AMPEX CORP /DE/
Form 10-Q/A
April 20, 2005
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(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.

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Explanatory Note

Restatement of Financial Statements for Correction of Error in Accounting for the Media Pension Plan

This Amendment No. 1 to Ampex Corporation s Quarterly Report on Form 10-Q/A for the quarterly period ended June 30, 2004, includes restated unaudited consolidated financial statements as of June 30, 2004 and December 31, 2003 and for the three and six months ended June 30, 2004 and 2003 to correct the accounting for our obligations under a pension plan of our former magnetic tape manufacturing subsidiary (Media) which we disposed of in 1995.

The agreement for the sale of Media required the buyer, Quantegy Corporation, to pay directly or to reimburse Ampex for required contributions to the Media pension plan. However, we remained the Plan Sponsor of the Media pension plan and remained obligated to make pension contributions to that Plan.

We had accounted for our obligations under the Media pension plan under SFAS No. 5, Accounting for Contingencies since the sale of Media in 1995. However, as a result of communications with the Office of the Chief Accountant of the Securities and Exchange Commission (the SEC), we now believe that we should have accounted for these obligations under the provisions of SFAS No. 87, Employers Accounting for Pensions.

In connection with the restatement of the Company s consolidated financial statements for the year ended December 31, 2003, the Company and the Audit Committee determined that its pension accounting constitutes a material weakness.

As a result of the foregoing, the Company has restated its consolidated balance sheets at December 31, 2003 and 2002, and consolidated statements of operations and comprehensive income (loss), cash flows, and stockholders deficit for the three years within the period ending December 31, 2003, including the corresponding 2003 and 2002 unaudited interim periods, and the unaudited quarterly periods ended March 31, 2004, June 30, 2004 and September 30, 2004. The restatement affects periods prior to 2001. The impact of the restatement on such prior periods is reflected as an adjustment to accumulated deficit, other accrued liabilities, other liabilities and minimum pension liability adjustment within Accumulated Other Comprehensive Income as of January 1, 2001. The effect of the restatement on net income (loss) and diluted earnings (loss) per share is set forth in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations in Part I of this Form 10-Q/A.

Note 1, Restatement of Previously Issued Financial Statements, discloses the nature of the restatement adjustments and shows the impact of the restatement adjustments on income (loss) and net income (loss) applicable to common stockholders and related diluted income (loss) per share amounts for each of the periods ended June 30, 2004 and 2003. In addition, Note 1 to the restated unaudited consolidated financial statements shows the effects of the adjustment on total liabilities, the accumulated deficit and total stockholders deficit as of June 30, 2004 and December 31, 2003. The impact of the restatement adjustments affecting periods prior to 2001 has been reflected in adjusted stockholders deficit as of January 1, 2001. For information on the impact of the restatement on the years 2000 and 1999, reference is made to Item 6, Selected Financial Data, in Part II of the 2003 Form 10-K/A.

For a discussion of the Company s accounting for its obligations under SFAS No. 87, Employers Accounting for Pensions, see Note 16 to the restated consolidated financial statements accompanying the 2003 Form 10K/A. Other notes to the unaudited consolidated financial statements of this Form 10Q/A affected by the restatement have also been revised.

This Form 10-Q/A amends and restates Item 1, 2 and 4 of Part I of the original Form 10-Q, and no other information included in the original Form 10-Q is amended hereby. The explanatory caption at the beginning of each of these revised items of this Form 10-Q/A sets forth the nature of the revisions.

The Company did not amend its Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for periods affected by the restatement that ended prior to December 31, 2002, and the financial statements and related financial information contained in such reports should no longer be relied upon and are superceded by the

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information in this Form 10-Q/A. The Company did not amend its Quarterly Reports on Form 10-Q for periods affected by the restatement for the year ended December 31, 2003, and the financial statements and related financial information contained in such reports should no longer be relied upon and are superceded by the information in this Form 10-Q/A.

For a discussion of events and developments subsequent to June 30, 2004, see the Company s Quarterly Reports on Form 10-Q/A for the quarterly period ended September 30, 2004, which have been restated and are being filed concurrently with this Form 10-Q/A.

This Amendment does not reflect events that have occurred after the August 13, 2004 filing date of the Form 10-Q that was originally filed, or modify or update the disclosures presented in the original Form 10-Q, except to reflect the corrections described above. Information with respect to those events has been or will be set forth, as appropriate, in the Company s subsequent periodic filings, including its Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any reference to facts and circumstances at a current date refer to such facts and circumstances as of such original filing date.

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AMPEX CORPORATION

FORM 10-Q/A

Quarter Ended June 30, 2004

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AMPEX CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	June 30, 2004	December 31, 2003
	Restated	**Restated**
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	17,754	24,844
Total current liabilities	23,043	28,877
Long-term debt	79,641	74,022
Other liabilities	75,568	74,561
Accrued restructuring costs	2,785	3,450
Net liabilities of discontinued operations	1,661	2,071
Total liabilities	182,698	182,881
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	(514,472)	(510,042)
Accumulated other comprehensive loss	(90,185)	(92,173)
Total stockholders deficit	(150,213)	(147,784)
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.

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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 June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
	Restated	Restated	Restated	Restated
	(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
Media pension expense	322	327	643	654
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	(4,438)	2,535	(5,740)	378
Provision for income taxes	81	573	248	675
Equity in net gain of limited partnership	(338)		(1,558)	
Net income (loss)	(4,181)	1,962	(4,430)	(297)
Benefit from extinguishment of mandatorily redeemable preferred stock		1,031		2,067
Net income (loss) applicable to common stockholders	(4,181)	2,993	(4,430)	1,770
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	46	3	44	13
Comprehensive income (loss)	$ (4,135)	$ 2,996	$ (4,386)	$ 1,783
Basic and diluted income (loss) per share :				
Income (loss) per share	$ (1.15)	$ 0.47	$ (1.20)	$ (0.09)

Income (loss) per share applicable to common stockholders	$ (1.15)	$ 0.79	$ (1.20)	$ 0.25
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.

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AMPEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Six Months Ended	
	June 30, 2004	June 30, 2003
	Restated	Restated
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (4,430)	$ (297)
Adjustments to reconcile net 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	1,588	888
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.

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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 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.

Restatement of Previously Issued Financial Statements

The Company has restated its financial statements in this Form 10-Q/A as of June 30, 2004 and December 31, 2003 and for the three and six month periods ended June 30, 2004 and 2003 to correct the accounting for its obligations under a pension plan of its former magnetic tape manufacturing subsidiary (Media) which it disposed of in 1995.

The agreement for the sale of Media required the buyer, Quantegy Corporation, to pay directly or to reimburse Ampex for required contributions to the Media pension plan. However, Ampex remained the Plan Sponsor of the Media pension plan and remained obligated to make pension contributions to that Plan.

The Company did not amend its Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for periods affected by the restatement that ended prior to December 31, 2002, and the financial statements and related financial information contained in such reports should no longer be relied upon and are superceded by the information in this Form 10-Q/A. The Company did not amend its Quarterly Reports on Form 10-Q for periods affected by the restatement for the year ended December 31, 2003, and the financial statements and related financial information contained in such reports should no longer be relied upon and are superceded by the information in this Form 10-Q/A.

The Company had accounted for its obligations under the Media pension plan under SFAS No. 5, Accounting for Contingencies since the sale of Media in 1995. However, as a result of communications with the Office of the Chief Accountant of the Securities and Exchange Commission (the SEC), the Company now believes that it should have accounted for these obligations under the provisions of SFAS No. 87, Employers Accounting for Pensions. In connection with the restatement of the Company s consolidated financial statements for the year ended December 31, 2003, the Company and the Audit Committee determined that its pension accounting constitutes a material weakness. The effects of the restatement are shown below:

Effect on Consolidated Statements of Operations and Comprehensive Income (Loss)

	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
As restated	$ (4,181)	$ 1,962	$ (4,430)	$ (297)
Net income (loss) applicable to common stockholders:				
As reported	$ (3,859)	$ 3,320	$ (3,787)	$ 2,424
As restated	$ (4,181)	$ 2,993	$ (4,430)	$ 1,770
Diluted income (loss) per share:				
Income (loss) per share				
As reported	$ (1.06)	$ 0.57	$ (1.03)	$ (0.00)
As restated	$ (1.15)	$ 0.47	$ (1.20)	$ (0.09)
Income (loss) per share applicable to common stockholders				
As reported	$ (1.06)	$ 0.89	$ (1.03)	$ 0.46
As restated	$ (1.15)	$ 0.79	$ (1.20)	$ 0.25

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effect on Consolidated Balance Sheets

	June 30, 2004	December 31, 2003
	(in thousands)	
Total liabilities:		
As reported	$ 171,495	$ 171,334
As restated	$ 182,698	$ 182,981
Accumulated deficit:		
As reported	$ (522,365)	$ (518,578)
As restated	$ (514,472)	$ (510,042)
Stockholders deficit:		
As reported	$ (139,010)	$ (136,137)
As restated	$ (150,213)	$ (147,784)

Common Stock

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.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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/A 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, as restated

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.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 restated	$ (4,181)	$ 1,962	$ (4,430)	$ (297)
Less preferred dividend ascribed, but not declared		(472)		
Compensation expense, net of tax	(51)	(5)	(52)	(14)
Pro forma	$ (4,232)	$ 1,485	$ (4,482)	$ (311)
Net income (loss) applicable to common stockholders:				
As restated	$ (4,181)	$ 2,993	$ (4,430)	$ 1,770
Less preferred dividend ascribed, but not declared		(472)		(966)
Compensation expense, net of tax	(51)	(5)	(52)	(14)
Pro forma	$ (4,232)	$ 2,516	$ (4,482)	$ 790
Basic and diluted income (loss) per share:				
Income (loss) per share, as restated	$ (1.15)	$ 0.47	$ (1.20)	$ (0.09)
Income (loss) per share, pro forma	$ (1.16)	$ 0.46	$ (1.22)	$ (0.10)
Income (loss) per share applicable to common stockholders, as restated	$ (1.15)	$ 0.79	$ (1.20)	$ 0.25
Income (loss) per share applicable to common stockholders, pro forma	$ (1.16)	$ 0.79	$ (1.22)	$ 0.25

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 value 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				

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This statement requires that the above items be recognized as current-period charges, regardless of whether they meet the criterion of abnormal. Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Company does not expect SFAS No. 151 to have a material impact on its financial condition or results of operations.

In December 2004, the FASB issued Statement No. 123R, Share-Based Payment, which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS No. 123R is effective for all interim periods beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 123R on its financial position and results of operations as well as alternative transition methods under SFAS No. 123R. In addition, the Company has not determined whether the adoption of SFAS No. 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123. See Stock-Based Compensation in Note 2 to Consolidated Financial Statements for information related to the pro

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

forma effects on its net income (loss) and basic and diluted income (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

In December 2004, the FASB issued two Staff Positions (FSPs) that provide accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 (the Act) that was signed into law on October 22, 2004. The Act could affect how companies report their deferred income tax balances. The first FSP is FSP FAS 109-1 (FSP 109-1); the second is FSP FAS 109-2 (FSP 109-2). In FSP 109-1, the FASB concludes that the tax relief (special tax deduction for domestic manufacturing) from the Act should be accounted for as a special deduction instead of a tax rate reduction. FSP 109-2 gives a company additional time to evaluate the effects of the Act on any plan for reinvestment of repatriation of foreign earnings for purposes of applying SFAS No. 109, Accounting for Income Taxes. However, a company must provide certain disclosures if it chooses to utilize the additional time granted by the FASB. The Company is evaluating the impact, if any, these FSPs may have on its consolidated financial statements.

Note 5 - Computation of Basic and Diluted Income (Loss) per Share, as restated

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), as restated	$ (4,181)	$ 1,962	$ (4,430)	$ (297)
Less preferred dividends ascribed, but not declared		(472)		
Undistributed net income (loss)	$ (4,181)	$ 1,490	$ (4,430)	$ (297)
Net income (loss) applicable to common stockholders, as restated	$ (4,181)	$ 2,993	$ (4,430)	$ 1,770
Less preferred dividends ascribed, but not declared		(472)		(966)
Undistributed net income (loss) applicable to common stockholders	$ (4,181)	$ 2,521	$ (4,430)	$ 804
Denominator				
Weighted average common stock outstanding	3,643	3,195	3,680	3,183
Basic and diluted income (loss) per share, as restated	$ (1.15)	$ 0.47	$ (1.20)	$ (0.09)
Basic and diluted income (loss) per share applicable to common stockholders, as restated	$ (1.15)	$ 0.79	$ (1.20)	$ 0.25

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.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Note 6 - Supplemental Schedule of Cash Flow Information

	Six Months Ended June 30,	
	2004	**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 and Other Liabilities, as restated

	June 30, 2004	December 31, 2003
	Restated	Restated
	(in thousands)	
Compensation and employee benefit	$ 1,945	$ 2,087
Pension	8,796	10,841
Accrued pension costs for Media Plan	2,650	3,841
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 Other Accrued Liabilities	$ 17,754	$ 24,844

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	June 30, 2004	December 31, 2003
	Restated	Restated
	(in thousands)	
Pension	$ 57,667	$ 57,281
Accrued pension costs for Media Plan	15,936	15,302
Reserve for tax liabilities	1,150	1,150
Other postemployment benefits	219	226
Environmental	289	295
Other	307	307
Total Other Liabilities	$ 75,568	$ 74,561

It is anticipated that pension contributions due in the next twelve months under the Company s defined benefit plan and the Media defined benefit plan totaling $10.6 million will be funded by Hillside, in which case the Company would issue notes to Hillside in an equivalent amount. See Note 10.

Note 9 - Debt

	June 30, 2004	December 31, 2003
	(in thousands)	
Notes Payable		
Note payable - other	$ 137	$ 146
Total	$ 137	$ 146
Long-term Debt		
Senior discount notes	$ 9,725	$ 9,757
Hillside notes payable	5,250	3,259
Senior notes	64,666	61,006
Total	$ 79,641	$ 74,022

Note Payable Other

The note is a non-interest-bearing demand promissory note held by NH Holding Incorporated. The outstanding balance at June 30, 2004 of $0.1 million is expected to be paid or converted into shares of Common Stock.

Hillside Notes

In 1994, the Company, the Pension Benefit Guaranty Corporation (the PBGC) and certain affiliates, including 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 and/or Media are unable to do so. At the Company s request, Hillside has made pension contributions totaling $6.0 million through June 30, 2004. The Company has issued notes to Hillside in the amount of the pension contributions. The Company anticipates that, due to our senior debt agreements, Hillside will be required to fund future contributions. In this event, the Company will issue additional Notes to Hillside. Under the terms of the Notes, $150,000 is due on the first anniversary of the Notes with the remainder due on the fourth anniversary of the Notes. Pursuant to amendments to the senior debt agreements, all principal payments on the Hillside Notes will be deferred until after December 31, 2006 with earlier repayment in the event that the Senior Discount Notes and Senior Notes have been repaid in full. The Hillside Notes provide for interest paid quarterly at 1 percent plus 175% of the applicable mid-term Federal rate (effective rate of 7.68% at June 30, 2004). The Company granted to Hillside a security interest in Data Systems inventory and other assets as

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

collateral for advances, which it is required to make 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 acceleration of the Company s potential termination liabilities.

Senior Notes and Senior Discount Notes

In the first quarter of 2004, the Company restructured its outstanding 12% Senior Notes and Data Systems 20% Senior Discount Notes. The Senior Notes were exchanged for new 12% Senior Notes due 2008 and the due date of the Senior Discount Notes was extended from January 5, 2005 to January 5, 2006. 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, and proceeds of certain potential asset sales less certain debt and specified operating expenses and a working capital reserve of up to $2.5 million. The Company is required to generate a minimum of $30 million of Available Cash Flow during the three years ending December 31, 2006 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 received by the Company, and unpaid accrued interest is payable through the issuance of additional Notes or capitalized. From March 2002 to June 2004, Available Cash Flow totaled $5.0 million. For the six months ended June 30, 2004, interest incurred on the Senior Discount Notes and Senior Notes totaled $4.6 million. A cash payment in March 2004 of $1.0 million was applied against accrued interest on the Senior Discount Notes. For the six months ended June 30, 2003, interest incurred on the Senior Discount Notes and Senior Notes totaled $4.4 million. No cash payments were made on the Senior Notes during this period. Additional Senior Notes in the amount of $3.7 million, representing accrued interest for the period February 16, 2004 to August 15, 2004, will be issued in August 2004. Additional Senior Notes in the amount of $3.5 million, representing accrued interest for the period August 16, 2003 to February 15, 2004, were issued in February 2004. Additional Senior Notes in the amount of $3.1 million, representing accrued interest for the period August 16, 2002 to February 15, 2003, were issued in February 2003. The security interest in royalty payments granted to the new 12% Senior Noteholders is subordinated to the security interest held by the Senior Discount Noteholders and no cash payments on the 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.

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 its 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 10 - Commitments and Contingencies, as restated

Legal Proceedings

As more fully discussed in Note 1, the Company has instituted litigation against Sanyo Electric Company Ltd. (Sanyo) and separately against Sony Corporation for unauthorized use of its patents in digital still cameras and cell phones equipped with digital image storage and retrieval capabilities. Based on progress in subsequent negotiations, the Company has withdrawn its ITC complaint against Sanyo and will seek dismissal without prejudice, after a settlement agreement is executed, of the parallel lawsuit in the U.S. District Court. Also, 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. Exclusive of possible consequences of patent litigation, 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.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Guarantees

The Company, as permitted under Delaware law and in accordance with its Bylaws, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while they were serving at its request in such capacity. The maximum amount of potential future indemnification is unlimited; however, the Company has a Director and Officer Insurance Policy that enables the Company to recover a portion of any future amounts paid. As a result of the insurance policy coverage, the Company believes the fair value of these indemnification agreements is minimal.

The Company s sales agreements indemnify its customers for any expenses or liability resulting from claimed infringements of patents, trademarks or copyrights of third parties. The terms of these indemnification agreements are generally perpetual any time after execution of the agreement. The maximum amount of potential future indemnification is unlimited. However, to date, the Company has not paid any claims or been required to defend any lawsuits with respect to any claim.

The Company has guaranteed certain lease payments with respect to equipment and real estate of subsidiaries. The Company has recorded a liability for substantially the full amount of its guarantee, net of the anticipated sublease income expected to be realized. If no sublease income is realized, the Company s additional unreserved exposure would be $2.1 million.

The Company is the plan sponsor and is liable to provide funding for plan benefits under a pension plan of a former affiliate, Media, which was sold in 1995. Presently the unfunded accumulated benefit liability is $19.1 million and such amount has been reflected in total liabilities on the balance sheet at December 31, 2003. During 2003, the Company and Media entered into the Retirement Plan Funding and Settlement Agreement, which provides for monthly payments of $74,000 by Media to Ampex in settlement of future pension contributions that may be required under the Media Plan that would be funded by Ampex. Direct pension contributions or reimbursements to Ampex by Media are recognized as an offset to pension cost in the period received.

Note 11 - Preferred Stock

Beginning in June 1999, the Company became obligated to redeem the Redeemable Preferred Stock in quarterly installments. For the six months ended June 30, 2003, the Company issued 42,960 shares of its Common Stock to satisfy the quarterly redemption requirements. On October 2, 2003, the Company redeemed all remaining Redeemable Preferred Stock. The Company recognized a benefit from extinguishment of preferred stock to the extent that the face amount of the preferred stock redeemed exceeded the market price of the common stock issued.

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Related Party Transactions

Equity Investment:

In the third quarter of 2003, the Company s unrestricted investment subsidiary invested $1 million to acquire a 21.6% interest in a limited partnership that was formed to purchase shares of 4imprint Group plc, a publicly-held British promotional products company. The partnership acquired 5,141,499 shares of the products company. Ampex s CEO, Edward Bramson, controls HIP-IV Incorporated, the general partner of the partnership which owns a 0.2% interest, and he owns a 0.7% limited partnership interest in the partnership. Ampex s CFO, Craig McKibben, is an officer of the general partner and he purchased a 7.5% limited partnership interest in the partnership with his personal funds. Mr. Bramson also acquired 2,500,000 shares of the products company with his personal funds in concert with the limited partnership. The Company s effective cost of acquiring its pro rata share of the products company ($0.82 per share) was the same average price paid by Mr. Bramson. The Board of Directors of the Company determined that the terms of the Company s investment in the partnership were at least as favorable as the terms afforded to Messrs. Bramson and McKibben and other unrelated investors. Mr. Bramson had served as the temporary, non-executive Chairman of the Board of the products company until July 2004 at which time the Board elected a new executive chairman. Mr. Bramson has assigned to Ampex all compensation he may receive as a non-executive board member. In addition, the general partner may receive certain management fees from the partnership, but has assigned those fees to Ampex. Neither Messrs. Bramson nor McKibben received any compensation from the partnership.

The Company uses the equity method of accounting for its interest in the limited partnership. At June 30, 2004, the investment included in the caption Other Assets on the Consolidated Balance Sheets totaled $0.3 million.

The limited partnership has accounted for its interest in the products company using the equity method of accounting. In the six months ended June 30, 2004, the partnership reported a net gain of $6.0 million, which included a net gain of $5.8 million from the March 29, 2004 sale of 3,209,442 shares of the products company at $2.43 per share. Proceeds from the sale of such shares were received by the partnership and distributed to its partners, including Ampex and Messrs. Bramson and McKibben, in April 2004. The Company s pro rata share of such proceeds totaled $1.7 million and it realized a net gain of $1.2 million from the sale of shares which is included in Equity in Net Gain of Limited Partnership in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the six months ended June 30, 2004. In addition, the general partner realized incentive fees of $0.2 million from other investors on the distribution of profits from the Company s investment partnership, which have been assigned to the Company and netted against Selling and Administrative Expenses. At June 30, 2004, total assets of the partnership consisted principally of 1.9 million shares of the products company, which had a carrying value of $1.6 million and a fair market value of $4.6 million.

The following table provides summarized financial information on a 100% basis for the limited partnership accounted for under the equity method as of June 30, 2004 and for the six months then ended (in thousands):

Balance Sheet Data:

Total assets	$ 1,612
Total liabilities	$ 11
Total partners capital	$ 1,601

Earnings Data:

Income from operations	$ 40
Equity in net income of products company	$ 213
Gain on sale of stock of products company	$ 5,772
Net gain	$ 6,025

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AMPEX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On July 19, 2004, the partnership distributed 1,900,000 shares of the products company with a fair market value of $2.68 per share, on a pro rata basis to all of its investors. These shares represented substantially all remaining assets of the partnership. The Company s pro rata share of the distribution consisted of 410,438 shares, which had a fair market value of $1.1 million. The Company also received 174,990 shares with the same fair market value from the general partner, representing incentive fees earned from other investors on the July 19, 2004 distribution, totaling $0.5 million. Assuming that no further distributions will be made, Ampex has received total distributions of $3.6 million on its original $1 million investment, which includes incentive fees assigned by the general partner of $0.7 million.

Capital Transaction:

In 1995, 1996 and 1997, the Company sold shares of its Class A Common Stock to First Jeffson Corporation (FJC) and to Second Jeffson Corporation (SJC), affiliated corporations controlled by Edward Bramson, the Chairman and Chief Executive Officer of Ampex Corporation. The purchase price was paid part in cash and part with promissory notes. The notes were collateralized by a pledge of shares of Class A Common Stock that were purchased. For several years, the market value of the pledged shares was substantially less than the principal amount of the notes. In 2002, FJC advised the Company that there could be no assurance that it would be able to obtain additional funds from Mr. Bramson or others to make future payments of interest or principal on the notes. During 2003, FJC failed to make scheduled interest payments amounting to $205,953 on outstanding notes aggregating $2,794,050 that were to mature in January 2005 and October 2007. Accordingly, in March 2004, after reviewing the matter with legal advisors, Ampex foreclosed on these notes and caused the 85,000 pledged shares, which had a fair market value of $153,000, to be registered in the Company s name. In connection with the foreclosure transaction, FJC also transferred to the Company 500 additional shares of Class A Common Stock and $12,600 in cash, which represented substantially all of FJC s other assets. The foreclosure action did not affect the Company s net assets or results of operations, exclusive of tax benefits that may be realized in future years. The Company has cancelled the shares received from FJC and has excluded them from shares outstanding at June 30, 2004. Interest and principal paid by FJC on the notes in prior years totaling $2.4 million will be retained by Ampex.

Note 13 - Accumulated Other Comprehensive Income, as restated

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

	Minimum Pension Liability Restated	Foreign Currency Items	Accumulated Other Income Restated
		(in thousands)	
December 31, 2003, as restated	$ (92,899)	$ 726	$ (92,173)
Current period change	2,032	(44)	1,988
June 30, 2004, as restated	$ (90,867)	$ 682	$ (90,185)

The net periodic pension cost for the Ampex and Media pension plan for the six months ended June 30, 2004 is reflected as the current period change in minimum pension liability. The net periodic pension cost for 2004, which is charged to the Consolidated Statements of Operations and Comprehensive Income (Loss) ratably over the year to Selling and administrative expenses for the Ampex pension plan and to Media pension expense for the Media pension plan, was determined by the Company s actuary.

Note 14 - Income Taxes

As at December 31, 2003, the Company had net operating loss carryforwards for income tax purposes of $200 million expiring in the years 2005 through 2023. Accordingly, the Company has the ability to shelter a substantial amount of future taxable income, including future licensing revenue, if any is ultimately realized. Effective July 1, 2004 a new US/Japanese tax treaty eliminated withholding tax on royalty payments. Prior to July 1, 2004, the Company s licensing revenue was subject to foreign tax withholding of up to 10% of licensing revenue.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15 - Segment Reporting, as restated

The Company has two operating segments: high-performance mass data storage systems, instrumentation recorders and professional video recorders (Recorders) and 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 and equity in net gain of limited partnership excluding goodwill amortization and restructuring charges.

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

	Six Months Ended June 30, 2004 (in thousands)			
	Recorders	Licensing of Intellectual Property	Eliminations and Corporate	Totals
			Restated	Restated
Revenues from external customers	$ 15,700	$ 3,102	$	$ 18,802
Interest income	42		16	58
Interest expense	967		3,811	4,778
Depreciation, amortization and accretion	211		197	408
Segment income (loss), as restated	1,879	160	(7,779)	(5,740)
Segment assets	28,043		4,442	32,485
Expenditures for segment assets	54		7	61

	Six Months Ended June 30, 2003 (in thousands)			
	Recorders	Licensing of Intellectual	Eliminations and	Totals

		Property	Corporate	
			Restated	Restated
Revenues from external customers	$ 16,567	$ 5,958	$	$ 22,525
Interest income	25		4	29
Interest expense	1,195		3,306	4,501
Depreciation, amortization and accretion	287		289	576
Segment income (loss), as restated	2,231	5,367	(7,220)	378
Segment assets	26,913		6,966	33,879
Expenditures for segment assets	2		7	9

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Forward-Looking Statements

This Form 10-Q/A 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/A, READERS ARE URGED TO READ CAREFULLY ALL SUCH CAUTIONARY STATEMENTS.

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

This item 2 has been restated to correct the accounting for our obligations under the Media pension plan in accordance with SFAS No. 87, Employers Accounting for Pensions.

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/A for the year ended December 31, 2003, as filed with the Securities and Exchange Commission (the 2003 Form 10-K/A).

Restatement of Previously Issued Financial Statements

We have restated our financial statements in this Form 10-Q/A as of June 30, 2004 and December 31, 2003 and for the three and six month periods ended June 30, 2004 and 2003 to correct our accounting for the our obligations under a pension plan of our former magnetic tape manufacturing subsidiary (Media) which we disposed of in 1995.

The agreement for the sale of Media required the buyer, Quantegy Corporation, to pay directly or to reimburse Ampex for required contributions to the Media pension plan. However, we remained the Plan Sponsor of the Media pension plan and remained obligated to make pension contributions to that Plan.

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We had accounted for our obligations under the Media pension plan under SFAS No. 5, Accounting for Contingencies since the sale of Media in 1995. However, as a result of communications with the Office of the Chief Accountant of the Securities and Exchange Commission (the SEC), we now believe that we should have accounted for these obligations under the provisions of SFAS No. 87, Employers Accounting for Pensions. In connection with the restatement of the Company s consolidated financial statements for the year ended December 31, 2003, the Company and the Audit Committee determined that its pension accounting constitutes a material weakness. The effects of the restatement are shown below:

Effect on Consolidated Statements of Operations and Comprehensive Income (Loss)

	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
As restated	$ (4,181)	$ 1,962	$ (4,430)	$ (297)
Net income (loss) applicable to common stockholders:				
As reported	$ (3,859)	$ 3,320	$ (3,787)	$ 2,424
As restated	$ (4,181)	$ 2,993	$ (4,430)	$ 1,770
Diluted income (loss) per share:				
Income (loss) per share				
As reported	$ (1.06)	$ 0.57	$ (1.03)	$ (0.00)
As restated	$ (1.15)	$ 0.47	$ (1.20)	$ (0.09)
Income (loss) per share applicable to common stockholders				
As reported	$ (1.06)	$ 0.89	$ (1.03)	$ 0.46
As restated	$ (1.15)	$ 0.79	$ (1.20)	$ 0.25

Effect on Consolidated Balance Sheets

	June 30, 2004	**December 31, 2003**
	(in thousands)	
Total liabilities:		
As reported	$ 171,495	$ 171,334
As restated	$ 182,698	$ 182,981
Accumulated deficit:		
As reported	$ (522,365)	$ (518,578)
As restated	$ (514,472)	$ (510,042)

Stockholders deficit:		
As reported	$ (139,010)	$ (136,137)
As restated	$ (150,213)	$ (147,784)

Common Shares

On June 12, 2003, we effected a one-for-twenty reverse stock split of our 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 Management s Discussion and Analysis of Financial Condition and Results of Operations of Ampex Corporation and 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.

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. For information regarding revenues, income or loss, assets and other financial data for each business segment, see Note 15 of Notes to Unaudited Consolidated Financial Statements.

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The first operating segment includes Data Systems three principal product groups and its service revenue:

- 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 (including tape based DCRsi instrumentation recorders, disk based DDRs instrumentation recorders and solid state based DSRs instrumentation recorders) and related tape and aftermarket parts;

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

- Service revenue, consisting principally of maintenance contracts on Data Systems products.

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

The following table shows licensing revenue, sales of Data Systems products by product group and service revenue on Data Systems products for the three and six months ended June 30, 2004 and 2003.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	(in millions)			
	2004	2003	2004	2003
Ampex Corporation				
Licensing revenue	$ 1.4	$ 5.6	$ 3.1	$ 6.0
Ampex Data Systems Corporation				
Mass data storage tape drives and library systems	2.3	2.8	3.5	5.7
Data acquisition and instrumentation recorders	2.1	2.4	6.4	4.5
Service revenue	2.1	2.4	4.3	5.0
Other	1.0	0.7	1.5	1.4
Total net product and service revenue	$ 7.5	$ 8.3	$ 15.7	$ 16.6

Results of Operations for the Three and Six Months Ended June 30, 2004 and 2003, as restated

Licensing Revenue. Licensing revenue was $1.4 million in the three months ended June 30, 2004 compared to $5.6 million in the three months ended June 30, 2003 and $3.1 million in the six months ended June 30, 2004 compared to $6.0 million in the six months ended June 30, 2003, and is derived from royalties that we receive from licensing our patents. We receive most of our royalties from licenses granted to companies that manufacture consumer video products (such as VCRs and camcorders) and, in certain cases, professional video tape recorders. In June 2003, we entered into license agreements with two companies authorizing their use of our patents in the manufacture of video tape recorders, including digital camcorders. The agreements collectively provided for a one-time royalty payment of $5.4 million as settlement for royalties due on products sold in prior periods, which was recognized as revenue in the second quarter of 2003. Ongoing licensing revenue is calculated as a percentage of the sales price on future product sales. Sales of licensees products are beyond our control and, accordingly, we cannot predict the amount of licensing revenue that will be realized in future periods.

Over the past two years, we have been in active licensing negotiations with manufacturers of digital still cameras, DVD recorders and other consumer products, which we believe use our intellectual property. We have offered to license our intellectual property at, what we believe are, commercially acceptable rates which provide for lump sum royalty payments on shipments made in prior periods and running royalty payments as a percentage of the selling price of products shipped in future periods. Our relevant digital patents were developed when we manufactured still stores, video special effects products and digital video tape recorders, which we marketed to the professional broadcast and post production industry in prior years. These patents have expiration dates from 2006 through 2013.

As previously announced, we recently entered into our first license of DVD recorders with a large Japanese manufacturer of consumer electronic products. They expect to begin production later this year of certain new products that will use our patents. Since these products have not been marketed, it is not yet possible to forecast the revenue impact on Ampex. Licensing discussions with other DVD recorder manufacturers are ongoing.

In the second quarter of 2004, we instituted litigation with the International Trade Commission (ITC) and in the U.S. District Court for the District of Delaware against Sanyo Electric Company Ltd. (Sanyo) and separately against Sony Corporation (Sony) for their unauthorized use of our patents in digital still cameras and cell phones equipped with digital image storage and retrieval capabilities. If granted, an ITC exclusion order would prohibit the importation and sale of such products in the United States throughout the duration of the life of each patent. The District Court suit seeks payment of damages.

Recently, negotiations between Ampex and Sanyo have progressed and the parties currently expect to resolve their differences by entering into a licensing agreement. Accordingly, on July 20, 2004, we withdrew our ITC complaint against Sanyo and, after a settlement agreement is executed, will seek dismissal without prejudice of the parallel lawsuit in the U.S. District Court. However, the Sony litigation continues and we may seek to enforce our patents by instituting additional litigation against Sony/or other manufacturers of digital still cameras and other products where our technology is being used if licensing agreements are not completed in the near future.

Product and Service Revenue. Total product and service revenue decreased by 10.2% to $7.5 million in the three months ended June 30, 2004 compared to $8.3 million in the three months ended June 30, 2003, and decreased by 5.2% to $15.7 million in the six months ended June 30, 2004 compared to $16.6 million in the six months ended June 30, 2003. Government agencies and defense contractors are currently the largest market for Data Systems mass data storage and instrumentation recorders. In 2004, sales in this market have declined slightly. During the second quarter of 2004, we billed and have subsequently been paid an additional $0.5 million that will not be recognized as product revenue until shipped to the customer, which we expect to occur in the second half of 2004. Government agencies and defense contractors have historically experienced significant pressure to reduce spending and we expect them to experience such pressure in the future, which may lead to further sales declines. In recent years, the volume of products sold to the professional broadcast market has continued to decline.

Our backlog of firm orders was $7.3 million at June 30, 2004 compared to $10.1 million at June 30, 2003. 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.

Gross Profit. Gross profit represents product and service revenue less cost of product sales and service. Gross profit as a percentage of net product and service revenue was 39.8% in the three months ended June 30, 2004 compared to 48.6% in the three months ended June 30, 2003 and 45.6% in the six months ended June 30, 2004 compared to 48.7% in the six months ended June 30, 2003. Our gross profit percentages fluctuate based on a number of factors including the volume of product revenue, product mix and level of service revenues. The decrease in the gross profit percentage in the second quarter of 2004 when compared to the second quarter of 2003 was due in large part to additional inventory reserve provisions of $0.1 million and of $0.1 million resulting from the disposal of scrapped material.

Intellectual Property Costs. Intellectual property costs consist of outside legal costs and expenditures incurred by our in-house patent department in procuring licensing revenue. During the six months ended June 30, 2004, we incurred certain legal costs in preparing for patent enforcement litigation of $2.4 million. The costs of patent litigation can be material. If we pursue litigation as a strategy to enforce our patents, we may deplete a substantial portion of our cash and short-term investments. 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.

Research, Development and Engineering Expenses. Research, development and engineering expenses represented 10.6% and 6.8% of total revenue in the three months ended June 30, 2004 and 2003, respectively, and 9.7% and 7.2% of total revenue in the six months ended June 30, 2004 and 2003, respectively. We have not capitalized any RD&E expenditures. The increase in RD&E expenditures during 2004 is due primarily to costs incurred to produce engineering prototypes of the DDRs new ruggedized disk and DSRs solid-state memory-based data acquisition recorders. Such costs are expected to continue as we develop product enhancements and functionality. We may be required to lower RD&E spending if Data Systems sales decline significantly from current levels.

Selling and Administrative Expenses. Selling and administrative expenses decreased to $3.1 million (34.3% of total revenue) in the three months ended June 30, 2004 from $3.2 million (22.8% of total revenue) in the three months ended June 30, 2003 and decreased to $5.8 million (31.0% of total revenue) in the six months ended June 30, 2004 from $6.3 million (27.7% of total revenue) in the six months ended June 30, 2003. Selling and administrative costs decreased in 2004 compared to 2003 due in part to incentive fees of $0.2 million realized from other investors on the distribution of profits from our investment partnership. In the third quarter of 2004, we received additional incentive fees of $0.5 million from other investors on the final distribution of shares from our investment partnership.

Operating Income (Loss). We reported operating losses of $1.7 million and $0.3 million in the three and six months ended June 30, 2004, respectively, compared to operating income of $5.2 million and $5.6 million in the three and six months ended June 30, 2003, respectively. The decrease in operating income in 2004 was primarily a result of the factors discussed above under Licensing Revenue and Intellectual Property Costs.

Media Pension Expense. We remain the plan sponsor of the pension plan of Media, a former subsidiary that was sold in 1995, and remain obligated to make pension contributions to that Plan. Pension costs (credits) are recognized under SFAS No. 87, Employers Accounting for Pensions. Payments made by Quantegy either as direct pension contributions or as reimbursement of amounts paid by Ampex on behalf of Media are recognized as an offset to actuarially computed pension costs. Contributions and reimbursements paid by Quantegy totaled $0.4 million and $0.4 million in the six month periods ended June 30, 2004 and 2003, respectively.

Interest Expense. Interest expense increased in the three months ended June 30, 2004 to $2.4 million compared to $2.3 million in the three months ended June 30, 2003. There were no cash interest payments made in the three months ended June 30, 2004 and 2003, respectively. Interest expense increased in the six months ended June 30, 2004 to $4.8 million, of which $1.0 million was paid in cash, compared to $4.5 million in the six

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months ended June 30, 2003. There was no cash interest payment made in the six months ended June 30, 2003. The balance of interest expense not paid in cash was capitalized and added to the principal balance of the Senior Discount Notes or the Senior Notes as applicable. Interest expense in future years may increase due to the capitalization of interest on our indebtedness not paid in cash from Available Cash Flow, as well as from additional notes issued to Hillside Capital Incorporated (Hillside) in the event they make future years pension contributions.

Amortization of Debt Financing Costs. Financing costs associated with the original issuance of the 12% Senior Notes are being charged to expense through the maturity date in 2008.

Interest Income. Interest income is earned on cash balances and short and long-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 Income Taxes. The provisions for income taxes in the three and six months ended June 30, 2004 and 2003 consisted primarily of foreign income taxes and withholding taxes on licensing revenue. 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, 2003, we had net operating loss carry forwards for income tax purposes of approximately $200 million, expiring in the years 2005 through 2023. Accordingly, we have the ability to shelter a substantial amount of future taxable income, including future licensing revenue, if any is ultimately realized. Effective July 1, 2004 a new US/Japanese tax treaty eliminated withholding taxes on royalty payments. Prior to July 1, 2004, our licensing revenue was subject to foreign tax withholding of up to 10% of licensing revenue.

Equity in Net Gain of Limited Partnership. We account for our interest in an investment limited partnership under the equity method of accounting. During the three months ended March 31, 2004, the partnership sold 62.4% of the shares that it held of a publicly-held, British promotional products company, resulting in a gain of $5.8 million. Proceeds of the sale were distributed in April 2004. Our share of the sale proceeds and net gain amounted to $1.7 million and $1.2 million, respectively. In the three months ended June 30, 2004, we recognized our equity interest in the Partnership s net income amounting to $0.3 million. On July 19, 2004, the partnership distributed 1,900,000 shares of the products company which represented substantially all remaining assets of the partnership. Our pro rata share of the distribution consisted of 410,438 shares, which had a fair market value of $1.1 million. We also received 174,990 shares from the general partner representing incentive fees earned from other investors on the July 19, 2004 distribution that had a fair market value of $0.5 million. Assuming that no further distributions will be made, we have received total distributions of $3.6 million on our investment, which includes incentive fees earned of $0.7 million from the carried interest assigned from the general partner. See Note 12 to Notes to Unaudited Consolidated Financial Statements.

Net Income (Loss). We reported a net loss of $4.2 million and $4.4 million in the three and six months ended June 30, 2004, respectively, compared to net income of $2.0 million and a net loss of $0.3 million in the three and six months ended June 30, 2003, respectively, as a result of the factors discussed above.

Benefit from Extinguishment of Mandatorily Redeemable Preferred Stock. In October 2003, we redeemed all remaining Redeemable Preferred Stock. In prior periods, we issued shares of Common Stock to satisfy our redemption obligation on our Redeemable and Convertible Preferred Stock. By agreement, such shares were valued at $50.00 each ($2.50 per share pre-reverse stock split), 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 three and six months ended June 30, 2003 of $1.0 million and $2.1 million, respectively.

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Other Comprehensive Income (Loss). In the three and six months ended June 30, 2004 and 2003, other comprehensive income (loss) consists of minimum pension liability, as restated, and foreign currency transaction adjustments resulting from our foreign operations.

Inflation and Changing Prices. We do not believe that inflation or changing prices have had any material impact on our product and service revenue, licensing income or income from continuing operations for the three and six months ended June 30, 2004 and 2003.

Liquidity and Capital Resources, as restated

General. We have incurred significant losses in recent years, primarily with respect to discontinued operations, and our liquidity has been affected as a result. We have limited liquidity with which to conduct our operations. Cash and marketable securities 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 our licensing activities in excess of operating expenses and certain other expenses, including litigation expenses, is to be applied to reduce debt.

As previously reported, we have instituted litigation with the International Trade Commission 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 our intellectual property. We have spent substantial funds during the most recent quarter in connection with these suits, and we will be required to spend substantial additional funds if these suits ultimately go to trial and are not resolved through negotiations. Furthermore, we may decide to enforce our patents by instituting additional litigation against other manufacturers of digital still cameras and other products where our technology is being used if licensing agreements are not completed in the near future.

We have restructured our long-term senior debt to extend maturities and modify certain covenants that have improved our liquidity. We have substantial pension contributions scheduled to be paid this year and in future years that will require us to borrow additional funds from a former affiliate, Hillside, to meet this obligations. Management currently believes that our cash balances, coupled with anticipated royalty collections under licensing agreements presently in effect, as well as our ability to borrow pension contributions from Hillside, and our expectation that Hillside has the intent and the ability to fund such pension contributions on our behalf, should be sufficient to satisfy all projected cash obligations through June 2005, but there can be no assurance in this regard.

Our expectations as to our 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 our ability to borrow significant pension contributions due in future years from Hillside, many of which are beyond our control. If we experience a decrease in demand for our products or anticipated licensing revenue or if Hillside is unable to fund pension contributions on our behalf, we may be required to further reduce expenditures, borrow additional funds, seek to raise additional equity, or take additional actions as we deem appropriate. There can be no assurance that we will be successful in these efforts, the failure of which may have a material adverse effect on our ability to achieve our intended business objectives. The risk factors discussed elsewhere in this Report describe uncertainties that could have an adverse effect on our liquidity and capital resources.

Cash Flow. We used cash from continuing operating activities totaling $0.1 million in the six months ended June 30, 2004 and generated cash from continuing operating activities totaling $2.5 million in the six months ended June 30, 2003. The net change in 2004 resulted from lower licensing revenue and increased patent litigation costs that were offset in part by income in 2004 from an investment partnership. Cash used by discontinued operations totaled $0.4 million and $0.5 million in the six months ended June 30, 2004 and 2003, respectively.

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Senior Debt. As of June 30, 2004 we had outstanding approximately $79.6 million of total borrowings, which includes approximately $64.7 million under our 12% Senior Notes due 2008, $9.7 million under our 20% Senior Discount Notes due 2006 and $5.3 million of Hillside Notes. Such indebtedness is secured by liens on a substantial portion of our assets, including for certain securities our future royalty receipts. We may incur additional indebtedness from time to time in the future, subject to certain restrictions imposed by our debt agreements, which would increase our interest expense in future periods. In March 2004, we received consent from the holders of our senior debt securities (i) to extend the maturity date of our 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 we are 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 our pension notes through December 31, 2006. Substantial pension contributions are projected to be required beginning in 2004 and thereafter. In April 2004, pension contributions were made by Hillside on our behalf totaling $2.0 million. In addition, pension contributions totaling $7.9 million for plan year 2003 and $0.8 million for plan year 2004 are projected to be advanced by Hillside later in 2004. In that event we will issue additional notes to Hillside in equivalent amounts, which will correspondingly increase the amount of our outstanding debt.

As recently amended, the Senior Notes require that we generate a minimum of $30 million of Available Cash Flow (as defined) during the five-year period ending December 31, 2006. From March 2002 to June 2004, we have generated $5.0 million of Available Cash Flow. To satisfy this covenant, we will be required to increase our revenues from licensing operations substantially above current levels. If we fail to generate the required revenues or if we default in our other obligations under the relevant loan agreements, the Note holders would have the right to accelerate the indebtedness and foreclose on their liens, which would materially and adversely affect our financial condition and our ability to achieve our intended business objectives.

The indentures under which the 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 us and our 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.

Off-Balance Sheet Arrangements. During the six months ended June 30, 2004 and 2003, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that our Management believes is material to investors.

Disclosure of Contractual Obligations. During the six months ended June 30, 2004, there were no material changes outside the ordinary course of our business in the contractual obligations and commercial commitments set forth in the 2003 Form 10-K/A, except for the issuance of additional Senior Notes to capitalize interest expense for August 16, 2003 to February 15, 2004 in the amount of $3.5 million and a reduction, based on an actuarial computation, in required current year pension contributions from $13.9 million estimated at December 31, 2003 to $11.5 million estimated at June 30, 2004. The reduction in the current year pension liability has been added to long-term pension liability.

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

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at risk for the entity to finance its activities without additional subordinated financial support from other parties. We do not have any interests in variable interest entities and the adoption of FIN 46-R is not expected to have a material impact on our 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. We have adopted SFAS 150 effective June 15, 2003. The adoption of SFAS 150 had no impact on our 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. We have adopted EITF Issue 03-6 and have 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. We do not believe that this consensus on the recognition and measurement guidance will have an impact on our consolidated results of operations.

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs - an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This statement requires that the above items be recognized as current-period charges, regardless of whether they meet the criterion of abnormal. Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. We do not expect SFAS No. 151 to have a material impact on our financial condition or results of operations.

In December 2004, the FASB issued Statement No. 123R, Share-Based Payment, which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS No. 123R is effective for all interim periods beginning after June 15, 2005. We are currently evaluating the impact of SFAS No. 123R on our financial position and results of operations as well as alternative transition methods under SFAS No. 123R. In addition, we have not determined whether the adoption of SFAS No. 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123. See Stock-Based Compensation in Note 2 to Consolidated Financial Statements for information related to the pro forma effects on our net income (loss) and basic and diluted income (loss) per share if we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

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In December 2004, the FASB issued two Staff Positions (FSPs) that provide accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 (the Act) that was signed into law on October 22, 2004. The Act could affect how companies report their deferred income tax balances. The first FSP is FSP FAS 109-1 (FSP 109-1); the second is FSP FAS 109-2 (FSP 109-2). In FSP 109-1, the FASB concludes that the tax relief (special tax deduction for domestic manufacturing) from the Act should be accounted for as a special deduction instead of a tax rate reduction. FSP 109-2 gives a company additional time to evaluate the effects of the Act on any plan for reinvestment of repatriation of foreign earnings for purposes of applying SFAS No. 109, Accounting for Income Taxes. However, a company must provide certain disclosures if it chooses to utilize the additional time granted by the FASB. We are evaluating the impact, if any, these FSPs may have on our consolidated financial statements.

Risk Factors

We Have Experienced Significant Losses and Our Losses May Continue

We have incurred significant net losses. These losses were primarily attributable to our former Internet video programming business, which we discontinued in 2001, and to our former disk storage business, which we discontinued in 2000. In addition, we continue to incur significant charges for interest expense and pension funding obligations.

Our continuing operations include the results of our manufacturing subsidiary, Data Systems, and the results of our corporate patent licensing division. In the six months ended June 30, 2004 and for the years ended December 31, 2003, 2002 and 2001, we reported a net loss. Although we have restructured much of our senior debt whereby the amount of interest that we need to pay in cash through 2006 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, which will increase our interest expense in future periods.

Data Systems reported operating income and net income in the six months ended June 30, 2004 and in 2003 and 2002. However, its business is dependent on the funding of government defense programs, which we believe will come under increased pressure in the future. In 2003, we signed new licensing agreements with two manufacturers of digital camcorders and received $5.4 million of royalties due on products sold in prior periods. We continue to attempt to negotiate new license agreements for use of our patents in digital camcorders as well as in digital cameras, DVD recorders and other consumer products not previously licensed by us. In the second quarter of 2004, we instituted litigation with the International Trade Commission and in the U.S. District Court for the District of Delaware against two manufacturers of digital still cameras and products equipped with digital image storage and retrieval capabilities for unauthorized use of our intellectual property. We have incurred significant expenses during the quarter and six months ended June 30, 2004 in connection with these suits, and we forecast having to incur significant additional costs if these suits are not resolved through negotiations. Even if we are successful in negotiating new licensing agreements, there can be no assurance that future licensing revenues will attain levels comparable to prior years or levels sufficient to repay our debts.

Accordingly, there is a material risk that we may not continue to be profitable in future periods. See Management s Discussion and Analysis of Financial Condition and Results of Operations, above and the other Risk Factors included in this section.

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Risks of Limited Liquidity

We have limited liquidity with which to conduct our operations. Our 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 our licensing activities in excess of operating expenses and certain other expenses, including patent litigation expenses, is to be applied to reduce debt.

While we have recently restructured our senior debt to extend maturities and modify certain covenants that have improved our liquidity, we may be required to use our funds in litigation to enforce our patents as more fully described above. Our Management believes that our liquidity, coupled with our ability to borrow pension contributions from Hillside, a member of a group under common control for purposes of the Employee Retirement Income Security Act (ERISA), and our expectation that Hillside has the intent and ability to fund such pension contributions on our behalf, should be sufficient to satisfy our projected cash obligations through June 2005, but there can be no assurance in this regard. If Hillside is unable to fund future pension contributions our financial position could be materially and adversely affected.

We Have Significant Indebtedness, Which May Affect Our Financial Condition, as restated

As of June 30, 2004 we had outstanding approximately $79.6 million of total borrowings, which includes approximately $64.7 million under our 12% Senior Notes due 2008, $9.7 million under our 20% Senior Discount Notes due 2006 and $5.3 million of Hillside Notes. Such indebtedness is secured by liens on a substantial portion of our assets, including for certain securities our future royalty receipts. We may incur additional indebtedness from time to time in the future, subject to certain restrictions imposed by our debt agreements, which would increase our interest expense in future periods. In March 2004, we received consent from the holders of our senior debt securities (i) to extend the maturity date of our 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 we are 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 our pension notes through December 31, 2006.

We are the plan sponsor and are liable to provide funding for plan benefits under a pension plan of a former affiliate, Media, which was sold in 1995. Presently the unfunded accumulated benefit liability is $19.1 million which is recorded in liabilities on our balance sheet at December 31, 2003. During 2003, the Company and Media entered into the Retirement Plan Funding and Settlement Agreement, which provides for monthly payments of $74,000 by Media to us in settlement of future pension contributions that may be required under the Media Plan that would be funded by us.

Substantial pension contributions are projected to be required beginning in 2004 and thereafter under the Ampex and Media defined benefit plans. Based on the most recent actuarial valuation, at December 31, 2003, estimated pension contributions under the Ampex defined benefit plan over the next seven years totaled $43.3 million. In April 2004, pension contributions totaling $2.0 million were made by Hillside in connection with these plans. In addition, pension contributions totaling $7.9 million for plan year 2003 and $0.8 million for plan year 2004 are projected to be advanced by Hillside later in 2004. In that event we will issue additional notes to Hillside in an equivalent amount which will correspondingly increase the amount of our outstanding debt.

As discussed above, the recently amended Senior Notes require that we generate a minimum of $30 million of Available Cash Flow (as defined) during the five-year period ending December 31, 2006. From March 2002 to June 2004, we have generated $5.0 million of Available Cash Flow. To satisfy this covenant, we will be required to increase our revenues from licensing operations substantially above current levels. If we fail to generate the required revenues or if we default in our other obligations under the relevant loan agreements, the Noteholders would have the right to accelerate the indebtedness and foreclose on their liens, which would materially and adversely affect our financial condition.

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The degree to which we are leveraged could have other important consequences to investors, including the following:

- a substantial portion of our cash flow from licensing operations must be dedicated to the payment of principal of and interest on our outstanding indebtedness, and therefore will not be available for other purposes;
- 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 make new investments, dispose of assets or to pay dividends on or repurchase common stock.

We expect that our cash balances and cash flow from operations as well as our 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, will be sufficient to fund anticipated operating expenses, capital expenditures and our debt service requirements as they become due, at least through June 2005. 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 obtained 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. Although several intelligence programs have received government funding which has led to increased sales by Data Systems in certain periods, we cannot be assured that sales of new systems will recur at these levels. If sales of new systems decline in the future, we may be increasingly dependent upon revenues from the sale of spare parts, service and tape.

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Our Licensing Revenue is Subject to Material Fluctuations

Licensing revenue 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. The cost of patent litigation can be material and we have recently begun to incur significant expenses in connection with litigation that we have initiated with manufacturers of digital still cameras and related products for unauthorized use of our intellectual property. Also, a court could rule that our patents are invalid, causing existing licensees to discontinue payments to us. Our licensing revenue fluctuates significantly from quarter to quarter and from year to year, and we cannot give any assurance as to the level of licensing revenue that will be realized in future periods.

As previously announced, we recently entered into our first license of DVD recorders with a large Japanese manufacturer of consumer electronic products. They expect to begin production later this year of certain new products that will use our patents. Since these products have not been marketed, it is not yet possible to forecast the revenue impact on Ampex. Licensing discussions with other DVD recorder manufacturers are ongoing.

We cannot assure you that we will be able to develop patentable technology that will generate significant licensing revenues in future years to replace patents as they expire. Our expenditures for research and development are less than what we spent in prior years, which are likely to have a long-term adverse effect on our ability to maintain a significant portfolio of patented technologies.

Our Stock Price May be Subject to Continued Volatility

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:

- fluctuations in patent licensing revenues, developments in our patent licensing program and the success or failure of litigation that we initiate to defend our patents;
- quarterly fluctuations in operating results;
- modifications to our senior debt agreements and other events that affect our liquidity;
- 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 us by analysts and other members of the media; 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 our operating performance.

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Risks Associated With Acquisition Strategy

We are not currently seeking to make any acquisitions of a controlling interest in 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 we have not historically been involved. In 2003, our unrestricted subsidiary invested $1 million to acquire a minority interest in a private investment limited partnership that has purchased common shares of a British promotional products company. Our CEO, Edward Bramson, acquired shares in this company in concert with the limited partnership, and he controls the corporate general partner of the limited partnership. Mr. Bramson served as the temporary, non-executive Chairman of the Board of the British company until July 2004, at which time the Board elected a new executive chairman. Mr. Bramson has assigned to us all compensation he may receive as a non-executive board member. See Note 12 of Notes to unaudited Consolidated Financial Statements elsewhere herein. 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.

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 us 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.

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 licensing revenue;

the amount and timing of capital expenditures and other costs relating to our operations;

the availability of critical raw materials and inventory subassembly components from our suppliers; and

general economic and industry conditions.

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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

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.

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 is 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 us. 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   tape-based 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 Calculex, 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

Data Systems 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 depend may be limited. We do not generally enter into long-term raw materials or components supply contracts.

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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 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.

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.

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 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 apply the proceeds from the sale of Data Systems or the sale of its Colorado Springs, CO manufacturing facility against the outstanding Notes.

These provisions could have anti-takeover effects by making an acquisition of us 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 debt and other agreements 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

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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.

We have recently initiated litigation to enforce our digital still camera patents and we may decide to initiate additional litigation against other manufacturers of digital still cameras and of other products 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 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 our facilities. There can be no assurance we will not ultimately incur a 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

We have an investment in a limited partnership that holds shares in a publicly-held British promotional products company, and which we account for under the equity method. During the six months ended June 30, 2004, the limited partnership sold 62.4% of its holdings. On July 19, 2004, the partnership distributed substantially all of its remaining assets to its partners, consisting of 1,900,000 shares of the products company. Our pro rata share of the distribution consisted of 410,438 shares, which had a fair market value of $1.1 million. See Note 12 of Notes to Unaudited Consolidated Financial Statements. There has been no other material change to the disclosure made under this Item in the 2003 Form 10-K/A.

ITEM 4. CONTROLS AND PROCEDURES

This item 4 has been restated to correct the accounting for our obligations under the Media pension plan in accordance with SFAS No. 87, Employers Accounting for Pensions.

Management s Report on Assessment of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined under Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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A material weakness is a control deficiency (within the meaning of PCAOB Auditing Standard No. 2), or combination of control deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their assigned functions. As of June 30, 2004 we did not maintain effective controls over the application of generally accepted accounting principles related to the complex non-routine pension obligations of a disposed subsidiary sold in 1995.

This control deficiency resulted in the following adjustments of our financial statements.

On February 18, 2005, the Audit Committee of the Board of Directors of Ampex Corporation concluded that the previously issued financial statements contained in our Annual Report on Form 10-K as of December 31, 2003 and December 31, 2002 and for each of the years in the three year period ended December 31, 2003, as well as our interim financial statements contained on Form 10-Q as of and for the periods ending March 31, 2004, June 30, 2004 and September 30, 2004, should no longer be relied upon because of errors in those financial statements. These errors relate to how we accounted for our obligations with respect to a pension plan of our former magnetic tape manufacturing subsidiary (Media), which we sold in 1995. These errors are the subject of recent communications with the Office of the Chief Accountant of the Securities and Exchange Commission (the SEC), after which we revised our views with respect to the appropriate accounting for the Media pension plan.

We have restated our financial statements in this Form 10-Q/A as of June 30, 2004 and December 31, 2003 and for the three and six months ended June 30, 2004 and 2003 to correct the accounting for our obligations under a pension plan of Media which we disposed of in 1995.

The agreement for the sale of Media required the buyer, Quantegy Corporation, to pay directly or to reimburse us for required contributions to the Media pension plan. However, we remained the Plan Sponsor of the Media pension plan and we are obligated to make pension contributions to that Plan.

The ineffective control over the application of generally accepted accounting principles in relation to complex, non-routine transactions in the financial reporting process could result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. As a result, management has determined that this control deficiency constituted a material weakness, as defined by the PCAOB as of June 30, 2004. Management communicated its conclusions to the Audit Committee of the Company s Board of Directors.

Changes in Internal Control Over Financial Reporting

Our management has identified the steps necessary to address the material weakness described above, as follows:

Engaging outside contractors with technical accounting expertise, as needed, and reorganizing the accounting and finance department to ensure that accounting personnel with adequate experience, skills and knowledge relating to complex, non-routine transactions are directly involved in the review and accounting evaluation of our complex, non-routine transactions;

Involving both internal accounting personnel and outside contractors with technical accounting expertise, as needed, early in the evaluation of complex, non-routine transactions to obtain additional guidance as to the application of generally accepted accounting principles to such transactions;

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Documenting to standards established by senior accounting personnel and the principal accounting officer the review, analysis and related conclusions with respect to complex, non-routine transactions; and

Requiring senior accounting personnel and the principal accounting officer to review complex, non-routine transactions to evaluate and approve the accounting treatment for such transactions.

We began to execute the remediation plans identified above in the first quarter of 2005.

We have also implemented policies and procedures to assure adequate and timely involvement of outside accounting contractors, as needed; to obtain guidance as to the application of generally accepted accounting principles to complex, non-routine transactions. We believe that these corrective actions, taken as a whole, have mitigated the control deficiencies with respect to our preparation of our 2004 Annual Report on Form 10-K and that these measures have been effective to ensure that information required to be disclosed in the 2004 Form 10-K has been recorded, processed, summarized and reported correctly. We are in the process of developing procedures for the testing of these controls to determine if the material weakness has been remediated and expect that testing of these controls will be substantially completed by the end of our fiscal second quarter of 2005. We will continue the implementation of policies, processes and procedures regarding the review of complex, non-routine transactions. Management believes that our controls and procedures will continue to improve as a result of the further implementation of these measures.

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.

There were no changes in our internal control over financial reporting identified in the evaluation described above that occurred during our last fiscal quarter that have during the six months ended June 30, 2004 materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our Chairman and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were ineffective as of June 30, 2004 because of the material weakness identified above.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the second quarter of 2004, we instituted litigation with the International Trade Commission (ITC) and in the U.S. District Court for the District of Delaware against Sanyo and separately against Sony for their unauthorized use of our patents in digital still cameras and cell phones equipped with digital image storage and retrieval capabilities. If granted, an ITC exclusion order would prohibit the importation and sale of such products in the United States throughout the duration of the life of each patent. The District Court suit seeks payment of damages.

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Recently, negotiations between Ampex and Sanyo have progressed and the parties currently expect to resolve their differences in an amicable fashion. Accordingly, on July 20, 2004, we withdrew our ITC complaint against Sanyo and will seek dismissal without prejudice, after a settlement agreement is executed, of the parallel lawsuit in the U.S. District Court. However, the Sony litigation continues and we may seek to enforce our patents by instituting additional litigation against Sony/or other manufacturers of digital still cameras and other products where our technology is being used if licensing agreements are not completed in the near future.

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.

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 2004 or 2005 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 a total of seven environmental investigations, 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 five 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. Five sites (including 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 such sites. In October 2003, the California Regional Water Quality Control Board issued us a letter, which rescinds continued cleanup requirements for the Sunnyvale, California site, allowing us to shut down and remove all remediation equipment and substantially reduce any further obligation. During 2003, we spent a total of approximately $0.1 million in connection with environmental investigation, remediation and monitoring activities and we expect to spend a similar amount in fiscal 2004 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 June 30, 2004, we had an accrued liability of $0.4 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, they believe we have no contingent liability in connection with such pending matters, either individually, or in the aggregate, that are material to our financial condition or cash flow 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 our business in foreign countries as well as in the U.S., it is not possible to predict the effect that future domestic or foreign regulation could have on our business, operating results, financial

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condition 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

We did not sell any equity securities during the second fiscal quarter of 2004 that were not registered under the Securities Act of 1933, as amended.

There were no purchases of any shares of our common stock made by or on behalf of Ampex or any of our affiliated purchasers (as defined in Rule 10b-18(a)(3) of the Exchange Act) during the second quarter of 2004.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

On June 14, 2004 we held our Annual Meeting of Stockholders. The stockholders elected Edward J. Bramson and William A. Stoltzfus, Jr. as our Class I directors. Mr. Bramson received 3,211,580 votes in favor of his election, with 152,152 votes withheld and no broker nonvotes. Mr. Stoltzfus received 3,232,850 votes in favor of his election, with 130,882 votes withheld and no broker nonvotes. Each of our other directors, Craig L. McKibben, Douglas T. McClure, Jr. and Peter Slusser, is currently serving a term of office that continued after the meeting. The stockholders also ratified the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year 2004, with 3,270,918 votes in favor, 84,766 votes against, and 8,048 votes abstaining.

ITEM 5. OTHER INFORMATION

There were no matters required to be disclosed in a current report on Form 8-K during the fiscal quarter covered by this report that were not so disclosed.

There were no material changes to the procedures by which security holders may recommend nominees to our Board of Directors that were implemented since we last provided such disclosure in our 2004 Proxy Statement, dated April 29, 2004.

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

During our fiscal quarter ended June 30, 2004, we filed the following reports on Form 8-K:

(i) Current Report on Form 8-K dated March 30, 2004, attaching our earnings release for the fiscal year ended December 31, 2003, including related financial statements, and announcing the filing of a Form 12b-25 in order to obtain additional time to complete the audit of our 2003 financial statements, under Items 7 and 12.

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(ii) Current Report on Form 8-K dated May 13, 2004, attaching our earnings release for the quarter ended March 31, 2004, including related financial statements, under Items 5 and 7.

(iii) Current Report on Form 8-K dated May 24, 2004, announcing that we had entered into a non-exclusive license agreement with a major Japanese manufacturer of consumer electronic devices, permitting worldwide use of our intellectual property in the manufacture of DVD recorders and magnetic hard disk recorders used in personal video recorders, under Items 5 and 7.

(iv) Current Report on Form 8-K dated May 26, 2004, announcing that we had filed a complaint with the International Trade Commission seeking an exclusion order barring Sanyo Electronic Company Ltd. from the importation and sale of digital still cameras and cellular phones with digital image storage and retrieval capabilities into the United States due to Sanyo s unauthorized use of our intellectual property, and related patent infringement suit in the U.S. District Court for the District of Delaware, seeking unspecified damages from Sanyo. The 8-K was filed under Items 5 and 7.

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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: April 15, 2005	/s/ EDWARD J. BRAMSON
	Edward J. Bramson Chairman and Chief Executive Officer
Date: April 15, 2005	/s/ CRAIG L. McKIBBEN
	Craig L. McKibben Vice President, Chief Financial Officer and Treasurer

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AMPEX CORPORATION

FORM 10-Q/A FOR THE QUARTER ENDED

June 30, 2004

EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.1	Fourth Amendment dated June 30, 2004 to the Hillside Ampex/Sherborne Agreement dated December 1, 1994, as previously amended.
31.1	Chief Executive Officer certification pursuant to Rules 13a 14(a) and 15d 14(a) of the Exchange Act.
31.2	Chief Financial Officer certification pursuant to Rules 13a 14(a) and 15d 14(a) of the Exchange Act.
32.1	Chief Executive Officer and 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.