

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)

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
(State of Incorporation)

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

1228 Douglas Avenue

Redwood City, California 94063-3199

(Address of principal executive offices, including zip code)

(650) 367-2011

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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, \$.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.

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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 superseded 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

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Table of Contents**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
	<hr/>	<hr/>
Total current assets	27,029	29,245
Property, plant and equipment	4,500	4,825
Other assets	956	1,127
	<hr/>	<hr/>
Total assets	\$ 32,485	\$ 35,197
	<hr/>	<hr/>
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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
Total liabilities	182,698	182,881
	<hr/>	<hr/>
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		

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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)
	<u> </u>	<u> </u>
Total stockholders deficit	(150,213)	(147,784)
	<u> </u>	<u> </u>
Total liabilities, redeemable preferred stock and stockholders deficit	\$ 32,485	\$ 35,197
	<u> </u>	<u> </u>

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

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

(in thousands, except share and per share data)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		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	(4,438)	2,535	(5,740)	378

partnership				
Provision for income taxes	81	573	248	675
Equity in net gain of limited partnership	(338)		(1,558)	
<hr/>				
Net income (loss)	(4,181)	1,962	(4,430)	(297)
Benefit from extinguishment of mandatorily redeemable preferred stock		1,031		2,067
<hr/>				
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
<hr/>				
Comprehensive income (loss)	\$ (4,135)	\$ 2,996	\$ (4,386)	\$ 1,783
<hr/>				
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

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of October 1, 2004, with respect to the persons known to the Company to be the beneficial owners of more than 5% of the common stock, \$.001 par value of the Company and of more than 5% of the Class A Common Stock of the Company's subsidiary, Tirex R&D and of all Officers and Directors of the Company as that term is defined in Item 402(a)(2) of Regulation S-B. Neither the Company nor Tirex R&D have any shares of any other class issued or outstanding.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Percent Ownership</u>	<u>Percent of Class (1)</u>
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Common The Tirex Corporation	John L. Threshie, Jr. 4055 Ste-Catherine Street West Suite 151 Westmount), Quebec Canada, H3Z 3J8	2,000,000(2)	0.8%
Class A Common Tirex R&D		34 (5)	34%
Common The Tirex Corporation	Louis V. Muro 374 Oliver Avenue Westmount, Quebec Canada H3Z 3C9	5,978,957(2)(3)	2.39%
Class A Common Tirex R&D		17(5)	17%
Common The Tirex Corporation	Louis V. Sanzaro 1497 Lakewood Road Toms River, NJ 08755	16,281,088(2)	6.52%
Common The Tirex Corporation	Michael Ash 310 Mont#233e Sabourin St. Bruno, Quebec Canada, J3V 4P6	2,980,000 (4)	1.19%
Common The Tirex Corporation	All directors and officers as a group (4 persons)	27,239,945	10.90%
Class A Common Tirex R&D	All directors and officers as a group (2 persons)	51	51.0%

(1) The percentages listed in the table is calculated on the basis of 249,895,892 shares of the common stock, \$.001 par value, of the Company outstanding as at October 1, 2004.

(2) Our executive officers, directors and principal shareholders have pledged an aggregate of 11,986,315 (approximately 6% of our then outstanding shares) of their personal shareholdings in the Company as a security interest for our recent issuance of \$750,000 of 8% convertible notes, pursuant to a Subscription Agreement and Security Agreement dated February 26, 2001. Specifically, John L. Threshie, Jr. pledged 1,891,204 shares, Louis Muro pledged 1,723,514 shares and Louis Sanzaro pledged 8,371,597 shares of our common stock. These shares are currently being held in escrow, pending satisfaction of the terms of the notes. We were served a notice of default by the investors of the notes in July 2001. A Settlement Agreement was reached in April of 2002. The Company has been unable to respect its financial obligations under the terms of the Settlement Agreement and negotiations with respect to a new settlement have not been completed. As of the date of this Report, 3,190,977 collateral shares remained in the hands of the Investors. This represents approximately 1.3% of our current outstanding stock. The Investors also possess 4,000,000 of non-collateral stock, representing an additional 1.6% of our stock outstanding. The Company will replace those Collateral Shares sold by the Investors to those who pledged the shares.

(3) Includes: (i) 5,244,957 shares held of record by Mr. Muro as of October 1, 2004; and (ii) 734,000 shares held of record by Mr. Muro's wife, Nina Aviles Muro.

(4) Includes: (i) 2,750,000 shares held of record by Mr. Ash as of September 30, 2004; and (ii) 230,000 shares held of record in the name of Loryta Investments Limited an entity beneficially owned by the family of Mr. Ash. Does not include the 1,500,000 shares issuable to Mr. Ash as a result of his having exercised stock options, and for which an inadequate number of issuable shares exist to satisfy this option.

(5) Messrs. Threshie and Muro hold all shares of Tirex R&D Class A Common Stock pursuant to the terms of a Shareholders agreement among them and the Company (the "Tirex R&D Shareholders Agreement"), pursuant to which they will be obligated to transfer all such shares to the Company, for no consideration, on May 2, 2001, unless the term of such Agreement is unilaterally extended by the Company. The Company does not intend to take any actions of any kind with respect to such shares which would be in violation of any Canadian government regulations governing tax and other financial incentives which may be available to Tirex R&D. The Company is in the process of preparing appropriate documentation the effect of which would be to extend the duration of the Agreement.

Changes in Control

On February 26, 2001 we issued \$750,000 worth of convertible notes at an annual rate of eight percent (8%) to certain investors. Interest payable on these notes is payable quarterly commencing June 30, 2001. In addition, all principal and unpaid interest due on the outstanding notes is immediately due and payable on February 26, 2003, or earlier in the event of a default. One of the conditions of this transaction was that we would file with the Securities and Exchange Commission a Registration Statement on Form SB-2 to register various securities issuable upon the conversion of notes by a date certain and that the Registration Statement would be effective by August 15, 2001. We failed to meet these deadlines and the investors served a notice of default on us on July 19, 2001. Negotiations were undertaken throughout the remainder of Calendar 2001 and into 2002 until a Settlement Agreement was reached on April 26, 2002. Under the terms of the Agreement, a copy of which is included as an Exhibit to this Report, the Company is obligated to pay down the amount owed to the Investor Group, including interest and penalties, over a period of approximately two years. During the time when an amount continues to be owed to the Investor Group, the Investor Group will have the right to sell up to 600,000 collateral or Rule 144 shares per month and apply the proceeds to interest due, fees and finally to reduction of the principle amount outstanding. Any remaining collateral shares at the time the debt will have been totally repaid will be returned to the original owners of the shares. The Investor Group was also given three series of warrants for 500,000 shares each, exercisable at prices of \$0.01, \$0.05 and \$0.10 respectively and exercisable within pre-defined time windows over a three year period starting with the date of signature of the Settlement Agreement. . As of October 24, 2002, the Investor Group had 6,081,597 collateral shares in their possession. As to the failure to have an SB-2 Registration Statement effective by August 15, 2001, the signing of the Settlement Agreement negated the default. Due to a lack of financial resources, the Company was forced to default on the terms of the Settlement Agreement. To date, the Investors have sold 8,795,338 shares of the original 11,986,315 collateral shares held by them.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following is a description of transactions during the last two fiscal years or any presently proposed transactions to which the Company was or is to be a party, in which the amount involved in such transaction (or series of transactions) was \$60,000 or more and which any of the following persons had or is to have a direct or indirect material interest: (i) any director or executive officer of the Company; (ii) any person who owns or has the right to acquire 5% or more of the issued and outstanding common stock of the Company; and (iii) any member of the immediate family of any such persons.

Pursuant to a Subscription Agreement dated February 26, 2001 we issued \$750,000 of 8% convertible notes, due February 26, 2003 to three investors. Under the Subscription Agreement, we had the option, subject to conditions, to require the investors to purchase additional convertible put notes up to \$4,250,000. Interest only payments are due quarterly commencing June 30, 2001, and the principal is due in one lump sum on February 26, 2003, or upon certain events of default. The number of shares of common stock issuable upon conversion of the convertible notes is 15,000,000, based on a conversion price of \$0.05 per share. One of the conditions of this transaction was that we would file with the Securities and Exchange Commission a Registration Statement on Form SB-2 to register various securities issuable upon the conversion of the notes by a date certain and that the Registration Statement would be effective by August 15, 2001. We failed to meet these deadlines and the investors served a notice of default on us on July 19, 2001. The conversion price for the convertible notes is the lesser of (i) 80% of the average of the three lowest closing bid prices of the common stock for the twenty-two (22) trading days prior to the closing date, or (ii) 80% of the average of the five lowest closing bid prices of the common stock for the sixty (60) trading days prior to the conversion date, as defined in the convertible note. The maximum number of shares of common stock that any subscriber or group of affiliated subscribers may own after conversion at any given time is 4.99%.

During the years ended June 30, 2003 and 2004, the Company's executive officers and certain consultants to the Company have waived substantial portions of their salaries, fees and/or unreimbursed expenses made by them on behalf of, and for the account of, the Company, and, in 2003, have accepted shares of the Company's common stock in partial payment in lieu thereof, with the remaining amounts payable still being listed as liabilities of the Company. No cash payments nor payments in common stock were made to such persons during Fiscal 2004. In connection therewith shares have been issued as follows:

During Fiscal 2004, no shares were issued. During fiscal 2003 various officers and former officers received Common Stock in

partial compensation with respect to salaries and expense reimbursements and purchased shares of Common Stock totaling 6,600,000 shares. The shares issued or sold to officers were valued at thirty-five per cent (35%) of the then current market price.

During fiscal 2000 the Company modified its agreement with Oceans Tire Recycling & Processing Co., Inc. ("OTRP") to clarify various terms of the parties prior agreements and to obtain a commitment by OTRP to pay future lease payments on the Production Model system, if necessary. The Company also exchanged its debt obligation to OTRP for 4,553,102 shares of its Common Stock, which was issued, pursuant to OTRP's request, to its principal shareholder and President.

ITEM 13. EXHIBITS

FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Financial Statements

The financial statements filed as a part of this report are as follows:

Consolidated Balance Sheet - June 30, 2004

Consolidated Statements of Operations for the years ended June 30, 2003 and 2004, and cumulative for the period from inception (July 15, 1987) to June 30, 2004

Consolidated Statements of Owners' Equity (Deficit) as at July 15, 1987 and June 30, 2000 - 2004

Consolidated Statements of Cash Flows for the years ended June 30, 2003 and 2004 and cumulative for the period from inception (July 15, 1987) to June 30, 2004

Financial Statement Schedules

Financial statements schedules have been omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

Exhibits

The exhibits filed as a part of this Report or incorporated herein by reference are as follows:

	Exhibits Incorporated Herein By Reference, Exhibit No. As Filed With Document Indicated
3. (a) Certificate of Incorporation filed August 19, 1987	3(a)
(b) Certificate of Amendment filed June 20, 1989	3(b)
(c) Certificate of Amendment filed March 10, 1993	3
(d) Certificate of Amendment filed December 5, 1995	3(e)
(e) By-Laws	3(b)
(f) Certificate of Amendment filed August 11, 1997	
(g) Certificate of Amendment filed February 3, 1998	3
(h) Certificate of Incorporation of Tirex Acquisition Corp., filed with the Secretary of State of Delaware on December 15, 1997	3(h)
(k) Certificate of Amendment to the Certificate of Incorporation, filed with the Secretary of State of Delaware on July 10, 1998	3
Reports on 8-K	

The Company has not filed any reports on Form 8-K during Fiscal 2004.

SIGNATURES

In accordance with Section 15(d) of the Exchange Act of 1934, the Company has caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE TIREX CORPORATION

By /s/ JOHN L. THRESHIE, JR.

Date: October 14, 2003 John L. Threshie, Jr.
 Chairman of the Board of
 Directors and
 Chief Executive Officer

In accordance with Section 15(d) of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
Principal Executive Officer:		
/s/ JOHN L. THRESHIE, JR.	Chairman of the Board of Directors and Chief Executive Officer	October 14, 2003
John L. Threshie, Jr		
Principal Financial and Accounting Officer:		
/s/ MICHAEL D.A. ASH	Secretary, Treasurer, and Chief Financial Officer	October 14, 2003
Michael D.A. Ash	Accounting Officer	
A Majority of the Board of Directors:		
/s/ JOHN L. THRESHIE, JR.	Chairman of the Board of Directors	October 14, 2003
John L. Threshie, Jr.		
/s/ LOUIS SANZARO	Director	October 14, 2003
Louis Sanzaro		
/s/ LOUIS V. MURO	Director	October 14, 2003
Louis V. Muro		

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH
REPORTS FILED PURSUANT TO SECTION 15(D) OF THE
EXCHANGE ACT BY NON-REPORTING ISSUERS

No annual report or proxy materials have been sent to security-holders during the fiscal year ended June 30, 2004 or the subsequent interim period. As at the date hereof, the Company plans to furnish proxy materials relating to its annual meeting, which is presently intended to be held during the current fiscal year. All such materials will be furnished to the Commission at the same time as they are sent to securities holders.

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THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2004

June 30,
2004

ASSETS

Current Assets	
Cash and cash equivalents	\$ -
Accounts receivable	-
Notes receivable	20,475
Inventory	73,322
Research and Experimental Development tax credits receivable	-
	93,797
Property and equipment, salvage value	50,000
Other assets	
Investment, at cost	89,500
	89,500
	\$ 233,297

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current Liabilities	
Accounts payable and accrued liabilities	\$ 2,089,040
Current portion of long-term debt	78,091
	2,167,131
Other liabilities	
Long-term deposits and notes	217,500
Government loans (net of current)	-
Capital lease obligations (net of current)	-
Convertible notes	586,356
Convertible note	185,556
Convertible loans	1,171,168
	2,160,580

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	4,327,711
Stockholders' Equity	
(Deficit)	
Common stock, \$.001 par value, authorized 250,000,000 shares, issued and outstanding 249,895,892 shares (June 30, 2003 - 249,895,892 shares)	249,896
Additional paid-in capital	25,222,219
Deficit accumulated during the development stage	(29,165,398)
Unrealized gain (loss) on foreign exchange	(401,131)
	(4,094,414)
	\$ 233,297

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS

	Twelve months ended		Cumulative
	June 30		from
	2004	2003	March 26, 1993 to June 30, 2004
Revenues	\$ -	\$ -	\$ 1,354,088
Cost of Sales	-	-	1,031,075
Gross profit	-	-	323,013
Operations			
General and administrative	476,796	981,170	12,113,871
Depreciat	-	24,960	365,545
Research and development	-	450,000	15,396,966
Total Expense	476,796	1,456,130	27,876,382
Loss before other expenses (income)	(476,796)	(1,456,130)	(27,553,369)
Other expenses (income)			
Interest expense	83,438	105,245	846,169
Interest income	-	-	(45,443)
Income from stock options	-	-	(10,855)
Loss on disposal of equipment	-	-	4,549
	83,438	105,245	794,420
Net loss	(560,234)	(1,561,375)	(28,347,789)
Other comprehensive loss			
Loss (gain) on foreign exchange	-	-	106,137
Net loss and comprehensive loss	\$ (560,234)	\$ (1,561,375)	\$ (28,453,926)
Basic and Diluted net loss and			

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comprehensive loss per common share	\$	(0.01)	\$	(0.01)	\$	(0.40)
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Weighted average shares of common stock outstanding	249,895,892	237,326,726	70,432,613
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THE TIREX CORPORATION AND SUBSIDIARIES

(A Developmental Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional Paid-in Capital	Deficit Accumulated During Developmental Stage	Unrealized Foreign Exchange	Total
	Shares	Amount				
Balance at June 30, 1992	3,383,020	\$ 3,383	\$ 194,980	\$ (1,057,356)	\$ -	\$ (858,993)
Stock issued for reorganization	18,650,000	18,650	76,155	-	-	94,805
Stock issued for services	100,000	100	(100)	-	-	-
Stock issued in exchange for Warrants	363,656	364	(364)	-	-	-
Forgiveness of debt	-	-	728,023	-	-	728,023
Net loss and comprehensive loss for the year	-	-	-	(165,296)	-	(165,296)
Balance at June 30, 1993	22,496,676	22,497	998,694	(1,222,652)	-	(201,461)
Stock issued	2,000	2	(2)	-	-	-
Exchange for debt	-	-	149,170	-	-	149,170
Payments received for stock previously issued	-	-	237,430	-	-	237,430
Net loss and comprehensive loss for the year	-	-	-	(179,296)	-	(179,296)
Balance at June 30, 1994	22,498,676	22,499	1,385,292	(1,401,948)	-	5,843
Revision of common stock	(11,900,000)	(11,900)	11,900	-	-	-
Stock issued for services	5,592,857	5,592	513,908	-	-	519,500
Shares issued in exchange						

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for debt	200,000	200	24,300	-	-	24,500
Issuance of common stock	402,857	401	21,915	-	-	22,316
Net loss and comprehensive loss for the year	-	-	-	(575,771)	-	(575,771)

**Balance at
June 30, 1995** 16,794,390 \$16,792 \$1,957,315 \$ (1,977,719) \$ - \$ (3,612)

See Notes to Consolidated Financial Statements

THE TIREX CORPORATION AND SUBSIDIARIES
(A Developmental Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional Paid-in Capital	Deficit Accumulated		Total
	Shares	Amount		During Developmental Stage	Unrealized Foreign Exchange	
Balance at June 30, 1995	16,794,390	\$ 16,792	\$ 1,957,315	\$ (1,977,719)	\$ -	\$ (3,612)
Stock issued	3,975,662	5,090	846,612	-	-	851,702
Shares issued in exchange for debt	391,857	392	29,008	-	-	29,400
Issuance of common stock	710,833	710	80,161	-	-	80,871
Net loss and comprehensive loss for the year	-	-	-	(1,127,044)	-	(1,127,044)
Balance at June 30, 1996	21,872,742	22,984	2,913,096	(3,104,763)	-	(168,683)
Stock issued for options	-	-	912,838	-	-	912,838
Stock issued for services	5,067,912	3,955	690,234	-	-	694,189
Shares issued in exchange for debt	251,382	252	43,965	-	-	44,217
Issuance of common stock	10,257,936	10,259	335,132	-	-	345,391
Grants issued	-	-	408,597	-	-	408,597
Net loss and comprehensive loss for the year	-	-	-	(2,376,279)	-	(2,376,279)
Balance at June 30, 1997	37,449,972	37,450	5,303,862	(5,481,042)	-	(139,730)
Stock issued for services	4,396,466	4,396	922,180	-	-	926,576
Stock issued for options	-	-	948,500	-	-	948,500
Issuance of common stock	21,795,000	21,796	1,176,755	-	-	1,198,551
Unrealized foreign exchange	-	-	-	-	183,785	183,785
Stock options issued and outstanding	-	-	1,236,913	-	-	1,236,913

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Grants issued	-	-	669,906	-	-	669,906
Net loss and comprehensive loss for the year	-	-	-	(4,570,441)	-	(4,570,441)

Balance at June 30, 1998 63,641,438 \$ 63,642 \$10,258,116 \$(10,051,483) \$183,785 \$454,060

See Notes to Consolidated Financial Statements

THE TIREX CORPORATION AND SUBSIDIARIES
(A Developmental Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional Paid-in Capital	Deficit Accumulated		Total
				During Developmental Stage	Unrealized Foreign Exchange	
	Shares	Amount				
Balance at June 30, 1998	63,641,438	\$ 63,642	\$10,258,116	\$(10,051,483)	\$ 183,785	\$ 454,060
Stock issued for services	24,200,439	24,200	2,735,544	-	-	2,759,744
Stock issued for options	2,234,567	2,235	38,765	-	-	41,000
Shares issued in exchange for debt	3,787,947	3,788	340,164	-	-	343,952
Conversion of debentures	2,816,966	2,817	290,102	-	-	292,919
Issuance of common stock	677,966	678	49,322	-	-	50,000
Unrealized foreign exchange	-	-	-	-	(29,142)	(29,142)
Stock options issued and outstanding	-	-	385,600	-	-	385,600
Grants issued	-	-	1,057,742	-	-	1,057,742
Net loss and comprehensive loss for the year	-	-	-	(4,909,879)	-	(4,909,879)
Balance at June 30, 1999	97,359,353	97,360	15,155,355	(14,961,362)	154,643	445,996
Stock issued for services	28,873,210	28,873	2,217,758	-	-	2,246,631
Stock issued for options	5,327,486	5,327	381,600	-	-	386,927
Shares issued in exchange for debt	7,342,055	7,342	382,556	-	-	389,898
Conversion of debentures	12,010,073	12,010	815,796	-	-	827,806
Issuance of common stock	221,000	221	16,039	-	-	16,260
Unrealized foreign exchange	-	-	-	-	5,789	5,789
Grants issued	-	-	395,683	-	-	395,683

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Net loss and comprehensive loss for the year	-	-	-	(5,548,829)	-	(5,548,829)
Balance at June 30, 2000	151,133,177	151,133	19,364,787	(20,510,191)	160,432	(833,839)
Stock issued for services	10,142,903	10,143	1,023,512	-	-	1,033,655
Stock issued for options	-	-	-	-	-	-
Shares issued in exchange for debt	14,236,399	14,236	1,891,602	-	-	1,905,838
Conversion of debentures	121,000	121	24,079	-	-	24,200
Issuance of common stock	732,929	733	39,427	-	-	40,160
Unrealized foreign exchange	-	-	-	-	(340,661)	(340,661)
Grants issued	-	-	249,294	-	-	249,294
Net loss and comprehensive loss for the year	-	-	-	(3,112,138)	-	(3,112,138)
Balance at June 30, 2001	176,366,408	\$ 176,366	\$22,592,701	\$(23,622,329)	\$(180,229)	\$ (1,033,491)

See Notes to Consolidated Financial Statements

THE TIREX CORPORATION AND SUBSIDIARIES
(A Developmental Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional	Deficit		
	Shares	Amount	Paid-in	Accumulated	During Unrealized	Total
			Capital	Developmental	Foreign	
				Stage	Exchange	
Balance at June 30, 2001	176,366,408	\$ 176,366	\$ 22,592,701	\$(23,622,329)	\$(180,229)	\$(1,033,491)
Stock issued for services	18,466,162	18,466	314,859	-	-	333,325
Stock issued for options	-	-	-	-	-	-
Shares issued in exchange for debt	24,075,502	24,076	1,649,442	-	-	1,673,518
Conversion of debentures	-	-	-	-	-	-
Issuance of common stock	5,849,487	5,850	61,897	-	-	67,747
Unrealized foreign exchange	-	-	-	-	(19,940)	(19,940)
Grants issued	-	-	-	-	-	-
Net loss and comprehensive loss for the year	-	-	-	(3,421,460)	-	(3,767,344)
Balance at June 30, 2002	224,757,559	\$ 224,758	\$ 24,618,899	\$(27,043,789)	\$(200,169)	\$(2,746,185)
Stock issued for services	5,455,000	5,455	130,920	-	-	136,375
Stock issued for options	-	-	-	-	-	-
Shares issued in exchange for debt	15,400,000	15,400	441,183	-	-	456,583
Conversion of debentures	-	-	-	-	-	-
Issuance of common stock	4,283,333	4,283	31,217	-	-	35,500
Unrealized foreign exchange	-	-	-	-	(182,365)	(182,365)
Grants issued	-	-	-	-	-	-
Net loss and comprehensive loss for the year	-	-	-	(1,561,375)	-	(1,561,375)

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Balance at June 30, 2003	249,895,892	\$ 249,896	\$25,222,219	\$ (28,605,164)	\$ (382,534)	\$ (3,515,583)
Stock issued for services	-	-	-	-	-	-
Stock issued for options	-	-	-	-	-	-
Shares issued in exchange for debt	-	-	-	-	-	-
Conversion of debentures	-	-	-	-	-	-
Issuance of common stock	-	-	-	-	-	-
Unrealized foreign exchange	-	-	-	-	(18,597)	(18,597)
Grants issued	-	-	-	-	-	-
Net loss and comprehensive loss for the year	-	-	-	(560,234)	-	(560,234)
Balance at June 30, 2004	249,895,892	\$ 249,896	\$25,222,219	\$ (29,165,398)	\$ (401,131)	\$ (4,094,414)

See Notes to Consolidated Financial Statements

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

	Twelve months ended		Cumulative from
	June 30		March 26, 1993 to
	2004	2003	June 30, 2004
Cash flows from operating activities:			
Net loss	\$ (560,234)	\$ (1,561,375)	\$ (28,453,926)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	-	24,960	364,304
(Gain) loss on disposal and abandonment of assets	-	530,651	2,005,498
Stock issued in exchange for interest	-	-	169,142
Stock issued in exchange for services and expenses	-	43,250	10,574,972
Stock options issued in exchange for services	-	-	3,083,390
Unrealized (loss) gain on foreign exchange	(18,597)	(182,365)	(401,151)
Other non-cash items	282,188	-	282,188
Changes in assets and liabilities:			
(Increase) decrease in:			
Account receivable	-	33,213	-
Inventory	-	(8,158)	(73,323)
Sales tax receivable	-	22,053	(36)
Research and experimental development tax credits receivable	-	246,970	-
Other assets	-	242,956	(10,120)
(Decrease) increase in:			
Accounts payables and accrued liabilities	121,643	273,586	2,017,744
Accrued salaries	175,000	33,080	498,152
	-	-	5,000

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Due to stockholders			
Net cash used in operating activities	-	(301,179)	(9,938,166)
Cash flow from investing activities:			
Increase in notes receivable	-	(2,415)	(259,358)
Reduction in notes receivable	-	-	237,652
Investment	-	-	(89,500)
Equipment	-	-	(321,567)
Equipment assembly costs	-	-	(1,999,801)
Organization cost	-	-	6,700
Reduction in security deposit	-	-	(1,542)
Net cash used in investing activities	-	(2,415)	(2,427,416)
Cash flow from financing activities:			
Loans from related parties		133,600	4,354,835
Deferred financing costs	-	-	180,557
Proceeds from deposits	-	-	143,500
Payments on notes payable	-	-	(409,939)
Proceeds from convertible notes	-	-	754,999
Proceeds from notes payable	-	-	409,939
Payments on lease obligations	-	-	(86,380)
Proceeds from issuance of convertible subordinated debentures	-	-	1,035,000
Proceeds from loan payable	-	-	591,619
Payments on loan payable	-	(52,628)	(488,439)
Proceeds from issuance of stock options	-	-	20,000
Proceeds from grants	-	187,122	3,628,277
Proceeds from issuance of common stock	-	4,283	85,582
Proceeds from additional paid-in capital	-	31,217	2,145,775
Net cash provided by financing activities	-	303,594	12,365,325

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Net (decrease) increase in cash and cash equivalents	-	-	(257)			
Cash and cash equivalents - beginning of period	-	-	257			
Cash and cash equivalents - end of period	\$	-	\$	-	\$	-

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

Twelve months ended		Cumulative
June 30	June 30	from
2004	2003	March 26, 1993
		to
		June 30,
		2004

Supplemental Disclosure
of Non-Cash Activities:

During the year ended June 30, 2003, the Company recorded an increase in common stock and in additional paid-in capital of \$456,583 which was in recognition of the payment of debt. During the year

ended June 30, 2004, the Company did not issue common stock in recognition of the payment of debt.

During the year ended June 30, 2003, stock was issued in exchange for services performed and expenses in the

amount of \$136,375. During the year ended June 30, 2004, the Company did not issue

common stock in exchange for services performed and expenses.

Supplemental Disclosure
of Cash Flow
Information:

Interest paid	\$	-	\$	21,024	\$	232,748
Income taxes paid	\$	-	\$	-	\$	-

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 SUMMARY OF ACCOUNTING POLICIES

CHANGE OF NAME

On July 11, 1997, the Company changed its name from Tirex America, Inc. to The Tirex Corporation.

NATURE OF BUSINESS

The Tirex Corporation (the "Company") was incorporated under the laws of the State of Delaware on August 19, 1987. The Company was originally organized to provide comprehensive health care services, but due to its inability to raise sufficient capital, was unable to implement its business plan. The Company became inactive in November 1990.

REORGANIZATION

On March 26, 1993, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Louis V. Muro, currently an officer and a director of the Company, and former Officers and Directors of the Company (collectively the "Seller"), for the purchase of certain technology owned and developed by the Seller (the "Technology") to be used to design, develop and construct a prototype machine and thereafter a production quality machine for the cryogenic disintegration of used tires. The Technology was conceptually developed by the Seller prior to their affiliation or association with the Company.

DEVELOPMENTAL STAGE

At June 30, 2004, the Company is still in the development stage. The operations consist mainly of raising capital, obtaining financing, developing equipment, obtaining customers and supplies, installing and testing equipment and administrative activities.

BASIS OF CONSOLIDATION

The consolidated financial statements include the consolidated accounts of The Tirex Corporation, Tirex Canada R&D Inc., The Tirex Corporation Canada Inc., Tirex Advanced Products Quebec Inc. and Tirex Acquisition Corp. Tirex Canada R&D Inc. is held 51% by certain shareholders of the Company. The shares owned by these shareholders are held in escrow by the Company's attorney and are restricted from transfer thereby allowing for a full consolidation of

this Company. The Tirex Corporation Canada Inc., Tirex Advanced Products Quebec Inc. and Tirex Acquisition Corp. are 100% held by the Company. All subsidiary companies except Tirex Canada R&D Inc. are dormant. All inter-company transactions and accounts have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less, were deemed to be cash equivalents.

INVENTORY

The Company values inventory, which consists of finished goods and equipment held for resale, at the lower of cost (first-in, first-out method) or market.

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation and provisions for write-downs. Depreciation is computed using the straight-line method over the estimated useful lives of five years. No depreciation is recorded for equipment written down to salvage value.

Repairs and maintenance costs are expensed as incurred while additions and betterments are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gains or losses are reflected in earnings.

INVESTMENT

An investment made by the Company, in which the Company owns less than a 20% interest, is stated at cost value. The cost value approximates the fair market value of the investment.

ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

ADOPTION OF STATEMENT OF ACCOUNTING STANDARD
NO. 123

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. SFAS 123 encourages, but does not require, companies to record stock-based Compensation and other costs paid by the issuance of stock at fair value. The Company has chosen to account for stock-based compensation, stock issued for non-employee services and stock issued to obtain assets or in exchange for liabilities using the fair value method prescribed in SFAS 123. Accordingly, 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.

ADOPTION OF STATEMENT OF ACCOUNTING STANDARD
NO. 128

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share. SFAS 128 changes the standards for computing and presenting earnings per share (EPS) and supersedes Accounting Principles Board Opinion No. 15, Earnings per Share. SFAS 128 replaces the presentation of Primary EPS with a presentation of Basic EPS and replaces the presentation of Fully Diluted EPS with a presentation of Diluted EPS. It also requires dual presentation of Basic and Diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the Basic EPS computation to the numerator and denominator of the Diluted EPS computation. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. SFAS 128 also requires restatement of all prior-period EPS data presented.

THE TIREX CORPORATION

A DEVELOPMENT STAGE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004

As it relates to the Company, the principal differences between the provisions of SFAS 128 and previous authoritative pronouncements are the exclusion of common stock equivalents in the determination of Basic Earnings Per Share and the market price at which common stock equivalents are calculated in the Determination of Diluted Earnings Per Share.

A Basic Earnings per Share is computed using the weighted average number of shares of common stock outstanding for the period. Diluted Earnings per Share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares related to stock options and warrants outstanding during the period.

The adoption of SFAS 128 had no effect on previously reported loss per share amounts for the year ended June 30, 1997. For the years ended June 30, 2004 and June 30, 2003, Primary Loss per Share was the same as Basic Loss per Share and Fully Diluted Loss per Share was the same as Diluted Loss per Share. A net loss was reported in 2004 and 2003, and accordingly, in those years, the denominator for the Basic EPS calculation was equal to the weighted average of outstanding shares with no consideration for outstanding options and warrants to purchase shares of the Company's common stock because to do so would have been anti-dilutive.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, which principally include cash, note receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair values of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At June 30, 2004 and June 30, 2003, respectively, the carrying value of all financial instruments was not materially different from fair value.

INCOME TAXES

The Company has net operating loss carryovers of approximately

\$29.5 million as of June 30, 2004, expiring through 2024. However, based upon present Internal Revenue Service regulations governing the utilization of net operating loss carryovers where the corporation has issued substantial additional stock and there has been a change in control as defined by the Internal Revenue Service regulations, a substantial portion of this loss carryover may not be available to the Company.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes, effective July 1993. SFAS No. 109 requires the establishment of a deferred tax asset for all deductible temporary differences and operating loss carryforwards. Because of the uncertainties discussed in Note 2, however, any deferred tax asset established for utilization of the Company's tax loss carryforwards would correspondingly require a valuation allowance of the same amount pursuant to SFAS No. 109. Accordingly, no deferred tax asset is reflected in these financial statements.

The Company does not currently have research and experimental development tax credits receivable from the Canadian Federal government and the Quebec Provincial government as at June 30, 2004.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated to U.S. dollars at exchange rates in effect at the balance sheet date for monetary items and historical rates of exchange for non-monetary items with the resulting translation adjustment recorded directly to a separate component of shareholders' equity. Income and expense accounts

THE TIREX CORPORATION

A DEVELOPMENT STAGE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004

are translated at average exchange rates during the year. Currency transaction gains or losses are recognized in current operations.

REVENUE RECOGNITION

Revenue from the sale of TCS Systems will be recognized when the installed product is accepted by the Customer. All other revenue from other products will be recognized when shipped to the customer.

Note 2 GOING CONCERN

As reported in the Company's financial statements for the years ended June 30, 2004 and June 30, 2003, the Company incurred a net loss of \$560,234 and \$1,561,375, respectively.

In March 1993, the Company had begun its developmental stage with a new business plan. As of March 2000, the Company had developed a production quality prototype of its patented system for the disintegration of scrap tires, but nonetheless continued its research and development efforts to improve the machine's performance and to permit greater flexibility in design for specific customer applications. Due to the Company's lack of working capital during the year ended June 30, 2002, all rubber crumb production was suspended and research and development efforts have been hampered. Pending receipt of funding from operations, government assistance, loans or equity financing, crumb rubber production and previous research and development efforts will not be resumed. While the Company has engaged the process of marketing the TCS System to numerous potential clients since the beginning of the fiscal year commencing July 1, 2000, as of June 30, 2004, the Company had not yet consummated an unconditional purchase order for a TCS System.

The Company is dependent on the success of its marketing of its TCS Systems, and/or raising funds through equity sales, bank or investor loans, governmental grants or a combination of these, to continue as a going concern. The Company's uncertainty as to its ability to generate revenue and its ability to raise sufficient capital, raise substantial doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 3 PROPERTY AND EQUIPMENT

As at June 30, 2004, plant and equipment consisted of the following:

Furniture, fixtures and equipment	\$149,516
Manufacturing equipment	62,400
Subtotal	211,916
Less: Accumulated depreciation and amortization	161,916
Total	\$ 50,000

Depreciation and amortization expense charged to operations for the years ended June 30, 2004 and June 30, 2003 was zero and \$24,960, respectively.

THE TIREX CORPORATION

A DEVELOPMENT STAGE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004

Note 4 GOVERNMENT LOANS

Canada Economic Development

Loans payable under the Program for the Development of Quebec SMEs based on 50% of approved eligible costs for the preparation of market development studies in certain regions. Loans are unsecured and non-interest bearing. (If the Company defaults, the loans become interest bearing at the rate of 8%).

Loan repayable over five years commencing June 30, 2000 and ending June 30, 2004	\$ 34,300
Loan repayable over five years commencing June 30, 2001 and ending June 30, 2005	43,791
	78,091
Less: Current portion	78,091
Long-term portion	\$ NIL

Principal repayments are as follows:

June 30	Amount
2005	\$78,091

Note 5 CAPITAL LEASE OBLIGATIONS

The Company leases certain manufacturing equipment under agreements classified as capital leases. The cost and the accumulated amortization for such equipment as of June 30, 2004 and June 30, 2003 was \$62,400 and \$62,400, respectively. The equipment under capital leases has been included in property and equipment on the balance sheet. The Company is in arrears on payment of these leases but default has not been declared. The lease expired on June 30, 2004. The leased equipment is not part of the Company's TCS System prototype.

Note 6 CONVERTIBLE SUBORDINATED DEBENTURES

The Company issued Type B Convertible Subordinated Debentures between December 1997 and February 1998. These debentures bore interest at 10% and were convertible into common shares of the Company at \$0.20 per share. The conversion privilege on the

remaining \$55,000 of these debentures expired and the amount is now included on the Balance Sheet in Long term deposits and notes.

Note 7 CONVERTIBLE NOTES

The Convertible Notes appearing on the balance sheet consisted of an investment arrangement with a group of institutional investors involving a multi-stage financing under which the Company had access to, at its option, up to \$5,000,000. A first tranche of \$750,000 was completed but no further draw downs were made. The terms of the convertible note were:

Balance at June 30, 2004	\$586,356
Interest rate	8%, payable quarterly, commencing June 30, 2001
Issue date	February 26, 2001
Maturity date	February 26, 2003

THE TIREX CORPORATION

A DEVELOPMENT STAGE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004

Redemption rights	If not converted, the holder may require the Company to redeem at any time after maturity for the principal amount plus interest.
Conversion ratio	Lower of (i) - 80% of the average of the three lowest closing bid prices for the thirty trading days prior to the issue date, which equals \$.073, or (ii) - 80% of the average of the three lowest closing bid prices for the sixty trading days prior to the conversion date.
Common stock warrants	The Convertible Notes carried an option to purchase Common stock warrants at the rate of one Warrant for each \$1.25 of purchase price. The exercise price on the first tranche of \$ 750,000 is \$ 077 per share.

Certain Directors and Officers of the Company have pledged approximately 12,000,000 of their personal shares of Common Stock of the Company as security for the Convertible Notes until such time as the Company files with the Securities and Exchange Commission a Registration Statement on Form SB-2, to register common stock and warrants issuable upon the conversion of the notes, no later than 150 days after the issue date of the Convertible Notes. This deadline was not met and, as such, the investors served a notice of default to the Company on July 19, 2001. The Registration Statement was never declared effective by the Securities and Exchange Commission as of this date, and until such occurs, the Convertible Notes cannot be converted to Common Stock nor may the Common Stock warrants be exercised. On April 24, 2002 the Company entered into a Settlement Agreement with the Note holders. In the event of a default under the Settlement Agreement, the term of the Convertible Notes would become effective once again. The Company defaulted on the terms of the Settlement Agreement.

Note 8 CONVERTIBLE NOTE

A convertible note, under a private arrangement, consists of the following:

Balance at
June 30, 2004 \$ 185,556

Interest rate 8%

Issue date July 19th, 2000

Maturity date January 19th, 2002

Redemption rights If not converted, the holder may require the Company to redeem at any time after maturity for the principal amount plus interest.

Conversion ratio Not convertible prior to July 19th, 2001, at 20% discount to market between July 19th, 2001 and January 19th, 2002 or at 25% to market if held to maturity, to a maximum of not more than 2,500,000 shares.

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Note 9 RELATED PARTY TRANSACTIONS

Convertible loans include amounts primarily due to Directors, Officers and employees. Historically, such amounts due have been repaid through the issuance of stock. At June 30, 2004 and June 30, 2003, the balances owing to Directors and Officers was \$1,297,462 and \$919,462, respectively. These amounts are without interest or terms of repayment.

Long-term deposits and notes included an amount of \$118,500 at June 30, 2004, which is payable to Ocean Tire Recycling & Processing Co., Inc., a company owned by a Director of the Company.

Note 10 COMMON STOCK

During the year ended June 30, 2003, the Company issued common stock in exchange for services performed totaling \$136,375. The amount for the year ended June 30, 2003 did not include any payments to Officers of the Company in exchange for salary and expenses. During the year ended June 30, 2004, the Company did not issue any common stock in exchange for services performed. The dollar amounts assigned to such transactions have been recorded at the fair value of the services received.

During the year ended June 30, 2004, an Officer of the Company exercised stock options pursuant to a services agreement. The exercise of these stock options entitled the Officer to 1,500,000 common shares of the Company on a cash-less basis. The Company does not have sufficient authorized and unissued shares available at June 30, 2004 for issuance of this stock and as such, the amount attributable to these shares has been recorded as part of the balances owing to Directors and Officers included in Convertible loans.

On January 31, 2001, the Company's stockholders approved an amendment to the Articles of Incorporation of the Company to increase the number of authorized shares of common stock, par value \$0.001, from 165,000,000 shares to 250,000,000 shares.

As at June 30, 2004, the Company had 249,895,892 Common shares issued and outstanding, versus its authorization of 250,000,000

shares.

Note 11 CONVERTIBLE DEBT

In the event that holders of convertible rights of option exercise such rights of conversion, the Company does not have sufficient number of authorized shares conversion stock to fulfill such obligations and a shareholder meeting would be required to approve the additional authorized number of shares. There is no assurance that the shareholders would approve the increase to the number of authorized shares of stock to meet the conversion obligations under the various conversion agreements or options.

Note 12 GOVERNMENT ASSISTANCE

The Company is eligible for and has made claims for tax credits related to scientific research and experimental development expenditures made in Canada. These amounts, under Canadian Federal and Provincial tax law in conjunction with its annual tax return filings, need not be offset against taxes otherwise payable to become refundable to the Company at the end of its fiscal year. As such, during the year ended June 30, 2003, the Company received approximately \$246,970, which was recorded as an increase in stockholders' equity paid-in capital. During the year ended June 30, 2004, the Company did not make any additional claims for tax credits as it was not eligible to do so and, as such, the Company did not record any additional tax credits receivable. The previous receivable balance in respect of tax credits from these governments went from \$246,970 as of June 30, 2002 to zero as of June 30, 2003 and remained as such as of June 30, 2004.

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Note 13 COMMITMENTS

Rental expense for the years ended June 30, 2004 and June 30, 2003 amounted to zero and \$124,442, respectively.

At June 30, 2004, the Company was in arrears of rent, including interest and related charges, in the approximate amount of \$560,000. A settlement agreement with the former landlord is in place under the terms of which the Company would pay to the former landlord the sum of \$140,000 from the proceeds to the Company of revenues from each of the first four sales of TCS Systems.

Note 14 LITIGATION

An action was instituted by Plaintiffs, an individual and a corporation, in a Canadian court alleging a breach of contract and claims damages of approximately \$508,600 representing expenses and an additional approximate amount of \$1,874,000 in loss of profits. The current action follows two similar actions taken in United States courts, the first of which was withdrawn and the second of which was dismissed based on forum non convenience and other considerations. A detailed answer has been filed by the Company denying all liability, stating further that Plaintiffs failed to comply with their obligations. Counsel for the Company believes that the Company has meritorious defenses to all of the Plaintiff's claims. The action is still pending.

A Plaintiff instituted an action, a corporation, in August 2001 in a Canadian court claiming approximately \$63,000 is due and owing for the manufacture and delivery of tire disintegrators. The Company has prepared its defense and a cross claim against the Plaintiff as the product delivered was defective and the Company believes it is entitled to a reimbursement of sums paid. The action is still pending.

An action was instituted by a Plaintiff, the Company's landlord, against the Company in June 2001 for arrears of rent in the amount of approximately \$113,900. Subsequent additions to arrearages with respect to rent and property taxes raised the amount due to approximately \$560,000. A settlement agreement with the former landlord is in place, under the terms of which the Company would pay to the former landlord the sum of \$140,000 from the proceeds to

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the Company of revenues from the first four sales of TCS Systems.

Note 15 ACCUMULATED OTHER COMPREHENSIVE INCOME

The deficit accumulated during the development stage included accumulated comprehensive other income totaling \$103,396.
