redeemable Preferred Stock. In the nine months ended September 30, 2001, the Company issued 572,800 shares of Common Stock to redeem 716 shares of Convertible Preferred Stock and 1,288,800 shares of Common Stock to redeem 1,611 shares of Redeemable Preferred Stock. Such shares of common stock are included in the weighted average common stock outstanding from the dates of exchange. Shares of Common Stock potentially issuable to satisfy the Company's remaining redemption obligation on the Redeemable Preferred Stock have not been included in the computation of diluted weighted average common stock outstanding for the nine months ended September 30, 2002 and 2001, respectively, since they are anti-dilutive. If the Company was to satisfy its remaining redemption obligations by issuing Common Stock, based on the floor conversion price, an additional 10,731,200 shares of Common Stock would be issued over the number of common shares included in the diluted income per share computation at September 30, 2002.

Stock options to purchase 2,730,681 shares of Common Stock at prices ranging from \$0.12 to \$4.875 per share were outstanding at September 30, 2002, but were not included in the computation of diluted income (loss) per share because the average market value of the common shares was lower than the exercise price.

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 income (loss) per share because 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 7. On May 10, 1999, Warrants were exercised for 204,000 shares of Common Stock, which are included in the weighted average common stock outstanding from the date of the issuance. The remaining outstanding warrants are excluded from the computation of weighted average common stock outstanding at September 30, 2002, as the average market value of the common shares was lower than the exercise price of the warrants and excluded from the computation of weighted average common stock outstanding at September 30, 2001, as they are anti-dilutive.

**Note 6 Supplemental Schedule of Cash Flow Information**

	<b>Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(in thousands)</b>	
Interest paid	\$ 129	\$ 2,672
Income taxes paid	357	675
Debt financing costs	403	
Preferred stock (redemptions)	(1,611)	(1,611)
Preferred stock (conversions)	(102)	(716)

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**AMPEX CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7 Debt**

	September 30, 2002	December 31, 2001
	<u>          </u>	<u>          </u>
	(in thousands)	
<b>Notes Payable</b>		
Working capital facility	\$	\$ 977
Notes payable to Sherborne & Company Incorporated related party		1,000
Hillside notes payable	450	450
Note payable other	157	157
	<u>          </u>	<u>          </u>
<b>Total</b>	<b>\$ 607</b>	<b>\$ 2,584</b>
	<u>          </u>	<u>          </u>
<b>Long-term Debt</b>		
Senior discount notes	\$ 10,166	\$ 9,955
Hillside notes payable	3,259	819
Senior notes	52,688	48,016
	<u>          </u>	<u>          </u>
<b>Total</b>	<b>\$ 66,113</b>	<b>\$ 58,790</b>
	<u>          </u>	<u>          </u>

**Notes Payable to Sherborne & Company Incorporated Related Party**

In October 2001, Data Systems entered into a revolving credit agreement, providing for borrowings of up to \$2.5 million, secured principally by Data System's inventory. The Company guaranteed all borrowings. Availability under the agreement declined to \$1.5 million in January 2002, to \$750,000 in February 2002 and the loan was due and payable in full on March 31, 2002. The loan was repaid on schedule and the Company did not seek to renew the facility. Borrowings bore interest at 8% per annum on the outstanding balance. As a commitment fee Ampex issued to the lender 1 million shares of its Common Stock having a market value of approximately \$160,000 which was taken as a charge to amortization of debt financing costs in 2001. 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.

**Note Payable Other**

The note is a noninterest-bearing demand promissory note held by NH Holding Incorporated. The outstanding balance at September 30, 2002 of \$0.2 million is expected to be paid or converted into shares of Common Stock in 2002.

**Working Capital Facilities**

Ampex had a revolving credit line with a domestic financial institution to finance working capital and letter of credit requirements that expired in May 2002. At September 30, 2002, the Company had letters of credit issued against the facility totaling \$1.1 million against which the Company has provided cash collateral. At December 31, 2001, the Company had borrowings outstanding of \$1.0 million and had letters of credit issued against the facility totaling \$1.1 million. The Company is seeking to replace this line of credit with a new line of credit but has not received any binding commitments to date.

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**AMPEX CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7 Debt (cont d.)**

***Hillside Notes***

In 1994, the Company, the Pension Benefit Guaranty Corporation (the PBGC) and certain affiliates, including Hillside Capital Incorporated, (Hillside), who were members of a group under common control for purposes of the Employee Retirement Income Security Act (ERISA) entered into certain agreements in connection with the reorganization of the Company's former parent, NH Holding Incorporated (NHI), relating to the pension plans of the Company and of its former Media subsidiaries, which are substantially underfunded. Pursuant to these agreements, 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 \$4.0 million through September 30, 2002. The Company has issued notes to Hillside in the amount of the pension contributions. Under the terms of the Notes, \$150,000 is due on the first anniversary of each Note with the remainder due on the fourth anniversary of each Note. The Notes require principal payments of \$0.45 million during 2002, of which \$0.3 million were due and paid as of September 30, 2002. The Hillside Notes provide for interest payable quarterly at 1 percent plus 175% of the applicable mid-term Federal rate (effective rate of 7.62% at September 30, 2002). The Company agreed to grant Hillside a security interest in Data Systems' inventory as collateral for advances which it has made, and may make in the future, pursuant to the agreement. The agreement contains certain restrictive covenants which, among other things, restrict the Company's ability to declare dividends, sell all or substantially all of its assets or commence liquidation, or engage in specified transactions with certain related parties, breach of which could result in claims against the Company in the amount of the termination liability under the pension plan.

***Senior Notes and Senior Discount Notes***

In 1998, the Company issued \$44.0 million of 12% Senior Notes, due March 15, 2003, together with Warrants to purchase 1.02 million shares of Common Stock which were valued at \$765,000 using the Black-Scholes model. The Warrants are exercisable at \$2.25 per share at any time on or prior to March 15, 2003. In November 2000, Data Systems issued Senior Discount Notes providing net proceeds of \$8 million that have accreted in value at an annual rate of 20% to \$10.0 million at December 31, 2001. In the first quarter of 2002, the Company restructured its outstanding 12% Senior Notes due 2003 and Data Systems' Senior Discount Notes due March 31, 2002.

The 12% Senior Notes were exchanged for new Notes due 2008 and the due date of the Senior Discount Notes was extended to 2005. The restructured Notes are secured by liens on the Company's royalty stream that may be generated from existing and future patent licenses and, in addition, the Senior Discount Notes are secured by a deed of trust on Data Systems' manufacturing facility in Colorado Springs, CO and are guaranteed by the Company. The new securities provide for the payment of accrued interest and principal out of Available Cash Flow of the Company, which includes all future royalty proceeds received by the Company, net of withholding taxes, certain debt and specified operating expenses, as well as the proceeds of certain potential asset sales, less a working capital reserve of up to \$2.5 million. The Company is required to generate a minimum of \$25 million of Available Cash Flow during the three years ending December 31, 2004 or an event of default will occur under the Senior Note Indenture. Prior to maturity, the new Notes are payable as to accrued interest and principal solely to the extent of Available Cash Flow (including certain potential asset sales) received by the Company, and unpaid accrued interest will be payable through the issuance of additional Notes or capitalized. During the nine months ended September 30, 2002, Available Cash Flow totaled \$1.0 million. For the nine months ended September 30, 2002, accrued interest on the Senior Discount Notes and Senior Notes totaled \$1.5 million and \$4.6 million, respectively, and a cash payment of \$1.0 million was applied to reduce the principal and accrued interest on the Senior Discount Notes. There were no cash payments made on the Senior Notes. Additional Senior Notes in the amount of \$2.7 million, representing accrued interest for the period February 28, 2002 to August 15, 2002, was issued on August 15, 2002. The security interest in royalty payments granted to the new 12% Senior Noteholders is subordinated to the security for the Senior Discount Notes and no cash payments on the 12% Senior Notes may be made until all payments of interest and principal have been made on the Senior Discount Notes. All payments due at maturity on the Notes must be made in cash.

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**AMPEX CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7 Debt (cont d.)**

The Indentures under which the new securities were issued contain customary affirmative and negative restrictive covenants that limit the payment of dividends, the incurrence of additional indebtedness or liens, certain sales of assets and other actions by the Company and restricted subsidiaries. In the event of default, the holders of the Notes would be entitled to enforce the liens granted by the Company on its future patent royalty stream and the Colorado Springs facility and to apply amounts collected to repayment of the Notes.

**Note 8 Commitments and Contingencies**

***Legal Proceedings***

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

In 1995, the State of California assessed income tax in the amount of \$0.5 million for the period 1983 to 1985 while the Company was a subsidiary of The Signal Companies (currently Honeywell International Inc.). The Company has requested the Franchise Tax Board to supply it with information in support of the outstanding assessments which, with interest and penalty, totals approximately \$2.8 million at September 30, 2002. The Company intends to petition the State Board of Equalization and to appeal these assessments. Adverse determination of this appeal could have a material adverse effect on the Company's liquidity.

The Company has assessed the likelihood of the eventual outcome of this assessment and has provided a provision within the Balance Sheet caption "Other liabilities" which in the judgement of management reflects their best estimate of the eventual outcome.

***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.

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**AMPEX CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**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. Beginning in June 2001, the Company became obligated to redeem any remaining Convertible Preferred Stock in quarterly installments. For the nine months ended September 30, 2002, the Company issued 40,800 shares of Common Stock to satisfy this quarterly redemption requirement. There are no shares of Convertible Preferred Stock outstanding at September 30, 2002. Beginning in June 1999, the Company became obligated to redeem the Redeemable Preferred Stock in quarterly installments through March 2008. For the nine months ended September 30, 2002, the Company issued 1,288,800 shares of its Common Stock to satisfy this quarterly redemption requirement, leaving 13,414 shares of Redeemable Preferred Stock outstanding. The Company is obligated to redeem approximately \$4.3 million face amount of 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 at least September 30, 2003. 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 Accumulated Other Comprehensive Income**

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

	<b>Minimum Pension Liability</b>	<b>Foreign Currency Items</b>	<b>Accumulated Other Income</b>
		(in thousands)	
December 31, 2001	\$ (38,246)	\$ 535	\$ (37,711)
Current period change		80	80
September 30, 2002	\$ (38,246)	\$ 615	\$ (37,631)

**Note 11 Income Taxes**

During the three and nine months ended September 30, 2002, the Company decreased reserves provided on prior years' Foreign, Federal and State income taxes for years that have been closed to audit, which resulted in a non-cash benefit of income taxes of \$2.5 million. As at December 31, 2001, the Company had net operating loss carryforwards for income tax purposes of \$217 million expiring in the years 2005 through 2021. 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.



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**AMPEX CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 12 Segment Reporting**

The Company has the following operating segments: high-performance mass data storage systems, instrumentation recorders and professional video products; 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 restructuring charges.

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

**Nine Months Ended September 30, 2002**

	<b>Mass Data Storage Systems/ Instrumentation Recorders</b>	<b>Licensing of Intellectual Property</b>	<b>Eliminations and Corporate</b>	<b>Totals</b>
Revenues from external customers	\$ 24,885	\$ 3,416	\$	\$ 28,301
Interest income	21		311	332
Interest expense	1,713		4,573	6,286
Depreciation, amortization and accretion	527		379	906
Segment income (loss)	2,036	2,809	(6,737)	(1,892)
Segment assets	22,614		7,885	30,499
Expenditures for segment assets			178	

**Nine Months Ended September 30, 2001**

	<b>Mass Data Storage Systems/ Instrumentation Recorders</b>	<b>Licensing of Intellectual Property</b>	<b>Eliminations and Corporate</b>	<b>Totals</b>
Revenues from external customers	\$ 25,454	\$ 6,605	\$	\$ 32,059
Interest income	51		209	260
Interest expense	1,647		3,710	5,357
Depreciation, amortization and accretion	688		636	1,324
Segment income (loss)	(4,643)	6,123	(9,721)	(8,241)
Segment assets	26,823		10,193	37,016
Expenditures for segment assets	142			142

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### **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 our actual results, performance or achievements 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. We disclaim any obligation or undertaking to disseminate updates or revisions of any 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 Ampex Corporation 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 our Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission (the 2001 Form 10-K).

#### **Licensing Revenue and Product Groups**

We have two operating segments: (1) high-performance mass data storage systems, instrumentation recorders and professional video products made by Data Systems; and (2) licensing of intellectual property by Ampex.

The first operating segment includes Data Systems' three principal product groups:

Mass data storage systems, including Data Systems' 19-millimeter scanning recorders and library systems (DST and DIS products) and related tape and aftermarket parts;

Instrumentation recorders, including Data Systems' data acquisition and instrumentation products (primarily DCRsi instrumentation recorders) and related tape and aftermarket parts; and

Professional video products, consisting principally of television aftermarket products that Data Systems continues to support but no longer manufactures

Our intellectual property licensing segment generates royalty income from licenses granted to companies that manufacture consumer video products (such as VCRs and camcorders) and, in certain cases, professional video tape recorders.

No other class of similar products accounted for more than 10% of total revenue during the comparison periods discussed below.

The following table shows licensing revenue and sales of Data Systems' products by product group for the three and nine months ended September 30, 2002 and 2001.

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
(in millions)				
<b>Ampex Corporation</b>				
Licensing revenue	\$ 0.9	\$ 2.1	\$ 3.4	\$ 6.6
<b>Ampex Data Systems Corporation</b>				
Mass data storage tape drives and library systems	4.7	3.9	14.9	14.5
Data acquisition and instrumentation recorders	2.6	2.3	7.7	7.0
Professional video products	0.8	1.3	2.3	4.0
<b>Total net product sales</b>	<b>\$ 8.1</b>	<b>\$ 7.5</b>	<b>\$ 24.9</b>	<b>\$ 25.5</b>

**Results of Operations for the Three and Nine Months Ended September 30, 2002 and 2001**

*Net Product Sales.* Net sales increased by 8.1% to \$8.1 million in the three months ended September 30, 2002 compared to \$7.5 million in the three months ended September 30, 2001 and decreased by 2.2% to \$24.9 million in the nine months ended September 30, 2002 compared to \$25.5 million in the nine months ended September 30, 2001. In 2002, the sales decline was primarily due to lower analog television aftermarket sales, offset in part by greater DST and instrumentation products sales. The increase in DST and instrumentation product sales was primarily attributed to sales to government customers who use our products for imaging and intelligence gathering. Government agencies and defense contractors are currently the largest market for Data Systems' mass data storage and instrumentation recorders. This market has recently experienced an increase in activity as additional funding has been granted for intelligence gathering programs. There can be no assurance that this increased spending will continue beyond 2002. Government agencies and defense contractors have historically experienced significant pressure to reduce spending and we expect to experience such pressure in the future.

Our backlog of firm orders was \$5.2 million at September 30, 2002 compared to \$3.7 million at September 30, 2001. We typically operate with low levels of backlog, requiring us to obtain the vast majority of each period's orders in the same period that they must be shipped to the customer. Historically, a small number of large orders have significantly impacted sales levels and often orders are received late in the quarter making it difficult to predict sales levels in future periods.

*Royalties.* Royalty income was \$0.9 million and \$2.1 million in the third quarter of 2002 and 2001, respectively, and \$3.4 million and \$6.6 million in the nine months ended September 30, 2002 and 2001, respectively. Our royalty income is derived from licenses of our patents. We receive most of our royalty income from licenses granted to companies that manufacture consumer video products (such as VCRs and camcorders) and, in certain cases, professional video tape recorders. Certain license agreements have recently expired which have caused the decline in royalty income between 2002 and 2001. We are negotiating with former licensees terms by which we will extend the license of our intellectual property. There can be no assurance that licensees will renew or extend their license agreements.

In recent years, a significant portion of our royalty income stream has been based on patents covering analog and digital VCRs. Sales of analog VCRs are declining rapidly and several patents covering them are scheduled to expire in 2003. We are assessing whether manufacturers of digital cameras, computer video games and DVD recorders are using our patented technology and we have had technical and preliminary business discussions with certain manufacturers concerning the possible license of one or more of our patents for such use. There can be no assurance that the manufacturers of these

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products are utilizing our technology or, if used, whether we will be able to negotiate license agreements with the manufacturers.

In order for us to attain levels of royalty income realized in prior years, it will be necessary for us to successfully conclude licensing negotiations with manufacturers of digital camcorders, digital still cameras, DVDs and/or other consumer products. Our digital patents have historically not been licensed for use in many of these products and there can be no assurance that negotiations will be successful. In addition, we may be required to pursue litigation if negotiations are not successful. We continue to have discussions with potential licensees of our digital patents. If successful, these discussions could result in incremental royalty income beginning in 2003. However, it is not possible to predict whether new license agreements will in fact be concluded.

In the fourth quarter of 2001, we received royalties for past use of our technology from a manufacturer of 6 millimeter digital camcorders. We are receiving ongoing payments for current period shipments of such products. We have had preliminary licensing discussions with additional manufacturers of digital camcorders which we believe may use the same technology. There can be no assurance that we will be successful in negotiating additional licenses.

*Gross Profit.* Gross profit as a percentage of net sales was 32.6% in the three months ended September 30, 2002 compared to 32.6% in the three months ended September 30, 2001 and 38.7% in the nine months ended September 30, 2002 compared to 30.7% in the nine months ended September 30, 2001. The increase in gross profit percentage in 2002 was due to a greater percentage of sales represented by Data Systems' higher margin instrumentation product sales and growth in service contract revenue coupled with an overall decline in fixed manufacturing costs due to cost reduction programs carried out in earlier quarters. Data Systems has received a substantial government order that provides for future tape and service revenue in exchange for a reduced equipment purchase price. Shipment against this order began in the second quarter of 2002 and the balance of the shipments are expected in the fourth quarter of 2002. Sales resulting from this order depressed gross margins in the third quarter of 2002 and may continue to impact the gross margins in the fourth quarter, which may be recovered in tape and service margins in future years.

In the second quarter of 2002, as in prior years, the Company revised its inventory standards to more closely reflect actual costs incurred by Data Systems in the manufacturing process. The change in standards had the effect of decreasing inventories and increasing cost of goods sold by \$0.8 million and \$1.2 million in the three and nine months ended September 30, 2002, respectively. Gross margins in the fourth quarter of 2002 may be affected if current production levels are not maintained.

*Intellectual Property Costs.* Intellectual property costs relate to those expenditures incurred by our 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 us of patents held by third parties or seeking to invalidate patents held by us. See "Legal Proceedings," below.

*Selling and Administrative Expenses.* Selling and administrative expenses were \$2.9 million (32.6% of total revenue) in the three months ended September 30, 2002 compared to \$2.9 million (30.6% of total revenue) in the three months ended September 30, 2001 and decreased to \$7.9 million (27.9% of total revenue) in the nine months ended September 30, 2002 from \$10.7 million (33.3% of total revenue) in the nine months ended September 30, 2001. Selling and administrative costs declined in 2002 compared to 2001 as a result of savings realized due to a reduction in headcount and relocation of certain administrative functions from Redwood City, CA to Colorado Springs, CO.

*Research, Development and Engineering Expenses.* Research, development and engineering (RD&E) expenses represented 7.2% and 15.7% of total revenue in the three months ended September 30, 2002 and 2001, respectively and 12.3% and 14.5% of total revenue in the nine months ended September 30,

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2002 and 2001, respectively. We substantially completed our third generation DST product line quad density in mid 2001 and reduced headcount to focus our RD&E efforts in sustaining engineering activities. In addition, in recent years, we have decreased the amount spent in research, development and engineering programs due to declining sales levels. We may be required to make additional cuts in RD&E spending if Data System's sales continue to decline. If this trend were to continue, our ability to develop new competitive products and renew our portfolio of licensable technology in future years would be adversely affected.

*Operating Income (Loss).* We reported an operating loss of \$0.2 million in the three months ended September 30, 2002 and an operating income of \$2.6 million in the nine months ended September 30, 2002. In the three months ended September 30, 2001, we reported operating income of \$0.3 million and in the nine months ended September 30, 2001 we reported an operating loss of \$2.2 million. The operating income in 2002 was primarily due to higher gross profit on product sales and lower selling and administrative expenses and research, development and engineering expenses due to headcount reductions.

*Interest Expense.* Interest expense increased between the comparison periods reflecting increases in the outstanding amount of 12% Senior Notes and additional borrowings used to fund our required pension plan contributions. We are seeking to refinance a significant portion of the Senior Discount Notes from a conventional mortgage or sale and leaseback of our Colorado Springs, CO facility in order to lower our interest costs, but no commitments or agreements from any lender have been received to date or are expected until 2003 at the earliest.

*Amortization of Debt Financing Costs.* Financing costs associated with the February 2002 refinancing of the 12% Senior Notes totaled \$0.4 million and were expensed in the first quarter of 2002. The remaining unamortized amount of financing costs associated with the original issuance of the January 1998 12% Senior Notes are being charged to expense through the new maturity date in 2008.

*Interest Income.* Interest income is earned on cash balances and short-term investments.

*Other (Income) Expense, Net.* Other (income) expense, net consists primarily of foreign currency transaction gains and losses resulting from our foreign operations.

*Provision for (Benefit of) Income Taxes.* During the three and nine months ended September 30, 2002, we decreased reserves provided on prior years' Foreign, Federal and State income taxes for years that have been closed to audit, which resulted in a non-cash benefit of income taxes of \$2.5 million. A provision for income taxes in the three and nine months ended September 30, 2002 and 2001 consisted primarily of foreign income taxes and withholding taxes on royalty income. We were not required to include any material provision for U.S. Federal income tax due to the utilization of net operating loss carry forwards and timing differences. At December 31, 2001, we had net operating loss carry forwards for income tax purposes of \$217 million, expiring in the years 2005 through 2021. As a result of financing transactions that were completed in 1994 and 1995, we are limited in the amount of net operating loss carry forwards that can offset consolidated Federal taxable income in a given year. We derive pretax foreign income from our international operations, which are conducted principally by our foreign subsidiaries. In addition, our royalty income is subject, in certain cases, to foreign tax withholding. Such income is taxed by foreign taxing authorities, and our domestic interest and amortization expenses and operating loss carry forwards are not deductible in computing such foreign taxes.

*Loss from Discontinued Operations.* In July 2001, we closed iNEXTV's operations in New York City and ceased future funding of our other Internet-based affiliates. We established a reserve of \$10.3 million at June 30, 2001 to write down our investment to net realizable value and to provide for the costs of closure. In addition, the net liabilities of iNEXTV reflected on our balance sheet after the impairment charge, together with the provision for closure costs, are included in the net liabilities of discontinued operations. During 2001 and the nine months ended September 30, 2002, we paid and recorded charges of \$2.0 million and \$1.1 million, respectively against the net liabilities of discontinued operations. The

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unamortized balance in the net liabilities of iNEXTV's discontinued operations totaled \$3.7 million at September 30, 2002. In addition, net liabilities of MicroNet's discontinued operation totaled \$0.4 million at September 30, 2002.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>
	<b>(in thousands)</b>			
Revenues				188
Costs and operating expenses excluding amortization				(6,277)
Goodwill amortization and writedown of assets				(211)
Operating loss				(6,300)
Equity in loss of unconsolidated subsidiary				(999)
Interest income				5
Loss from discontinued operations				(7,294)

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>	<b>Sept. 30, 2002</b>	<b>Sept. 30, 2001</b>
	<b>(in thousands)</b>			
Reserve for closure				(5,736)
Impairment charge				(4,602)
Loss on disposal of discontinued operations				(10,338)

*Net Income (Loss).* We reported net income of \$87 thousand for the three months ended September 30, 2002 and a net loss of \$1.9 million in the nine months ended September 30, 2002 compared to a net loss of \$1.9 million and \$25.9 million, respectively, in the three and nine months ended September 30, 2001, primarily as a result of the factors discussed above under Loss from Discontinued Operations and Provision for (Benefit of ) Income Taxes.

*Benefit from Extinguishment of Mandatorily Redeemable Preferred Stock.* We issued shares of Common Stock to satisfy our redemption obligation on our Redeemable and Convertible Preferred Stock. By agreement, such shares are valued at \$2.50 per share which was higher than the market value per share at the time of redemption. As a result, we recorded a benefit available to common stockholders in the Consolidated Statements of Operations for the three and nine months ended September 30, 2002 of \$1.0 million and \$3.2 million, respectively, representing the difference between the market value and \$2.50 per share for the number of shares issued. For the three and nine months ended September 30, 2001, we recorded a benefit available to common stockholders of \$1.7 million and \$4.1 million, respectively.

**Liquidity and Capital Resources**

*General.* As a result of continuing losses, our liquidity has declined materially in recent years. In response, we have restructured our long-term senior debt, discontinued unprofitable Internet video operations and borrowed funds from a former affiliate in order to make required contributions to our employee retirement pension plans. We have also significantly restructured and down-sized the operations of Data Systems. Management believes that these actions, coupled with anticipated royalty collections under licensing agreements presently in effect, should be sufficient to satisfy all projected cash obligations for 2002.

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*Recent Senior Debt Restructurings.* In the first quarter of 2002, we completed certain previously announced restructurings of our principal senior debt obligations. The 12% Senior Notes were exchanged for new Notes due 2008 and the due date of the Senior Discount Notes was extended to 2005. The restructured Notes are secured by liens on Ampex's royalty stream that may be generated from existing and future patent licenses and, in addition, the Senior Discount Notes are secured by a deed of trust on Data Systems' manufacturing facility in Colorado Springs, CO and are guaranteed by us.

The new securities provide for the payment of accrued interest and principal out of Available Cash Flow, which includes all future royalty proceeds received by Ampex, net of withholding taxes, less certain debt and pension payments and specified operating expenses and a working capital reserve of up to \$2.5 million. We are required to generate a minimum of \$25 million of Available Cash Flow during the three years ending December 31, 2004 or an event of default will occur under the Senior Note Indenture, which could allow the Noteholders the right to accelerate the indebtedness and foreclose on their liens. Prior to maturity, the new Notes are payable as to accrued interest and principal solely to the extent of Available Cash Flow (including certain potential asset sales) received by us, and unpaid accrued interest will be payable through the issuance of additional Notes or capitalized. During the nine months ended September 30, 2002, Available Cash Flow totaled \$0.

For the nine months ended September 30, 2002, accrued interest on the Senior Discount Notes and Senior Notes totaled \$1.4 million and \$4.6 million, respectively, and a cash payment of \$1.0 million was applied to reduce the principal and accrued interest on the Senior Discount Notes. There were no cash payments made on the Senior Notes. Additional Senior Notes in the amount of \$2.7 million, representing accrued interest for the period February 28, 2002 to August 15, 2002, were issued on August 15, 2002. The security interest in royalty payments granted to the new 12% Senior Noteholders is subordinated to the security for the Senior Discount Notes and no cash payments on the 12% Senior Notes may be made until all payments of interest and principal have been made on the Senior Discount Notes. All payments due at maturity on the Notes must be made in cash.

Management believes that these restructurings have improved our financial position by deferring significant debt repayments which would otherwise have been due in 2002 and 2003 and by limiting the amount of cash payments required to be made on the restructured Notes prior to maturity to the actual amount of Available Cash Flow received by us. However, application of Available Cash Flow to debt service will substantially restrict the amount of cash flow available for investment in our operations and facilities or other corporate purposes.

The indentures under which the 12% Senior Notes and the Senior Discount Notes were issued contain customary affirmative and negative restrictive covenants that limit the payment of dividends, the incurrence of additional indebtedness or liens, certain sales of assets and other actions by Ampex and restricted subsidiaries. In the event of default, the holders of the Notes would be entitled to enforce the liens granted by us on our future patent royalty stream and the Colorado Springs facility and to apply amounts collected to repayment of the Notes.

*Cash Flow.* We generated cash from operating activities totaling \$0.9 million, of which Data Systems generated \$6.3 million, in the nine months ended September 30, 2002, and generated cash from operating activities totaling \$3.7 million, of which Data Systems used cash of \$3.0 million, in the nine months ended September 30, 2001. Discontinued operations used cash totaling \$1.1 million in the nine months ended September 30, 2002 and \$13.6 million in the nine months ended September 30, 2001.

Pursuant to an agreement between us, Hillside Capital Incorporated (Hillside) and certain other parties, dated November 22, 1994, Hillside is obligated to fund pension contributions in the event we are unable to do so. At our request, Hillside has made five pension contributions totaling \$4.0 million through

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September 30, 2002, and has been issued notes by us in the amount of the pension contributions. Under the terms of the notes, accrued interest is payable quarterly, a principal payment of \$150,000 is due on the first anniversary of each note, with the remainder due on the fourth anniversary of the notes. In 2002, principal payments of \$0.45 million will be due, of which \$0.3 million has been paid as of September 30, 2002. The Notes are secured by a lien on Data Systems' inventories. We currently anticipate that there will be no additional pension payments required by Ampex or Hillside in fiscal 2002 and 2003 based on the most recent actuarial valuation. In September 2002, Ampex and Hillside entered into an agreement in anticipation of the assumption by Hillside of the fiduciary responsibility for the management of the pension plan assets.

In October 2001, Data Systems entered into a revolving credit agreement with an affiliate providing for borrowings of up to \$2.5 million, secured principally by the borrower's inventories. We had guaranteed all borrowings. The facility was repaid in full on March 31, 2002 and it will not be renewed or replaced. Management's current projections indicate that Data Systems should generate sufficient liquidity to meet its obligations in 2002.

We had available, through a subsidiary, a working capital facility that allowed us to borrow or obtain letters of credit totaling \$7.0 million, based on eligible accounts receivable. At September 30, 2002, we had no borrowings outstanding and had letters of credit issued against the facility totaling \$1.1 million. The facility expired in May 2002 and the Company provided cash collateral in the amount of 110% of the outstanding letters of credit in the third quarter of 2002. At December 31, 2001, we had borrowings outstanding of \$1.0 million and had letters of credit issued against the facility totaling \$1.1 million. We are seeking to obtain a new accounts receivable based line of credit that we believe will be adequate to deal with our currently foreseen seasonal cash flows. If the accounts receivable facility is not replaced or extended, Data Systems will be required to implement alternative cash conservation strategies.

In June 2002, the staff of the American Stock Exchange (Amex) notified the Company that it had accepted the Company's plan to bring itself into compliance with the Amex listing standards by June 30, 2003 and is continuing the listing of our Common Shares pursuant to this extension. By such date, we are required to have Common Shareholders' Equity in excess of \$4.0 million. At September 30, 2002, we reported a Common Shareholders' Deficit of approximately \$122 million. Our plan for attaining compliance with the Amex's continued listing requirements is dependent on a number of factors that are beyond our control, including equity capital market conditions. Accordingly, there can be no assurance that we will attain compliance with the extension period or at any future date. Furthermore, the Amex has advised us that it may initiate delisting proceedings at any time, notwithstanding the extension it has provided us. If our Common Stock is delisted by the Amex, the market for our Common Stock may be adversely affected.

## **Recent Pronouncements**

In May 2002, the FASB issued SFAS No. 145, Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections (SFAS 145). Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. The Company does not currently anticipate this statement to have any effect on its financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). This Statement addresses financial accounting and reporting for costs



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associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002.

### **Risk Factors**

#### ***We Have Experienced Significant Losses and Our Losses May Continue***

We have incurred significant net losses in prior periods. These losses were primarily attributable to our former Internet video programming activities, which we discontinued in 2001, and to our former disk storage business, which we discontinued in 2000. Ampex no longer operates either of these businesses and we have provided reserves for all known costs of closure.

Our continuing operations include the results of our manufacturing subsidiary, Data Systems, and of our corporate patent licensing division. In the first nine months of 2002, total revenues exceeded operating costs of these businesses but we lost money after interest expense was deducted. Although we have restructured much of our senior debt whereby the amount of interest that we need to pay out is limited to Available Cash Flow, as defined, we continue to incur substantial interest expense on our indebtedness and this interest, if not paid in cash, is added to the outstanding debt balance and will be repayable in the future.

We have restructured the operations of Data Systems in order to position it to operate profitably at lower sales levels, and Data Systems reported a profit from operations and a net profit in the first nine months of 2002. There is no assurance it will remain profitable in future periods. In addition, unless we are successful in negotiating new licenses of our patents for use in products such as digital camcorders, digital cameras, DVDs and other consumer products not previously licensed by us, our licensing income may decline further in future periods. Licensing negotiations can take up to several years to conclude, and to date we have held only technical and preliminary business discussions with prospective licensees of products other than digital camcorders.

Accordingly, there is a material risk that we will continue to incur operating and net losses in future periods. See Management's Discussion and Analysis of Financial Condition and Results of Operations, below and the other Risk Factors included in this section.

#### ***Risks of Declining Liquidity***

We have experienced a substantial reduction in our financial liquidity, and our cash and marketable securities have declined from \$15.4 million at December 31, 2000 to \$7.1 million at September 30, 2002.

To deal with our declining liquidity, we restructured and extended the maturity dates of our long-term senior debt, discontinued certain unprofitable Internet video operations, and borrowed funds from a former affiliate to make required contributions to our employee retirement plan which is substantially underfunded. We also significantly restructured and down-sized the operations of Data Systems. Our management currently believes that these actions, coupled with anticipated royalty income under licensing agreements, should be sufficient to satisfy our projected cash obligations through 2002, but there can be no assurance in this regard.

We currently believe that Data Systems should generate positive cash flow at current sales levels and that it should have adequate liquidity to satisfy its obligations through 2002. However, sales levels at Data Systems have declined in recent years and there can be no assurance that this trend will not continue. The

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television production and broadcast market, which historically has been one of Data Systems' principal markets, has been adversely affected by depressed advertising spending.

In 1995, the State of California assessed income tax in the amount of \$0.5 million for the period 1983 to 1985, while Ampex was a subsidiary of The Signal Companies (currently Honeywell International Inc.). We have requested the Franchise Tax Board to supply us with information in support of the outstanding assessments which, with interest and penalty, totaled approximately \$2.8 million at September 30, 2002. We intend to petition the State Board of Equalization and to appeal these assessments. Adverse determination of this appeal could have a material adverse effect on our liquidity.

Our subsidiary, Ampex Finance Corporation (AFC), had a working capital facility that allowed us to borrow or obtain letters of credit of up to \$7.0 million, based on eligible accounts receivable. The facility expired in May 2002 and the Company has provided cash collateral against the outstanding letters of credit that total \$1.1 million at September 30, 2002. We are seeking to obtain a new accounts receivable based line of credit that we believe will be adequate to deal with our currently foreseen seasonal cash flows. However, no commitment has been received to date. If the accounts receivable facility is not replaced or extended, Data Systems will be required to implement alternative cash conservation strategies.

### ***We Have Significant Indebtedness, Which May Affect Our Financial Condition***

As of September 30, 2002 we had outstanding approximately \$66.7 million of total borrowings, which includes approximately \$52.7 million under our 12% Senior Notes due 2008, \$10.2 million under our Senior Discount Notes due 2005 and \$3.7 million of Hillside Notes. We may incur additional indebtedness from time to time in the future, subject to certain restrictions imposed by our debt agreements. The degree to which we are leveraged could have important consequences to investors, including the following:

Available Cash Flow is comprised of a substantial portion of our cash flow from operations and must be dedicated to the payment of the principal of and interest on our outstanding indebtedness, and therefore will not be available for other purposes;

recent restructurings of our senior debt and borrowings to fund our pension plan contributions have increased our interest expense and, although we plan to refinance a portion of this debt by entering into a mortgage or sale and leaseback of our Colorado facility in 2003 in order to lower these costs, we may not be successful in these efforts;

our 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 by the terms of our existing debt agreements, and even if existing lenders consent to the issuance of new debt, such financing may not be available on terms favorable to us;

we may be more highly leveraged than our competitors, which may place us at a competitive disadvantage;

our leverage may make us more vulnerable to a downturn in our business or the economy in general; and

the financial covenants and other restrictions contained in our indentures and other agreements relating to our indebtedness also restrict our ability to dispose of assets or to pay dividends on or repurchase preferred or common stock.

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We expect that our cash balances and cash flow from operations will be sufficient to fund anticipated operating expenses, capital expenditures and our debt service requirements as they become due, at least through the end of fiscal 2002. However, we cannot assure you that the amounts available from these sources will be sufficient for such purposes in future periods. Also, we cannot assure you that additional sources of funding will be available if we need them or, if available, will be on satisfactory terms. If we cannot service our indebtedness, we will be forced to adopt alternative strategies. These strategies may include reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, or seeking additional equity capital. We cannot give any assurance that any of these strategies will be successful or that they will be permitted under our debt indentures.

### ***Risks Associated with a Decline in U.S. Government Spending***

Data Systems' business depends materially on continued U.S. government expenditures on intelligence and defense programs. The loss or significant decline in spending on various imaging and intelligence gathering programs where we are subcontractors to prime government contractors could materially adversely affect our business. U.S. intelligence and defense budgets have experienced declines from time to time in recent years, resulting in program delays, program cancellations and deferral of funding for approved programs. Recently, several intelligence programs have received government funding which has led to increased sales by Data Systems. We can not be assured that sales of new systems will continue at these levels. However, a substantial part of our business is represented by the sale of spare parts, service and tape which, in the short run, are less dependent upon the sale of new systems.

### ***Our Royalty Income is Subject to Material Fluctuations***

Our results of operations in certain prior periods have benefited from significant royalty income. We have received a substantial portion of that royalty income from negotiated settlements with manufacturers who had sold products incorporating our patents before entering into license agreements with us. Although we have a substantial number of outstanding and pending patents, and our patents have generated substantial royalties in the past, we cannot predict the amount of royalty income that we will receive in the future.

Royalty income has historically fluctuated widely due to a number of factors that we cannot predict, such as the extent to which third parties use our patented technology, the extent to which we must pursue litigation in order to enforce our patents, and the ultimate success of our licensing and litigation activities. Our royalty income fluctuates significantly from quarter to quarter and from year to year, and we cannot give any assurance as to the level of royalty income that will be realized in future periods.

The costs of patent litigation can be material. If we begin patent enforcement litigation against third parties, we may be subject to an increased risk of counterclaims alleging infringement by us of patents held by others or seeking to invalidate patents held by us. Moreover, we cannot assure you that we will be able to develop patentable technology that will generate significant patent royalties in future years to replace patents as they expire. Our expenditures for research and development have been declining in recent years which are likely to have a long-term adverse effect on our ability to maintain a significant portfolio of patented technologies.

### ***Risks Associated with Acquisition Strategy***

We are not currently seeking to make any acquisitions of new businesses. At present, the terms of our principal debt instruments substantially restrict our ability to make acquisitions or investments in new businesses. However, we have made, and may under certain circumstances in the future make, acquisitions of, and/or investments in, other businesses. These entities may be involved in new businesses in which Ampex has not historically been involved. We may not be able to identify or acquire additional acquisition candidates in the future, or complete any further acquisitions or investments on satisfactory terms.

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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. We may also encounter problems in entering markets and businesses in which we have limited or no experience. Acquisitions can also divert management's attention from other business concerns. We have made and may make additional investments in companies in which we own less than a 100% interest. Such investments involve additional risks, including the risk that we may not be in a position to control the management or policies of such entities, and the risk of potential conflicts with other investors.

Accordingly, there can be no assurance that any acquisitions or investments that we have made, or may make in the future, will result in any return, or as to the timing of any return. All of our acquisitions of Internet companies have been written off during 2000 and 2001. In addition, we elected to discontinue the operations of MicroNet, which we acquired in 1998. It is possible that we could lose all or a substantial portion of any future investments.

### ***Our Operating Results are Subject to Quarterly Fluctuations***

Our sales and results of operations are generally subject to quarterly and annual fluctuations. Various factors affect our operating results, some of which are not within our control, including:

- customer ordering patterns;
- availability and market acceptance of new products and services;
- timing of significant orders and new product announcements;
- order cancellations;
- receipt of royalty income;
- the amount and timing of capital expenditures and other costs relating to our operations; and
- general economic and industry conditions.

Results of a given quarter or year may not necessarily be indicative of results to be expected for future periods. In addition, fluctuations in operating results may negatively affect our debt service coverage, or our ability to issue debt or equity securities should we wish to do so, in any given fiscal period. Material fluctuations in our operating results in future periods could have a material adverse effect on the price of the Class A Common Stock.

### ***Seasonal Customer Ordering Patterns May Affect Our Business***

Sales of most of our products have historically declined during the first and third quarters of our fiscal year, due to the seasonal procurement practices of our customers. A substantial portion of our backlog at a given time is normally shipped within one or two quarters thereafter. Therefore, sales in any quarter are heavily dependent on orders received in that quarter and the immediately preceding quarter.

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### ***We May be Unable to Respond to Rapid Technological Change and the Need to Develop New Products***

All the industries and markets, from which we derive or expect to derive revenues, directly or through our licensing program, are characterized by continual technological change and the need to introduce new products, product upgrades and patentable technology. This has required, and will continue to require, that we spend substantial amounts for the research, development and engineering of new products and advances to existing products. We cannot assure you that our existing products, technologies and services will not become obsolete or that any new products, technologies or services will win commercial acceptance. Obsolescence of existing product lines, or inability to develop and introduce new products and services, could have a material adverse effect on our sales and results of operations in the future. The development and introduction of new technologies, products and services are subject to inherent technical and market risks, and there can be no assurance that we will be successful in this regard. Our expenditures for research and development have been declining in recent years which are likely to have a long-term adverse effect on our ability to maintain a significant portfolio of patented technologies. In addition, further reductions in our research and development programs could adversely affect our ability to remain competitive.

### ***We Encounter Significant Competition in All of Our Businesses***

Data Systems encounters significant competition in all the markets for its products and services. Many of its competitors have greater resources and access to capital than the Company. In the mass data storage market, Data Systems competes with a number of well-established competitors such as IBM Corporation, Storage Technology Corporation, Sony Corporation and ADIC, as well as smaller companies. In addition, other manufacturers of scanning video recorders may seek to enter the mass data storage market in competition with us. In addition, price declines in competitive storage systems, such as magnetic or optical disk drives, can negatively impact sales of Data Systems' DST products.

In the instrumentation market, Data Systems competes primarily with companies that depend on government contracts for a major portion of their sales in this market, including Calculux, L-3 Communications Corporation and Sypris Solutions, Inc. The number of competitors in this market has decreased in recent years as the level of government spending in many areas has declined.

### ***We Are Dependent On Certain Suppliers***

Amplex purchases certain components from a single domestic or foreign manufacturer. Significant delays in deliveries or defects in such components could adversely affect our manufacturing operations, pending qualification of an alternative supplier. In addition, we produce highly engineered products in relatively small quantities. As a result, our ability to cause suppliers to continue production of certain products on which we may depend may be limited. We do 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 during 2001 and Data Systems has entered into agreements with most of its trade creditors to repay amounts due over several months through the end of 2002. Certain suppliers have required prepayment or payment at the time of delivery of materials or services. We believe that Data Systems is currently able to obtain shipments from its critical suppliers.

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### ***We Are Subject to Certain Risks Related to Our International Operations***

Although we significantly curtailed Data Systems' international operations in prior years, sales to foreign customers (including U.S. export sales) continue to be significant to our results of 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 our results of operations. We do not normally seek to mitigate our exposure to exchange rate fluctuations by hedging our foreign currency positions.

### ***Our Stock Price May Be Subject to Continued Volatility and Our Stock May Be Delisted from the American Stock Exchange***

The trading price of our 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;

fluctuations in patent royalty revenues and developments in our patent licensing program;

announcements of the introduction of new products, technologies or services by us or our competitors;

announcements by us of acquisitions of, or investments in, new businesses or other events;

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 our Preferred Stock or for other purposes; and

general economic or market conditions.

The stock market in general, 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 the Class A Common Stock, regardless of Ampex's operating performance.

The American Stock Exchange has provided an extension to us to bring us into compliance with the Amex listing standards by June 30, 2003. However, it may initiate delisting proceedings at any time notwithstanding the extension they provided to us. If our shares are delisted, the market for our Common Stock may be adversely affected. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.

### ***We Are Dependent on Certain Key Personnel***

We are highly dependent on our management. Our success depends upon the availability and performance of our executive officers and directors. We have not entered into employment agreements with any of our key employees, and the loss of their services could have a material adverse effect on us. We do not maintain key man life insurance on any of these individuals.

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### ***Our Charter Documents and Certain of Our Governing Instruments May Prevent a Takeover***

Our Certificate of Incorporation provides for a classified Board of Directors, with members of each class elected for a three-year term. It also 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 terms of our Preferred Stock require that we 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 our voting securities; we merge, consolidate or transfer all or substantially all of our assets; or the dissolution of Ampex. The Certificate of Incorporation authorizes our Board of Directors to issue additional shares of Preferred Stock without the vote of stockholders.

The indenture governing our outstanding Senior Notes requires us 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 our outstanding voting stock; or the transfer of substantially all of our assets to any such person or group, other than to certain of our subsidiaries and affiliates.

The Note Purchase Agreement governing our outstanding Senior Discount Notes requires us to repay such notes in full upon the occurrence of a change of control. Under the agreement, a change of control includes, among other things: any person or group becomes the beneficial owner of more than 50% of our outstanding voting stock, or any merger or consolidation of Ampex with or into any other entity. The agreement also requires us to repay the notes if we sell Data Systems or sell its Colorado Springs, CO manufacturing facility.

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

### ***We do Not Expect to Pay Dividends on our Common Stock***

We have not declared dividends on our Common Stock since our incorporation in 1992 and we have no present intention of paying dividends on our Common Stock. We are also restricted by the terms of certain agreements and of our outstanding Preferred Stock as to the declaration of dividends.

### ***We are Dependent on Licensed Patents and Proprietary Technology***

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

Litigation may be necessary to enforce our patents, to protect trade secrets or know-how owned by us 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 us may require us to incur

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substantial legal and other fees and expenses and may require some of our employees to devote all or a substantial portion of their time to the prosecution or defense of such litigation or proceedings.

### ***We Are Subject to Environmental Regulation and our Business Could be Negatively Affected by the Costs of Compliance***

Our 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. We have been named from time to time as a potentially responsible party by the United States Environmental Protection Agency with respect to contaminated sites that have been designated as Superfund sites, and are currently engaged in various environmental investigation, remediation and/or monitoring activities at several sites located off Company facilities. There can be no assurance we 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 us in the future.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There has been no material change to the disclosure made in the 2001 Form 10-K.

### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure based closely on the definition of disclosure controls and procedures in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

There have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the date we completed our evaluation. Therefore no corrective actions were taken.



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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are a party to routine litigation incidental to our 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 our financial condition, results of operations or cash flows.

In 1995, the State of California assessed income tax in the amount of \$0.5 million for the period 1983 to 1985, while Ampex was a subsidiary of The Signal Companies (currently Honeywell International Inc.). We have requested the Franchise Tax Board to supply us with information in support of the outstanding assessments which, with interest and penalty, totaled approximately \$2.8 million at September 30, 2002. We intend to petition the State Board of Equalization and to appeal these assessments. Adverse determination of this appeal could have a material adverse effect on our liquidity.

Our facilities are subject to numerous federal, state and local laws and regulations designed to protect the environment from waste emissions and hazardous substances. We are also subject to the federal Occupational Safety and Health Act and other laws and regulations affecting the safety and health of employees in our facilities. Management believes that we are generally in compliance in all material respects with all applicable environmental and occupational safety laws and regulations or have plans to bring operations into compliance. Management does not anticipate that capital expenditures for pollution control equipment for fiscal 2002 or 2003 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. We are engaged in nine environmental investigation, remediation and/or monitoring activities at sites located off our 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. We have 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 other five sites (including the four Superfund sites) are associated with the operations of the Media subsidiaries formerly owned by us. Although we sold Media in November 1995, we may have continuing liability with respect to environmental contamination at these sites if Media fails to discharge its responsibilities with respect to these sites. During 2001, we spent a total of approximately \$0.1 million in connection with environmental investigation, remediation and monitoring activities and expect to spend a similar amount in fiscal 2002 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 us to estimate with any degree of certainty the ultimate costs that we may incur with respect to the currently pending environmental matters referred to above. Nevertheless, at September 30, 2002, we had an accrued liability of \$1.1 million for pending environmental liabilities associated with the Sunnyvale site and certain other sites currently owned or leased by us. We have not accrued any liability for contingent liabilities we may incur with respect to former Media sites discussed above. Based on facts currently known to management, management believes no contingent liability in connection with these pending matters, either individually or in the aggregate, will be material to our financial condition or results of operations or material to investors.

While we believe that we are generally in compliance with all applicable environmental laws and regulations or have plans to bring operations into compliance, it is possible that we will be named as a potentially responsible party in the future with respect to additional Superfund or other sites. Furthermore, because we conduct business in foreign countries as well as in the U.S., it is not possible to predict the

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effect that future domestic or foreign regulation could have on our business, operating results or cash flow. There can be no assurance that we 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 us in the future.

We believe that our current facilities, including machinery and equipment, are generally in good condition, well-maintained and suitable for their intended uses, and that our facilities have, and will continue to have, adequate capacity to accommodate our present needs and business growth for our present products in the foreseeable future.

### **ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

On September 30, 2002, we redeemed 537 shares of Redeemable Preferred Stock by issuing to the holders 429,600 shares of Common Stock. No cash or other consideration was paid or received by us, directly or indirectly, in connection with the redemption. 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.

### **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.

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**SIGNATURES**

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

**AMPEX CORPORATION**

Date: November 14, 2002

/s/ EDWARD J. BRAMSON

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Edward J. Bramson  
Chairman and Chief Executive Officer

Date: November 14, 2002

/s/ CRAIG L. McKIBBEN

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

**CERTIFICATIONS**

I, Edward J. Bramson, Chairman and Chief Executive Officer, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Ampex Corporation;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### **AMPEX CORPORATION**

Date: November 14, 2002

/s/ EDWARD J. BRAMSON

Edward J. Bramson  
Chairman and Chief Executive Officer

I, Craig L. McKibben, Vice President, Chief Financial Officer and Treasurer, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Ampex Corporation;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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- (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

**AMPEX CORPORATION**

Date: November 14, 2002

/s/ CRAIG L. McKIBBEN

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

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**AMPEX CORPORATION**

**FORM 10-Q FOR THE QUARTER ENDED  
September 30, 2002**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
10.1	Second Amendment dated September 13, 2002 to the Hillside Ampex/Sherborne Agreement dated December 1, 1994, as amended as of November 30, 1995.
99.1	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.