

AMPEX CORP /DE/
Form 10-Q
August 14, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 0-20292

AMPEX CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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)

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2008, the aggregate number of outstanding shares of our Class A Common Stock, \$0.01 par value, was 3,930,035. There were no outstanding shares of our Class C Common Stock, \$0.01 par value.

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FORM 10-Q

Quarter Ended June 30, 2008

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Table of Contents**AMPEX CORPORATION****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

(unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,872	\$ 8,585
Accounts receivable (net of allowances of \$82 in 2008 and \$233 in 2007)	3,044	8,099
Inventories	6,234	6,102
Royalties receivable	84	74
Cash collateral on letter of credit	1,312	1,560
Other current assets	708	1,158
Total current assets	22,254	25,578
Property, plant and equipment	517	634
Other assets	247	255
Total assets	\$ 23,018	\$ 26,467
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Liabilities subject to compromise	\$ 64,796	\$
Notes payable		53,964
Accounts payable	3,302	1,018
Net liabilities of discontinued operations		975
Accrued restructuring costs	146	436
Pension and other retirement plans	185	927
Other accrued liabilities	3,947	7,779
Total current liabilities	72,376	65,099
Liabilities subject to compromise	8,565	
Pension and other retirement plans	54,469	66,498
Other liabilities	225	737
Net liabilities of discontinued operations		1,268
Total liabilities	135,635	133,602
Commitments and contingencies (Note 15)		
Mandatorily redeemable nonconvertible preferred stock, \$1,000 liquidation value per share:		
Authorized: 69,970 shares		
Issued and outstanding - none		
Mandatorily redeemable preferred stock, \$2,000 liquidation value per share:		
Authorized: 21,859 shares		
Issued and outstanding - none		
Convertible preferred stock, \$2,000 liquidation value per share:		
Authorized: 10,000 shares		
Issued and outstanding - none		
Stockholders deficit:		

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Preferred stock, \$1.00 par value:		
Authorized: 898,171 shares		
Issued and outstanding - none		
Common stock, \$0.01 par value:		
Class A:		
Authorized: 175,000,000 shares in 2008 and in 2007		
Issued and outstanding - 3,930,035 shares in 2008; 3,923,506 in 2007	39	39
Class C:		
Authorized: 50,000,000 shares		
Issued and outstanding - none		
Other additional capital	456,076	455,716
Accumulated deficit	(466,872)	(458,847)
Accumulated other comprehensive loss	(101,860)	(104,043)
Total stockholders' deficit	(112,617)	(107,135)
Total liabilities, redeemable preferred stock and stockholders' deficit	\$ 23,018	\$ 26,467

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

Table of Contents**AMPEX CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

(in thousands, except share and per share data)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Licensing revenue	\$ 2,558	\$ 2,520	\$ 5,057	\$ 7,213
Product revenue	3,455	3,917	6,465	9,799
Service revenue	1,585	1,768	3,084	3,590
Total revenue	7,598	8,205	14,606	20,602
Intellectual property costs	529	715	1,542	1,506
Cost of product revenue	1,825	1,918	3,705	4,828
Cost of service revenue	511	514	1,030	1,030
Research, development and engineering	1,282	1,215	2,570	2,355
Selling and administrative	3,489	3,624	7,035	7,309
Reorganization costs	2,873		4,057	
Total costs and operating expenses	10,509	7,986	19,939	17,028
Operating income (loss)	(2,911)	219	(5,333)	3,574
Media pension costs	153	68	306	114
Interest expense	240	1,005	1,342	1,931
Amortization of debt financing costs	1	1	2	2
Interest income	(38)	(102)	(93)	(207)
Other (income) expense, net	(11)	(3)	18	5
Income (loss) from continuing operations before income taxes	(3,256)	(750)	(6,908)	1,729
Provision for income taxes	4	9	164	15
Income (loss) from continuing operations	(3,260)	(759)	(7,072)	1,714
Loss from discontinued operations (net of taxes of nil in 2008)	(953)		(953)	
Net income (loss)	(4,213)	(759)	(8,025)	1,714
Other comprehensive income (loss), net of tax:				
Minimum pension adjustment	1,039	782	2,079	1,564
Foreign currency translation adjustments	(78)	(34)	104	(7)
Comprehensive income (loss)	\$ (3,252)	\$ (11)	\$ (5,842)	\$ 3,271
Basic income (loss) per share from continuing operations	\$ (0.84)	\$ (0.20)	\$ (1.82)	\$ 0.44
Basic loss per share from discontinued operations	\$ (0.24)	\$ 0.00	\$ (0.24)	\$ 0.00
Basic income (loss) per share	\$ (1.08)	\$ (0.20)	\$ (2.06)	\$ 0.44
Weighted average number of basic common shares outstanding	3,897,035	3,888,406	3,893,878	3,862,280

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Diluted income (loss) per share from continuing operations	\$ (0.84)	\$ (0.20)	\$ (1.82)	\$ 0.44
Diluted loss per share from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Diluted income (loss) per share	\$ (1.08)	\$ (0.20)	\$ (2.06)	\$ 0.44
Weighted average number of diluted common shares outstanding	3,897,035	3,888,406	3,893,878	3,868,197

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

Table of Contents**AMPEX CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	For the Six Months Ended	
	June 30,	June 30,
	2008	2007
Cash flows from operating activities:		
Net income (loss)	\$ (8,025)	\$ 1,714
Loss from discontinued operations	953	
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	202	234
Accretion of interest expense	402	394
Stock based compensation expense	194	186
Ampex and foreign periodic pension cost	1,773	1,428
Media periodic pension cost	306	114
Net gain on the disposal of assets	(12)	
Changes in operating assets and liabilities:		
Accounts receivable	5,089	1,707
Inventories	(113)	217
Royalties receivable	(10)	182
Other assets	705	24
Accounts payable	2,899	(2,375)
Other accrued liabilities and income taxes payable	(1,554)	(3,051)
Ampex and Media pension contributions	(6,020)	(6,562)
Accrued restructuring costs	(290)	(299)
Other liabilities	(170)	(328)
Net cash used in continuing operations	(3,671)	(6,415)
Net cash used in discontinued operations	(192)	(304)
Net cash used in operating activities	(3,863)	(6,719)
Cash flows from investing activities:		
Deferred gain on sale of assets	(25)	(25)
Net proceeds on sale of assets	37	
Additions to property, plant and equipment	(99)	(22)
Net cash used in investing activities	(87)	(47)
Cash flows from financing activities:		
Borrowings under debt agreements	6,020	6,562
Repayments under debt agreements		(307)
Issuance of common stock to NHI	166	
Proceeds from issuance of common stock		81
Net cash provided by financing activities	6,186	6,336
Effects of exchange rates on cash	51	(10)

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Net increase (decrease) in cash and cash equivalents	2,287	(440)
Cash and cash equivalents, beginning of period	8,585	11,719
Cash and cash equivalents, end of period	\$ 10,872	\$ 11,279

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 and licensor of visual information technology. During its 63-year history, the Company has developed substantial proprietary technology relating to the electronic storage, processing and retrieval of data, particularly images. The Company currently holds patents and patent applications covering digital image-processing, data compression and recording technologies. The Company leverages its investment in technology through its corporate licensing division, which licenses its patents to manufacturers of consumer electronics products. Through its wholly-owned subsidiary, Ampex Data Systems Corporation (Data Systems), the Company develops and incorporates technology in the design and manufacture of very high performance data storage products, principally used in defense applications to gather digital images and other data from aircraft, satellites and submarines. These products are also used in flight and sensor test applications.

As discussed below in Note 3, on March 30, 2008, Ampex and certain of its U.S. subsidiaries (the Debtors) filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern once it emerges from chapter 11. The Company's ability to continue as a going concern is dependent upon, among other things, its ability to successfully restructure its indebtedness and to emerge from bankruptcy with viable and profitable operations and with adequate liquidity. The Company believes the chapter 11 reorganization will achieve these objectives. On or about March 30, 2008, the Debtors filed a pre-negotiated plan of reorganization (as amended, the Plan) and related disclosure statement (as amended, the Disclosure Statement). The Bankruptcy Court approved the Disclosure Statement, as amended, on June 11, 2008, and authorized the Debtors to solicit votes to accept or reject the Plan from certain creditors. Solicitation commenced on June 18, 2008. On July 9, 2008, the Debtors filed a modified Plan which incorporated, among other things, certain changes to the lump sum cash payment election available to the holders of allowed general unsecured claims (the Plan Modifications). On July 14, 2008, the Bankruptcy Court approved a supplement to the Disclosure Statement related to the Plan Modifications and authorized the re-solicitation of the holders of certain general unsecured claims. Prior to filing petitions for relief under chapter 11, the Debtors negotiated the terms of the Plan with and obtained the support of the Consenting Holders and subsequently received the support of the Creditors' Committee. This support is evidenced by the Plan Support Agreement (as amended from time to time, the PSA).

All creditors entitled to vote on the Plan overwhelmingly voted in favor of the Plan. On July 31, 2008, the Bankruptcy Court entered an order confirming the Plan. The Debtors anticipate that all remaining conditions to consummation of the Plan will be able to be satisfied and that Ampex and its U.S. subsidiaries will emerge from chapter 11 within the next few months.

The consolidated financial statements as of June 30, 2008 and December 31, 2007 do not give effect to any adjustments in the carrying values of assets or liabilities that will be recorded upon implementation of the Plan and the adoption of fresh-start accounting. Legal expenses incurred in connection with the restructuring of the 12% Senior Notes due August 15, 2008 (the Senior Notes) and the Notes issued to Hillside Capital Incorporated (the Hillside Notes) and in preparing for the Chapter 11 Cases, have been reported separately as Reorganization Costs in the consolidated statements of operations.

The Company believes that it will emerge from chapter 11 before the end of the year with a viable capital structure and with sufficient liquidity for it to continue operating as a going concern, but cannot give assurances that it will do so, due to uncertainties inherent in the bankruptcy process. The consolidated financial statements do not include any adjustments that might be required should the Company be unable to continue to operate as a going concern.

The consolidated financial statements as of June 30, 2008 and December 31, 2007, reflect all of the Company's debt under its credit agreements as current liabilities since under their respective indentures, filing a bankruptcy petition may give rise to an event of default.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated. Interim information included herein has 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 period financial statements to conform to the current period's presentation. The statements should be read in conjunction with the Company's report on Form 10-K for the year ended December 31, 2007, and the Audited Consolidated Financial Statements included therein.

In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three and six month periods ended June 30, 2008, are not necessarily indicative of the results to be expected for the full year. With effect from the March 30, 2008 bankruptcy filing date, the accompanying consolidated financial statements were prepared in accordance with Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7). Accordingly, all pre-petition liabilities subject to compromise were segregated in the condensed consolidated balance sheet and classified as liabilities subject to compromise at the estimated amounts of allowable claims. Reorganization costs, which included legal expenses incurred in connection with negotiations to restructure the Senior Notes and the Hillside Notes (defined below in Note 3) as well as expenses incurred in connection with the Chapter 11 Cases, have been reported separately as Reorganization Costs in the Company's consolidated statements.

The financial statements presented in this Form 10-Q do not include any adjustments to the carrying values of assets or liabilities or to the classification of debt that might result from any debt restructuring or plan of reorganization that might ultimately be approved by the Bankruptcy Court as more fully described in Note 3 nor the adoption of fresh start accounting upon emergence from the Chapter 11 Cases.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results could differ from those estimates. Management's more significant judgments and estimates used in the preparation of its consolidated financial statements include revenue recognition, accounts receivable, inventories, deferred taxes, warranty reserves, pension liabilities, valuation of long-lived assets and investments, contingencies and environmental liabilities.

Cash Equivalents and Short-term Investments

Highly liquid investments with original maturities of three months or less are classified as cash equivalents. Highly liquid investments with maturities greater than three months and less than one year are classified as short-term investments. Management determines the appropriate classification of its investments in debt and marketable equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company's debt and marketable equity securities have been classified and accounted for as available-for-sale. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of shareholders' deficit. The cost of securities sold is based upon the specific identification method.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-Term Investments

The Company owns a 1.5% minority equity investment in a private company that is carried on the cost method. The company conducts research and development and performs contract engineering services for the U.S. Department of Defense and high technology industries. The carrying value of this investment amounted to \$225,000 at June 30, 2008 and December 31, 2007 and is included in other long-term assets. This investment is inherently risky because the products and technologies in development are not fully commercialized. The Company monitors its investment for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, the Company records an impairment charge and establishes a new cost basis for the investment at its current fair value. In order to determine whether a decline in value is other-than-temporary, the Company evaluates the duration and extent to which the fair value has been less than the carrying value, the financial condition of and business outlook for the company and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a standard cost basis, which approximates actual cost under the first in, first out method. Abnormal amounts of facility expense, freight, handling costs and scrap material are excluded from inventory cost and expensed during the period in which they are incurred. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and stated net of accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from three to nine years for furniture, fixtures and equipment, two to ten years for leasehold improvements, which represents the shorter of the lease term or the estimated useful lives. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in the results of operations.

Warranty

Products sold are generally covered by a warranty for periods ranging from 90 days to one year. The Company accrues a warranty reserve at the time of sale for estimated costs to provide warranty services. The Company's estimate of costs to service its warranty obligation is based on historical experience and expectation of future conditions. To the extent the Company experiences increased warranty claim activity or increased costs associated with servicing those claims, its warranty accrual will increase, resulting in decreased gross profit.

Environmental Liabilities

The Company's facilities and business practices are subject to numerous federal, state and local laws and regulations designed to protect the environment from waste emissions and hazardous substances. Also, the Company may have continuing liability with respect to environmental contamination related to the facilities and disposal activities of its former subsidiary Media (Media). The Company recognizes a liability for any contingency that is probable of occurrence and reasonably estimable in accordance with American Institute of Certified Public Accountants (the AICPA) Statement of Position No. 96-1, Environmental Remediation Liabilities. The Company continually assesses these contingencies based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Such analysis includes making judgments concerning matters such as the extent of environmental damage and the Company's pro rata participation, if applicable, the most desirable remediation techniques and the time period during which the cleanup costs may be incurred. Because most contingencies are resolved over long periods of time, liabilities may change in the future due to new developments or other changes. In the second quarter of 2008, the Company increased its reserve for environmental remediation costs related to the Seaboard site based on terms contained in a settlement agreement subject to approval by the Bankruptcy Court. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, the Company does not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of its accruals.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Currency Translation

Assets and liabilities of subsidiaries located outside the United States have been translated at rates in effect at the end of the reporting period. Revenues and expenses are translated at average rates during the period. Local currencies are considered to be the functional currencies for all of the Company's foreign subsidiaries. Accordingly, the effects of translating the financial statements of foreign subsidiaries into U.S. dollars are reported in the cumulative translation adjustment, a separate component of stockholders' deficit and comprehensive income (loss). Foreign currency transaction gains and losses, which are included in other expense, were not material in the periods reported.

Revenue Recognition

The Company recognizes revenue in accordance with applicable accounting standards including Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition and the AICPA Statement of Position No. 97-2, Software Revenue Recognition, as amended. Revenue is recognized when (1) persuasive evidence of an arrangement exists, (2) delivery and, where applicable, acceptance has occurred or services have been rendered, (3) the fee is fixed or determinable, and (4) collection is reasonably assured. The Company derives its revenue from two principal sources: license fees (including royalties) through its Licensing segment, and product and parts sales and service contracts through its Recorders segment.

Determination of criteria (3) and (4) are based on Management's judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. Should changes in conditions cause Management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

The Company's revenue recognition policy with respect to royalty income is as follows: when the Company enters into an agreement with a new licensee for use of its patents, the Company may receive settlement of past due royalties. This is a negotiated amount and is typically paid by the licensee within 30 days of signing the license agreement. Past due royalties cover the licensee's product shipments from the period when they were first notified of infringement up through the effective date of the license. The Company may also negotiate a prepayment of royalties that would otherwise be due up to a specific future date. The dollar amounts due under a negotiated agreement for both past due royalties and for prepayment of royalties are non-refundable and non-forfeitable. The Company recognizes both past due and prepayment amounts as revenue in the period when the agreement has been executed by both parties, which is when there is persuasive evidence of an arrangement, fees become fixed or determinable and collection becomes probable, as the Company has no future obligations with respect to these agreements and delivery has occurred. Alternatively, the Company's licensing agreement may include a running royalty which covers products shipped by the licensee after the date that the license agreement has been entered into and until the patent has expired or when the patent is no longer contractually available to the licensee, if shorter. The Company's running royalties are computed as a percentage of the selling price of the licensee's products and are paid quarterly in arrears and recognized as revenue at the time the amount of the quarterly royalty payment becomes determinable, generally upon receipt of the licensee's sales report upon which royalties are determined, and collection is reasonably assured.

Revenue on product sales and services is recorded when all of the following have occurred: an agreement of sale exists, product delivery (principally FOB Ampex Factory) and acceptance has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Prepaid service revenue is recognized ratably over the life of the service contract.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension and Other Post-Retirement Benefits/Obligations

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of Financial Accounting Standards Board (FASB) Statements No. 87, 88, 106 and 132(R), as of December 31, 2006. Under SFAS No. 158, the funded status of each pension and other postretirement benefit plan is required to be reported as an asset (for overfunded plans) or a liability (for underfunded plans). The Company's net pension obligation (liability) reflected in the Consolidated Balance Sheets under SFAS No. 87 was equal to the unfunded projected benefit obligation determined under SFAS No. 158; accordingly, the implementation of SFAS No. 158 had no impact on the Company's Consolidated Balance Sheets or Statements of Operations and Comprehensive Income (Loss). The determination of the Company's obligation and expense for pension and other postretirement benefits payable to Ampex's and Media's employees and retirees is dependent on the Company's selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate, expected long-term rate of return on plan assets and mortality assumptions for the plan participants. In accordance with SFAS No. 158, the underfunded status of the defined benefit plans is recorded as a net liability with a corresponding adjustment to accumulated other comprehensive income (AOCI) in shareholders' equity. Amounts recognized in AOCI represent unrecognized gains and losses that are expected to be amortized to pension cost over future periods.

While the Company believes that its assumptions are appropriate, significant differences in its actual experience or significant changes in the Company's assumptions that may be required under new legislation or otherwise may materially affect its pension and other postretirement obligations and its future expense as well as amounts that may ultimately be required to be paid to fund the Company's and Media pension plans.

Research, Development and Engineering

Research and development costs are expensed as incurred and amounted to \$2.6 million and \$2.3 million in the six months ended June 30, 2008 and 2007, respectively. Other engineering costs, principally incurred in connection with product introductions and process enhancements, amounted to \$1 thousand and \$0.1 million in the six months ended June 30, 2008 and 2007, respectively.

Restructuring Charges

The Company accounts for severance and benefit termination costs and other costs associated with an exit or disposal activity initiated after January 1, 2003 in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred, as opposed to when management commits to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value, and subsequent adjustments to the liability shall be measured using the credit-adjusted risk-free rate that was used to measure the liability initially.

Income Taxes

The Company follows SFAS No. 109, Accounting for Income Taxes. Under this method, deferred income taxes are recognized for temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. See Note 19.

Foreign withholding taxes have been provided on the undistributed earnings of foreign subsidiaries, giving recognition to applicable tax rates.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of risk consist principally of short-term and long-term investments and trade receivables. The Company invests its temporary cash balances in U.S. treasury obligations and U.S. corporate securities and, by policy, limits the investment maturity and the amount of credit exposure to any one financial institution or type of investment. The Company performs ongoing credit evaluations on its customers, and collateral is generally not required for trade receivables.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components, undistributed income applicable to common stockholders and other comprehensive income (loss), net of tax. Other comprehensive income (loss) refers to revenue, expenses, gains and losses that under generally accepted accounting principles are recorded as an element of total shareholders' deficit but are excluded from net income (loss). Accumulated other comprehensive income (loss), as presented on the accompanying Consolidated Balance Sheets, consists of foreign currency translation adjustments and accumulated unrecognized gains and losses under the Company's defined benefit plans.

Segment Information

The Company reports segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments. See Note 20.

Basic and Diluted Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of basic common shares outstanding during the period. Diluted income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of basic common shares outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the dilutive potential shares of common stock had been issued. The dilutive effect of outstanding options and restricted stock is reflected in diluted income per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from outstanding options and restricted stock. Additionally, the exercise of employee stock options and the vesting of restricted stock can result in a greater dilutive effect on income per share. Under the Plan, all shares of the Company's existing common stock, stock options and restricted stock awards will be canceled upon emergence from chapter 11. See Management's Discussion and Analysis of Financial Condition and Results of Operations' Plan of Reorganization.

Table of Contents**AMPEX CORPORATION****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Stock-Based Compensation***

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004) (SFAS No. 123R), Share-Based Payment, which addresses the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. In January 2005, the SEC issued SAB No. 107, which provides supplemental implementation guidance for SFAS No. 123R. SFAS No. 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and instead generally requires that such transactions be accounted for using a fair-value-based method. The Company uses the Black-Scholes-Merton (BSM) option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R, consistent with that used for pro forma disclosures provided under SFAS No. 123,

Accounting for Stock-Based Compensation. The Company has elected the modified prospective transition method as permitted by SFAS No. 123R and, accordingly, prior periods have not been restated to reflect the impact of SFAS No. 123R. The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options and restricted stock that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006. Stock-based compensation expense for awards granted prior to January 1, 2006 is based on the grant date fair-value as determined under the pro forma provisions of SFAS No. 123. The Company has recorded incremental stock-based compensation expense of \$194 thousand and \$186 thousand, included in selling and administrative expenses, during the six months ended June 30, 2008 and 2007, respectively, as a result of the adoption of SFAS No. 123R. In accordance with SFAS No. 123R, beginning in the first quarter of 2006 the Company has not recognized excess tax benefits realized from the exercise of stock-based compensation awards as a financing activity in the Consolidated Statements of Cash Flows due to its net operating loss position.

No stock-based compensation costs were capitalized as part of the cost of an asset as of June 30, 2008. Deferred tax assets recorded in connection with stock-based compensation expenses for financial statement purposes have been offset by a corresponding valuation reserve. As of June 30, 2008, \$252 thousand of total unrecognized compensation cost related to unvested outstanding stock options and restricted stock is expected to be recognized over the next seven quarters.

Prior to the adoption of SFAS No. 123R, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25. The Company applied the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure as if the fair-value-based method had been applied in measuring compensation expense. Under APB Opinion No. 25, when the exercise price of the Company's employee stock options was equal to the market price of the underlying stock on the date of the grant, no compensation expense was recognized.

Fair Value of Financial Instruments

For certain instruments that are short-term in nature, such as cash and cash equivalents, short-term investments and working capital facilities, carrying value approximates fair value. The Company's Senior Notes have been valued at approximately par value at June 30, 2008 and December 31, 2007 by the Company; however no securities have traded recently in the secondary market. Management has determined that it is not practical to estimate the fair value of the Hillside Notes and note payable-other, as no market for such instruments currently exists. See Note 13.

Recent Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and was adopted by the Company on a prospective basis in the first quarter ended March 31, 2007. The adoption of FIN 48 did not have any effect on its financial statements.

Table of Contents**AMPEX CORPORATION****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial instruments beginning in January 2008 and non-financial instruments beginning in January 2009 and was adopted by the Company in the quarter ended March 31, 2008. The adoption of SFAS 157 did not have a material effect on its consolidated results of operations and financial conditions.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and was adopted by the Company in the first quarter of fiscal 2008. The Company has not elected to expand the use of fair value accounting to any of its eligible items. Accordingly, the adoption of SFAS 159 did not have a material effect on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R). SFAS 141R requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction at fair value as of the acquisition date. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is required to adopt SFAS 141R in the first quarter of 2009.

Note 3 Plan of Reorganization

As discussed above in Note 1, on March 30, 2008, the Company filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. The Company is operating its business as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the provisions of the Bankruptcy Code. On April 16, 2008, the United States Trustee for the Southern District of New York appointed a committee to represent the interests of unsecured creditors in the Debtors' chapter 11 cases (the Chapter 11 Cases). On March 31, 2008, April 1, 2008, and April 22, 2008, the Bankruptcy Court entered certain orders that permit the Debtors to pay certain prepetition employee salary and benefit obligations, as well as certain vendor obligations. On March 31, 2008, the Bankruptcy Court also entered an order authorizing the Debtor to continue to honor its customer warranties and other programs in the ordinary course of business. On June 26, 2008, the Bankruptcy Court approved a stipulation among the Debtors and certain creditors holding a majority of its secured debt and its largest unsecured creditor (the Consenting Holders) authorizing the use of cash claimed as collateral (Cash Collateral) by such lenders, subject to certain terms and conditions.

On or about March 30, 2008, the Debtors filed a pre-negotiated plan of reorganization (as amended, the Plan) and related disclosure statement (as amended, the Disclosure Statement). The Bankruptcy Court approved the Disclosure Statement, as amended, on June 11, 2008, and authorized the Debtors to solicit votes to accept or reject the Plan from certain creditors. Solicitation commenced on June 18, 2008. On July 9, 2008, the Debtors filed a modified Plan which incorporated, among other things, certain changes to the lump sum cash payment election available to the holders of allowed general unsecured claims (the Plan Modifications). On July 14, 2008, the Bankruptcy Court approved a supplement to the Disclosure Statement related to the Plan Modifications and authorized the re-solicitation of the holders of certain general unsecured claims. Prior to filing petitions for relief under chapter 11, the Debtors negotiated the terms of the Plan with and obtained the support of the Consenting Holders and subsequently received the support of the Creditors' Committee. This support is evidenced by the Plan Support Agreement (which has been amended from time to time, the PSA).

Table of Contents**AMPEX CORPORATION****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

All creditors entitled to vote on the Plan overwhelmingly voted in favor of the Plan. On July 31, 2008, the Bankruptcy Court entered an order confirming the Plan. The Debtors anticipate that all remaining conditions to consummation of the Plan will be able to be satisfied and that Ampex and its U.S. subsidiaries will emerge from chapter 11 within the next few months. However, there are a number of risks related to consummation of the Plan that could impact the Company's ability to continue as a going concern. See Risk Factors.

The overall purpose of the Plan is to provide for the restructuring of the Company's liabilities in a manner designed to maximize recovery to all stakeholders and to enhance the financial viability of the newly reorganized Ampex Corporation after it emerges from chapter 11 (Reorganized Ampex) by de-leveraging the Company, providing additional liquidity and arranging a long-term financing solution to future pension contributions that does not over-leverage the Company in future years. At June 30, 2008, the Company had outstanding debt totaling \$62.6 million, which consisted of \$7.1 million of 12% Senior Notes due August 15, 2008 (Senior Notes), and \$55.5 million of principal and interest outstanding on certain secured notes (the Hillside Notes) issued to Hillside Capital Incorporated (Hillside), a former affiliate of the Company. Under the terms of the Hillside Notes, \$4.7 million is due currently and another \$4.5 million of principal and interest is due at various times in 2008. Substantial debt service under the Hillside Notes is due in 2009 and beyond. As more fully explained in Note 13, the Hillside Notes were issued pursuant to the terms of a funding agreement by and between Hillside, the Company, and certain other parties, in connection with a settlement between the Company, Hillside and the PBGC whereby Hillside is jointly and severally obligated along with Ampex to make pension contributions under the Ampex and Media pension plans in the event that the Company is unable to make such payments. Pension contributions under these plans from 2008 through 2013 are estimated to total \$44 million.

Under the terms of the Plan, the Debtors and Hillside are agreeing to enter into a credit agreement (the Credit Agreement) which generally consists of three components: (1) obligations to satisfy existing secured debts; (2) new borrowings; and (3) any future obligations incurred in connection with Hillside's payment of required contributions or termination liability under the pension plans. Pursuant to the terms of the Plan and the PSA, Hillside will agree to accept the Debtors' obligation to repay \$10.5 million under the Credit Agreement in full and final satisfaction of its \$11 million secured claim against the Debtors on account of the Hillside Notes. The remaining \$0.5 million of Hillside's secured claim is contemplated to be gifted to the holders of existing common stock who do not object to the Plan. This gift will be distributed in the form of certain rights which are described below. In addition, under a separate tranche of the Credit Agreement, Hillside will lend the Company \$5 million to be used for general working capital purposes and to repay approximately \$3.5 million of the Senior Notes. Furthermore, if Hillside is required to fund future required contributions to the pension plans, Hillside will be deemed to have granted another new senior loan in the amount of such contribution. All three elements of this Credit Agreement (i.e., the \$10.5 million of debt in exchange for Hillside's secured claim, the \$5 million in new borrowings, and any amounts borrowed on account of the future required contributions or termination liability under the pension plans satisfied by Hillside) shall be equal to an aggregate amount not to exceed \$25 million outstanding under the Credit Agreement. Thereafter, the Debtors will issue to Hillside new preferred stock of Reorganized Ampex (the New Preferred Stock) in the amount of each required contribution made by Hillside to the pension plans. At the time of Plan confirmation, Hillside has already made the April and July contributions. The loans under the Credit Agreement will bear interest at 10% per annum. The balance of amounts outstanding under the Credit Agreement will be repayable, under various terms of the Credit Agreement, in annual installments ranging from \$2.9 million to \$5.0 million beginning in September 2010. The holders of the Senior Notes will receive amended senior notes in the amount of the outstanding portion of their claims held on account of the Senior Notes on the effective date of the Plan.

Under the Plan, it is contemplated that unsecured creditors, who include, but are not limited to, the Company's trade creditors, Hillside with respect to its unsecured claims, certain participants in our Supplemental Retirement Plans and holders of claims arising from environmental remediation obligations, will receive shares of new common stock in Reorganized Ampex (New Common Stock) or, creditors other than Hillside may receive at their option, cash that equals the greater of: (a) the cash equal to the percentage of recovery that such creditor would have received had there been no cash election, up to a maximum payment of \$5,000; or (b) 7% of the allowed amount of the unsecured claim (Lump Sum Cash Payment). Shares of New Common Stock are not expected to be registered or traded on any public exchange.

Table of Contents**AMPEX CORPORATION****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under the Plan, all of the Company's existing common stock, stock options and restricted stock awards will be cancelled upon emergence from chapter 11. Upon the Company's emergence from chapter 11 the New Common Stock will not be publicly traded. As a result of the Chapter 11 Cases, the existing Common Stock was suspended from trading on the Nasdaq Stock Market on May 8, 2008, and was delisted from Nasdaq on July 21, 2008. Holders of existing Common Stock, stock options or restricted stock awards will receive no distribution. Although holders of existing Common Stock will not receive any distributions on account of their interests, as a result of the compromises and settlements set forth in the Plan, holders of existing Common Stock (including restricted stock) that do not object to the Plan will be eligible to receive certain rights that provide for the pro rata distribution of net cash proceeds from new licensing and other monetization initiatives related to the Debtors' intellectual property after amounts required to retire all outstanding debt, preferred stock and scheduled pension contributions and other obligations are first recovered. Once net cash proceeds totaling approximately \$83.8 million have been received by the Reorganized Debtors, the holders of these rights will be entitled to receive their pro rata share of 50% of all subsequent net proceeds related to the Debtors' intellectual property as set forth above, net of expenses of administering those rights (the Contingent Payment Rights or CPRs). There can be no assurance that the Reorganized Debtors will be able to generate any future licensing revenue or other proceeds from other monetization initiatives or, if they do, whether they will attain sufficient levels required to provide for distributions to the holders of these rights. The Debtors do not believe that the CPRs will constitute securities; the CPRs will not be registered and will have limited rights of transferability.

Liabilities Subject to Compromise

Liabilities subject to compromise represent the liabilities of the Company incurred prior to March 30, 2008, except those that will not be impaired under the Plan. Liabilities subject to compromise consisted of the following (in thousands):

	June 30, 2008
12% Senior Notes due August 15, 2008	\$ 7,102
Hillside Notes	53,268
Notes payable - other, disputed NHI claim	15
Accounts payable	617
Environmental remediation obligations	765
Accrued interest on the Hillside Notes	2,281
Obligations under supplemental retirement plans	748
Current liabilities subject to compromise	\$ 64,796
Environmental remediation obligations	2,239
Obligations under supplemental retirement plans	6,001
Accrued expenses, disputed NHI claims	292
Accrued expenses, allowed NHI claims	33
Long-term liabilities subject to compromise	\$ 8,565

Interest expense

The Debtors have discontinued recording interest on liabilities subject to compromise during the chapter 11 proceedings, except for interest on the Senior Notes.

Note 4 Stock Options and Awards

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The Company's 1992 Stock Incentive Plan, as amended (the "Stock Incentive Plan"), for officers, employees, directors, consultants, advisors and service providers, provides for the granting of nonqualified stock options and incentive stock options to acquire Common Stock and/or the granting of stock appreciation rights to obtain, in shares of Common Stock, the benefit of the appreciation of the value of shares of Common Stock after the grant date.

The Company is authorized to issue up to 712,500 shares of Common Stock under the Stock Incentive Plan, of which 314,672 shares were available for grant as of June 30, 2008.

Table of Contents**AMPEX CORPORATION****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's 2000 Stock Bonus Plan (the "Stock Bonus Plan"), as amended, provides for the issuance of up to 125,000 shares of Class A Common Stock, par value \$0.01 per share, to directors, officers and employees as well as certain consultants and advisors to the Company and to its subsidiaries. Stock awards that are unvested at the time of grant are subject to vesting at such later date as specified in the terms of the particular award.

On February 16, 2007, the Board of Directors elected D. Gordon Strickland as the Company's Chief Executive Officer, President and a director, and pursuant to an employment agreement granted to Mr. Strickland stock options under the Company's Stock Incentive Plan to purchase 25,000 shares of Common Stock. The options are exercisable at \$19.63 per share, which was the fair market value on the date of grant. The options are exercisable as to 12,500 of the underlying shares on each of February 16, 2008 and February 16, 2009 and will expire as to all such shares on February 16, 2010. No stock options were granted during the six month period ended June 30, 2008.

At June 30, 2008, there were 32,953 options outstanding under the Stock Incentive Plan, including 20,453 vested options. The exercise prices range from \$19.63 to \$21.25 per share and vesting schedules vary from a one to two year period. The contractual term of stock options is three years or ten years. In the six months ended June 30, 2008, 12,500 stock options vested during the period. No stock options vested during the six months ended June 30, 2007.

	Shares Available for Grant	Number of Options	Price per Share	Aggregate Exercise Price	Weighted Average Exercise Price
Balances, December 31, 2006	311,292	106,366	\$ 1.15- 38.25	\$ 1,328,614	\$ 12.49
Granted	(25,000)	25,000	19.63	490,750	\$ 19.63
Exercised		(70,033)	1.15	(80,538)	1.15
Cancellations	25,198	(25,198)	21.25- 38.25	(960,458)	38.12
Balances, June 30, 2007	311,490	36,135	\$ 19.63- 38.25	\$ 778,368	\$ 21.54

	Shares Available for Grant	Number of Options	Price per Share	Aggregate Exercise Price	Weighted Average Exercise Price
Balances, December 31, 2007	314,490	33,135	\$ 19.63- 21.25	\$ 663,618	\$ 20.03
Cancellations	182	(182)	21.25	(3,868)	21.25
Balances, June 30, 2008	314,672	32,953	\$ 19.63- 21.25	\$ 659,750	\$ 20.02

The options outstanding and currently exercisable by exercise price at June 30, 2008 are as follows:

Exercise Prices	Options Outstanding			Options Currently Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 19.63	25,000	1.64	\$ 19.63	12,500	\$ 19.63	

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\$ 21.25	7,953	0.36	21.25	7,953	21.25
	32,953	1.33	\$ 20.02	20,453	\$ 20.26

Table of Contents**AMPEX CORPORATION****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

There was no aggregate intrinsic value of options outstanding or options exercisable at June 30, 2008. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$0.31 as of June 30, 2008, and the exercise price multiplied by the number of options outstanding. The total intrinsic value of options exercised was \$1.2 million for the six-month period ended June 30, 2007. There were no stock options exercised in the six months ended June 30, 2008.

The fair values of options at the date of grant were estimated using the Black-Scholes model with the following weighted average assumptions:

	For the six months ended June 30,	
	2008	2007
Expected life (years)		2.0
Risk-free interest rate		4.86%
Expected volatility		83%
Expected dividend yield		

The weighted average assumptions used for restricted stock granted for the three and six-month periods ended June 30, 2008 and 2007 are set forth in the following table:

Three Months Ended