AMPEX CORP /DE/
Form 10-Q
August 13, 2004
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from______ to ______

Commission File No. 0-20292

AMPEX CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**13-3667696**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

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 x No ¨

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2004, the aggregate number of outstanding shares of our Class A Common Stock, $.01 par value, was 3,642,517. There were no outstanding shares of our Class C Common Stock, $0.01 par value.

Table of Contents

AMPEX CORPORATION

FORM 10-Q

Quarter Ended June 30, 2004

INDEX

Table of Contents

AMPEX CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	June 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,907	$ 14,023
Short-term investments	7,487	
Accounts receivable (net of allowances of $116 in 2004 and $137 in 2003)	3,645	4,513
Inventories	6,594	6,343
Other current assets	2,396	4,366
Total current assets	27,029	29,245
Property, plant and equipment	4,500	4,825
Other assets	956	1,127
Total assets	$ 32,485	$ 35,197
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable	$ 137	$ 146
Accounts payable	2,750	1,511
Net liabilities of discontinued operations	1,102	1,076
Accrued restructuring costs	1,300	1,300
Other accrued liabilities	16,866	23,956
Total current liabilities	22,155	27,989
Long-term debt	79,641	74,022
Other liabilities	65,253	63,802
Accrued restructuring costs	2,785	3,450
Net liabilities of discontinued operations	1,661	2,071
Total liabilities	171,495	171,334
Commitments and contingencies (Note 10)		
Mandatorily redeemable nonconvertible preferred stock, $1,000 liquidation value:		
Authorized: 69,970 shares in 2004 and in 2003		
Issued and outstanding - none in 2004 and in 2003		
Mandatorily redeemable preferred stock, $2,000 liquidation value:		
Authorized: 21,859 shares in 2004 and in 2003		
Issued and outstanding - none in 2004 and in 2003		
Convertible preferred stock, $2,000 liquidation value:		
Authorized: 10,000 shares in 2004 and in 2003		
Issued and outstanding - none in 2004 and in 2003		

Stockholders deficit:		
Preferred stock, $1.00 par value:		
Authorized: 898,171 shares in 2004 and in 2003		
Issued and outstanding - none in 2004 and in 2003		
Common stock, $.01 par value:		
Class A:		
Authorized: 175,000,000 shares in 2004 and in 2003		
Issued and outstanding -3,642,517 shares in 2004; 3,728,017 in 2003	36	37
Class C:		
Authorized: 50,000,000 shares in 2004 and in 2003		
Issued and outstanding - none in 2004 and in 2003		
Other additional capital	454,408	454,394
Accumulated deficit	(522,365)	(518,578)
Accumulated other comprehensive income	(71,089)	(71,990)
Total stockholders deficit	(139,010)	(136,137)
Total liabilities, redeemable preferred stock and stockholders deficit	$ 32,485	$ 35,197

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)

	For the Three Months Ended June 30, 2004	For the Three Months Ended June 30, 2003	For the Six Months Ended June 30, 2004	For the Six Months Ended June 30, 2003
	(unaudited)			
Licensing revenue	$ 1,441	$ 5,572	$ 3,102	$ 5,958
Product revenue	5,367	5,927	11,377	11,583
Service revenue	2,105	2,396	4,323	4,984
Total revenue	8,913	13,895	18,802	22,525
Intellectual property costs	2,139	346	2,942	591
Cost of product sales and service	4,497	4,276	8,540	8,492
Research, development and engineering	942	945	1,831	1,630
Selling and administrative	3,053	3,165	5,834	6,247
Total costs and operating expenses	10,631	8,732	19,147	16,960
Operating income (loss)	(1,718)	5,163	(345)	5,565
Interest expense	2,419	2,280	4,778	4,501
Amortization of debt financing costs	14	14	28	28
Interest income	(33)	(16)	(58)	(29)
Other (income) expense, net	(2)	23	4	33
Income (loss) before income taxes and equity in net gain of limited partnership	(4,116)	2,862	(5,097)	1,032
Provision for income taxes	81	573	248	675
Equity in net gain of limited partnership	(338)		(1,558)	
Net income (loss)	(3,859)	2,289	(3,787)	357
Benefit from extinguishment of mandatorily redeemable preferred stock		1,031		2,067
Net income (loss) applicable to common stockholders	(3,859)	3,320	(3,787)	2,424
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	46	3	44	13
Comprehensive income (loss)	$ (3,813)	$ 3,323	$ (3,743)	$ 2,437
Basic and diluted income (loss) per share :				
Income (loss) per share	$ (1.06)	$ 0.57	$ (1.03)	$ 0.00

Income (loss) per share applicable to common stockholders	$ (1.06)	$ 0.89	$ (1.03)	$ 0.46
Weighted average number of basic and diluted common shares outstanding	3,642,517	3,195,127	3,680,099	3,182,986

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

4

Table of Contents

AMPEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Six Months Ended	
	June 30, 2004	June 30, 2003
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ (3,787)	$ 357
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, amortization and warrant accretion	408	576
Accretion of interest expense	4,628	4,351
Equity in net gain of limited partnership	(1,558)	
Periodic pension cost	945	234
Net loss on disposal of assets	2	
Changes in operating assets and liabilities:		
Accounts receivable	836	(1,116)
Inventories	(251)	698
Other assets	3,671	(2,676)
Accounts payable	1,248	(29)
Other accrued liabilities and income taxes payable	(7,074)	486
Accrued restructuring costs	(665)	(695)
Other liabilities	1,461	347
Net cash provided by (used in) continuing operations	(136)	2,533
Net cash used in discontinued operations	(384)	(474)
Net cash provided by (used in) operating activities	(520)	2,059
Cash flows from investing activities:		
Purchases of short-term investments	(7,487)	
Deferred gain on sale of assets	(25)	(25)
Additions to property, plant and equipment	(61)	(9)
Net cash used in continuing operations	(7,573)	(34)
Net cash used in investing activities	(7,573)	(34)
Cash flows from financing activities:		
Borrowings under debt agreements	1,991	
Repayments under debt agreements	(1,009)	(159)
Debt repayment commitment reflected as restricted cash		(3,000)
Proceeds from foreclosure of shareholders notes	13	
Proceeds from issuance of common stock		145
Net cash provided by (used in) continuing operations	995	(3,014)

Net cash provided by (used in) financing activities	995	(3,014)
Effects of exchange rates on cash	(18)	(121)
Net decrease in cash and cash equivalents	(7,116)	(1,110)
Cash and cash equivalents, beginning of period	14,023	7,579
Cash and cash equivalents, end of period	$ 6,907	$ 6,469

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

Table of Contents

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 59-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 approximately 600 patents and patent applications covering digital image-processing, data compression and recording technologies. The Company, through its wholly-owned subsidiary, Ampex Data Systems Corporation (Data Systems), incorporates this technology in the design and manufacture 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 technology through its corporate licensing division that licenses Ampex patents to manufacturers of consumer electronics products.

On June 12, 2003, the Company effected a one-for-twenty reverse stock split of its Class A Common Stock. The number of outstanding shares was reduced from approximately 63.4 million to 3.2 million shares. Common share data and per share calculations for all prior periods included in the unaudited Consolidated Financial Statements and the Notes thereto have been restated to reflect the impact of the one-for-twenty reverse stock split.

Liquidity

The Company has incurred significant losses in recent years, primarily with respect to discontinued operations, and its liquidity has been affected accordingly. The Company has limited liquidity with which to conduct its operations. Cash and short-term investments totaled $14.4 million at June 30, 2004, substantially all of which was generated by Data Systems and is available to be reinvested in that business. Substantially all cash generated by the Company s licensing activities in excess of operating expenses and certain other expenses, including patent litigation costs, is required to be applied to reduce debt.

As previously reported, the Company has instituted litigation with the International Trade Commission (ITC) and in the U.S. District Court for the District of Delaware against certain manufacturers of digital still cameras and cellular phones equipped with digital image storage and retrieval capabilities for unauthorized use of the Company s intellectual property. The Company has spent substantial funds during the last six months in connection with these suits, and it will be required to spend substantial additional funds if these suits ultimately go to trial and are not resolved through negotiations. Furthermore, the Company may decide to enforce its patents by instituting additional litigation against other manufacturers of digital still cameras and other products where its technology is being used if licensing agreements are not completed in the near future. See Note 10.

The Company has recently restructured its senior debt to extend maturities and modify certain covenants that have improved the Company s liquidity. In addition, as discussed in Note 9, the Company has substantial pension contributions and pension related funding due in future periods that will require the Company to borrow additional funds from a related party, Hillside Capital Incorporated (Hillside), to meet these obligations. Our Management believes that the Company s liquidity, coupled with its ability to borrow pension contributions from Hillside, and our expectation that Hillside has the intent and ability to fund such pension contributions on our behalf, should be sufficient to satisfy the projected cash obligations through June 2005, but there can be no assurance in this regard.

In March 2004, the Company received consent from the holders of its senior debt securities (i) to extend the maturity date of its Senior Discount Notes from January 5, 2005 to January 5, 2006, (ii) to extend the measurement date from December 31, 2004 to December 31, 2006, by which the Company is required to generate at least $30 million of Available Cash Flow, as defined in the Senior Note indenture, and (iii) to defer scheduled principal repayments on its pension notes through December 31, 2006.

Table of Contents

AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s expectations as to its cash flows and future cash balances are based on a number of assumptions, including assumptions regarding anticipated revenues, customer purchasing and payment patterns, and improvements in general economic conditions and the ability to borrow significant pension contributions due in future years from Hillside, many of which are beyond the Company s control. If the Company experiences a decrease in demand for its products or anticipated licensing revenue, the Company may be required to further reduce expenditures, borrow additional funds, or seek to raise additional equity. There can be no assurance that the Company will be successful in these efforts, the failure of which may have a material adverse effect on the Company s ability to achieve its intended business objectives.

Note 2 Summary of Significant Accounting Policies

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, 2003 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, 2004 are not necessarily indicative of the results to be expected for the full year.

Note 3 Stock-Based Compensation

The Company accounts for stock-based awards to employees in accordance with APB No. 25 (APB 25), Accounting for Stock Issued to Employees, and has adopted the disclosure-only alternative of Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock Based Compensation.

The Company has elected to account for employee stock options using the intrinsic value method prescribed by APB 25, and therefore compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company s stock at the date of the grant over the amount an employee must pay to acquire the stock. Had compensation cost for the Company s stock-based compensation plan been determined based on the fair value on the grant dates for awards under those plans consistent with the method of SFAS 123, the Company s net income (loss) applicable to common stockholders and basic and diluted income (loss) per share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(in thousands, except per share amounts)			
Net income (loss):				
As reported	$ (3,859)	$ 2,289	$ (3,787)	$ 357
Less preferred dividend ascribed, but not declared		(472)		(357)
Compensation expense, net of tax	(51)	(5)	(52)	(14)
Pro forma	$ (3,910)	$ 1,812	$ (3,839)	$ (14)
Net income (loss) applicable to common stockholders:				
As reported	$ (3,859)	$ 3,320	$ (3,787)	$ 2,424
Less preferred dividend ascribed, but not declared		(472)		(966)
Compensation expense, net of tax	(51)	(5)	(52)	(14)
Pro forma	$ (3,910)	$ 2,843	$ (3,839)	$ 1,444
Basic and diluted income (loss) per share:				
Income (loss) per share, as reported	$ (1.06)	$ 0.57	$ (1.03)	$ 0.00
Income (loss) per share, pro forma	$ (1.07)	$ 0.57	$ (1.04)	$ 0.00
Income (loss) per share applicable to common stockholders, as reported	$ (1.06)	$ 0.89	$ (1.03)	$ 0.46
Income (loss) per share applicable to common stockholders, pro forma	$ (1.07)	$ 0.89	$ (1.04)	$ 0.45

Table of Contents

AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

These pro forma disclosures are not necessarily representative of the effects on reported net income (loss) and net income (loss) applicable to common stockholders for future years.

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

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Expected life (years)	1.0	1.0	1.0	1.0
Risk-free interest rate	1.18%	1.27%	1.18%	1.27%
Expected volatility	247%	319%	247%	319%
Expected dividend yield				

Note 4 Recent Pronouncements

In December 2003, the FASB issued additional guidance clarifying the provisions of FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB No.51, or FIN 46-R. FIN 46-R provides a deferral of FIN 46 for certain entities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company does not have any interests in variable interest entities and the adoption of FIN 46-R is not expected to have a material impact on the Company s financial position, cash flows or results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 (SFAS 150), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has adopted SFAS 150 effective June 15, 2003. The adoption of SFAS 150 had no impact on the Company s financial position, cash flows or results of operations.

In March 2004, the FASB approved EITF Issue 03-6, Participating Securities and the Two-Class Method under FAS 128. EITF Issue 03-6 supersedes the guidance in Topic No. D-95, Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share and requires the use of the two-class method of participating securities. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In addition, EITF Issue 03-6 addresses other forms of participating securities, including options, warrants, forwards and other contracts to issue an entity s common stock, with the exception of stock-based compensation (unvested options and restricted stock) subject to the provisions of Opinion No. 25 and FASB No. 123. EITF Issue 03-6 is effective for reporting periods beginning after March

31, 2004 and should be applied by restating previously reported earnings per share. The Company has adopted EITF Issue 03-6 and has restated previously reported earnings per share for the effect of this pronouncement.

At its March 2004 meeting, the EITF reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115 and investments accounted for under the cost method or the equity method. The recognition and measurement guidance for which the consensus was reached in the March 2004 meeting is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. The Company does not believe that this consensus on the recognition and measurement guidance will have an impact on its consolidated results of operations.

Table of Contents

AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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):

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Numerator				
Net income (loss)	$ (3,859)	$ 2,289	$ (3,787)	$ 357
Less preferred dividends ascribed, but not declared		(472)		(357)
Undistributed net income (loss)	$ (3,859)	$ 1,817	$ (3,787)	$ -
Net income (loss) applicable to common stockholders	$ (3,859)	$ 3,320	$ (3,787)	$ 2,424
Less preferred dividends ascribed, but not declared		(472)		(966)
Undistributed net income (loss) applicable to common stockholders	$ (3,859)	$ 2,848	$ (3,787)	$ 1,458
Denominator				
Weighted average common stock outstanding	3,643	3,195	3,680	3,183
Basic and diluted income (loss) per share	$ (1.06)	$ 0.57	$ (1.03)	$ 0.00
Basic and diluted income (loss) per share applicable to common stockholders	$ (1.06)	$ 0.89	$ (1.03)	$ 0.46

The basic income (loss) per share and basic income (loss) per share applicable to common stockholders are calculated by deducting dividends ascribed to preferred stockholders of 8% per annum, to the extent that income is available, even though preferred stock dividends have not been declared pursuant to the two-class method. Diluted income (loss) per share and diluted income (loss) per share applicable to common stockholders is computed using the as if converted method if such method results in additional dilution.

In the six months ended June 30, 2003, the Company issued 42,960 shares of Common Stock to redeem 1,074 shares of Redeemable Preferred Stock. Such shares of common stock are included in the weighted average common stock outstanding from the dates of exchange. As of October 30, 2003, the Company redeemed all of its outstanding shares of 8% Noncumulative Redeemable Preferred Stock by issuing shares of its Class A Common Stock. Accordingly, the Company issued 450,600 shares of Class A Common Stock. Such shares of common stock are included in the weighted average common stock outstanding from the dates of exchange.

Stock options to purchase 232,773 shares of Common Stock at prices ranging from $1.15 to $72.50 per share were outstanding at June 30, 2004, but were not included in the computation of diluted loss per share because they are anti-dilutive.

Stock options to purchase 79,226 shares of Common Stock at prices ranging from $2.40 to $97.50 per share were outstanding at June 30, 2003, but were not included in the computation of diluted loss per share because they are anti-dilutive.

Table of Contents

AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 - Supplemental Schedule of Cash Flow Information

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	(in thousands)	
Interest paid	$ 1,120	$ 113
Income taxes paid	996	64
Preferred stock (redemptions)		(1,074)

Income taxes paid in the six months ended June 30, 2004 includes $0.8 million representing payment to the California Franchise Tax Board to settle income tax and interest assessed for the period 1983 to 1985.

Note 7 - Inventories

	June 30, 2004	December 31, 2003
	(in thousands)	
Raw materials	$ 2,914	$ 1,785
Work in process	2,578	3,327
Finished goods	1,102	1,231
Total	$ 6,594	$ 6,343

Note 8 - Other Accrued Liabilities

	June 30, 2004	December 31, 2003

	(in thousands)	
Compensation and employee benefit	$ 1,945	$ 2,087
Pension	8,796	10,841
Accrued pension contributions for Media Plan	1,762	2,953
Deferred revenue and customer deposits	2,795	5,236
Taxes	97	1,136
Warranty and other product costs	615	641
Interest payable	288	259
Other	468	703
Environmental	100	100
Total	$ 16,866	$