FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

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FILER

STB SYSTEMS INC

CIK:**934596**| IRS No.: **751855896** | State of Incorp.:**TX** | Fiscal Year End: **1031**
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SIC: **3577** Computer peripheral equipment, nec

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 2

(MARK ONE)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED OCTOBER 31, 1998
OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER 0-25540

STB SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

TEXAS	75-1855896
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3400 WATERVIEW PARKWAY RICHARDSON, TEXAS	75080
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (972) 234-8750

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, par value $0.01 per share
(Title of class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

The aggregate market value on January 20, 1999 of the voting and non-voting common equity held by non-affiliates of the registrant was $91,444,815.

Number of shares of registrant's Common Stock, par value $0.01 per share, outstanding as of January 20, 1999: 12,606,787.

DOCUMENTS INCORPORATED BY REFERENCE

None.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS.

Unless the context otherwise requires, the term "STB," "we" or "us" when used in this report refers to STB Systems, Inc., a Texas corporation, and its consolidated subsidiaries and prior affiliates.

THIS REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE FEDERAL SECURITIES LAWS. ANY STATEMENTS CONTAINED HEREIN -- INCLUDING WITHOUT LIMITATION STATEMENTS TO THE EFFECT THAT STB OR ITS MANAGEMENT "BELIEVES," "EXPECTS," "ANTICIPATES," "PLANS," "MAY," "WILL," "PROJECTS," "CONTINUES" OR "ESTIMATES," OR STATEMENTS CONCERNING "POTENTIAL," OR "OPPORTUNITY" OR OTHER VARIATIONS THEREOF OR COMPARABLE TERMINOLOGY OR THE NEGATIVE THEREOF -- THAT ARE NOT STATEMENTS OF HISTORICAL FACT SHOULD BE CONSIDERED FORWARD-LOOKING STATEMENTS. ACTUAL RESULTS AND THE TIMING OF CERTAIN EVENTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN OR CONTEMPLATED BY THE FORWARD-LOOKING STATEMENTS DUE TO A NUMBER OF FACTORS, INCLUDING WITHOUT LIMITATION THOSE SET FORTH UNDER "RISK FACTORS" IN STB'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED OCTOBER 31, 1998.

OVERVIEW

We currently sell two broad categories of products, multimedia subsystem products and specialized technology products. Our multimedia subsystem product line includes a wide selection of multimedia accelerators designed for use in mid-range to high-end PCs. Our multimedia subsystem product line also features several complementary products, including DVD decoder subsystems and PC/TV convergence subsystems. Our specialized technology products incorporate graphics technologies and are primarily designed to enable one computer to control simultaneously the display of multiple monitors.

We sell our products to OEMs, the commercial market and the specialized technology market. We sell multimedia subsystem products both to OEMs as subsystems for their PC products and to the commercial market. Sales of multimedia accelerators and other multimedia subsystems to OEMs typically possess higher unit volumes and lower gross profit margins. Sales of multimedia products to the commercial market typically have modest unit volumes and higher gross profit margins than the sale of similar products to OEMs. Although sales volumes of specialized technology products are relatively low, we realize higher gross profit margins from the sale of these products than from the sale of multimedia subsystem products.

For the fiscal years 1998 and 1997, sales of our products to OEMs represented approximately 80% and 79%, respectively, of total net sales. Sales to the commercial market represented approximately 12% of total net sales for fiscal years 1998 and 1997. Sales to specialized technology product markets constituted approximately 7% of total net sales for fiscal 1998 and 8% of total net sales for fiscal 1997. We derived the balance of total net sales primarily from third party assembly services. Third party assembly services comprised approximately 1% of total net sales for fiscal years 1998 and 1997. We export our products through all of our sales channels. Export sales of our products have grown moderately in recent periods. As a result, exports have increased as a percentage of net sales to 28% in fiscal 1998 from 27% in fiscal 1997. Our total gross profit margins and gross profits will likely fluctuate from period to period as a result of our product mix, sales channel mix, component costs and the competitive pricing pressures on our products.

We recognize revenue upon shipment of our products. For products sold through the commercial channel, we generally allow returns in the form of stock rotation and price protection in the form of credits. Our current stock rotation policies permit a commercial customer to return a portion of the products purchased within specified time periods, if that customer places an order with us for additional products of equal or greater value. We also provide price protection to commercial channel customers in the form of credits for price reductions on products remaining in customer inventories at the time of the price reduction. We maintain reserves related to these programs, and we believe that such reserves are adequate.

We have no guaranteed supply arrangements with any of our suppliers. We obtain most of the primary components of our products directly from the component manufacturers. The primary components of our products consist mainly of controller chips and memory chips. The prices of such components can change significantly from time to time. In the past we have experienced, and may in the future experience, increases in our unit component costs without being able to increase the price of the related products. Such

an increase in component costs could negatively impact our gross profit margins and results of operations. In particular, occasional world-wide shortages of memory and controller chips and international tariff disputes have in the past resulted in substantial unit component cost increases that have materially adversely affected our gross profit margins and our results of operations.

On December 13, 1998, we entered into the 3Dfx Merger Agreement. The 3Dfx Merger Agreement provides for the merger of a newly formed, wholly-owned subsidiary of 3Dfx with and into STB (the "3Dfx Merger"). STB will be the surviving corporation in the 3Dfx Merger and, upon consummation of the 3Dfx Merger, will become a wholly-owned subsidiary of 3Dfx. In the event of the consummation of the 3Dfx Merger, the combination of 3Dfx's and STB's operations will result in many significant changes in STB's business and its related results of operations and financial condition. In particular, the announcement and consummation of the merger may disrupt STB's relationships with its suppliers, some of whom are competitors of 3Dfx. For example, nVidia, which is a major supplier of STB and whose graphics chips were incorporated into STB products representing 63.9% of STB's net sales in fiscal 1998 (approximately $170.1 million net sales), competes directly with 3Dfx. As a result of the merger, STB plans to continue to offer for sale to its customers its current products that use nVidia graphics chips, but does not expect to use nVidia's graphics chips on any new products. Unless STB or the 3Dfx/STB combined company can persuade STB's existing customers that are purchasing products using nVidia graphics chips to purchase new products based on 3Dfx graphics chips, the revenue derived from sales to such customers will be reduced significantly. Similarly, while no suppliers of graphics chips to STB have as of the date of this report indicated to STB that they intend to terminate their supplier relationship with STB, to the extent that any such relationship is terminated or curtailed and STB cannot persuade its existing customers who purchase products containing any of those supplier's chips to purchase products containing 3Dfx chips then revenues could be reduced significantly.

RESULTS OF OPERATIONS

The following table sets forth certain items from our Consolidated Statements of Operations as a percentage of net sales:

<TABLE>
<CAPTION>

	PERCENTAGE OF NET SALES YEAR ENDED OCTOBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%
Cost of sales	83.4%	74.9%	80.4%
Gross profit	16.6%	25.1%	19.6%
Operating expenses:			
Research and development	4.0%	3.4%	2.4%
Sales and marketing	6.6%	7.4%	6.1%
General and administrative	4.8%	5.3%	5.3%
Total operating expenses	15.4%	16.1%	13.8%
Income from operations	1.2%	9.0%	5.8%
Interest expense, net	0.2%	0.8%	0.6%
Income before income taxes	1.0%	8.2%	5.2%
Provision for income taxes	0.3%	2.8%	1.8%
Net income	0.7%	5.4%	3.4%

</TABLE>

FISCAL YEAR ENDED OCTOBER 31, 1998 COMPARED TO FISCAL YEAR ENDED OCTOBER 31, 1997

NET SALES. Net sales increased by $66.8 million, or 33.5%, from $199.5 million in fiscal 1997 to $266.3 million in fiscal 1998. This increase resulted from continued growth in all sales channels. Unit volume for fiscal 1998 increased by 25.7% over fiscal 1997. Our overall average unit selling prices increased slightly, primarily as a result of increased product performance and complexity and higher memory configurations. OEM channel sales increased $58.9 million, or 38.3%, from approximately $153.5 million in fiscal 1997 to approximately $212.4 million in fiscal 1998. Sales growth in the OEM channel primarily resulted from increased sales to existing customers. Commercial channel sales increased $8.9 million, or 37.1%, from approximately $23.9 million in fiscal 1997 to approximately $32.8 million in fiscal 1998. This increase in sales to the commercial channel resulted primarily from sales of the award winning Velocity 128, as well as the Black Magic Voodoo 2 and Velocity 4400 multimedia accelerators to established customers. Sales in the specialized technology market experienced moderate growth, increasing from approximately $15.2 million in fiscal 1997 to approximately $16.9 million in fiscal 1998, an increase of $1.7 million, or 11.3%. Unit volume for specialized technology products increased approximately 24.2%, while average unit selling prices declined slightly as a result of increased competition in the market. An increase in sales to existing customers also contributed to the moderate increase in sales of specialized technology products.

GROSS PROFIT. Gross profit decreased by $5.8 million, or 11.6%, to $44.2 million in fiscal 1998, as compared to $50.0 million in fiscal 1997. For the period, gross profit as a percentage of net sales declined to 16.6% from 25.1%. The decrease in the amount of gross profit margin resulted primarily from increased pricing pressure in the commercial and OEM markets and to a lesser degree, the 10.3% decline in average selling prices in the specialized technology market from fiscal 1997 to fiscal 1998. The decrease in gross profit as a percentage of net sales resulted primarily from increased pricing pressure on the Company's products and a decrease in higher margin specialized technology products as a percentage of total sales.

Price protection credits granted during the year ended October 31, 1998 were $4.2 million compared to $1.3 million during the year ended October 31, 1997. The increase in price protection resulted primarily from price protection credits granted in the fourth quarter of 1998 for the Velocity 128 and Black Magic Voodoo 2 products, totaling approximately $2.2 million. STB's inability to obtain an adequate supply of SDRAM memory chips resulted in the late introduction of these products and as a result, STB was forced to price protect the products in the channel shortly after introduction to remain competitive.

Amounts charged to expense for potential excess and obsolete inventory were $6.4 million and $2.2 million during the years ended October 31, 1998 and 1997, respectively. The relative increase in amounts charged to expense for potential excess and obsolete inventory during 1998 was primarily related to $3.2 million for non-recurring charges. These charges are comprised of a $2.0 million charge associated with components provided by a supplier that did not meet specifications (which charges and various related issues are the subject of litigation between STB and the supplier) and a $1.2 million charge attributable to slow-moving inventory specifically identified through a detailed obsolescence review periodically conducted by management. The slow-moving inventory charge was a result of technological advancements in the marketplace, changes in product mix, engineering changes and other adverse market conditions. Management believes the above described charges for excess and obsolete inventory are considered unusual in nature and are not expected to represent any trend which would have a material impact on future results of operations, although this is a forward-looking statement and there can be no assurance in this regard. Excluding these two specific non-recurring reserves described above, STB's inventory obsolescence reserve increased from $1.4 million to $2.0 million from fiscal year end 1997 to 1998 as a result of the increase in inventory levels and the normal obsolescence rates associated therewith. The remaining $2.6 million of the $6.4 million charged to expense in fiscal 1998 represents scrap arising from the manufacturing process. This amount represents approximately 1.5% of production, and is considered to be a normal part of the manufacturing process. The increases in price protection credits

granted and amounts charged to expense for potential excess and obsolete inventory contributed to the decrease in gross profit margin.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased by $4.1 million, or 60.1%, to $10.8 million in fiscal 1998, as compared to $6.7 million in fiscal 1997. This increase resulted primarily from increased staffing levels at our corporate headquarters in Richardson, Texas, as well as at our design centers in Austin, Texas, Eugene, Oregon and Belfast, Northern Ireland. Expenses associated with new product development, software and driver development and continued enhancement and support of our existing products also contributed to the increase. Research and development expenses as a percentage of net sales increased from 3.4% in fiscal 1997 to 4.0% in fiscal

1998.

SALES AND MARKETING EXPENSES. Sales and marketing expenses increased by $2.9 million, or 19.8%, to $17.7 million in fiscal 1998, as compared to $14.8 million in fiscal 1997. This increase resulted from additional staffing and commissions paid as a result of our growth and higher sales levels. A decrease in commissions paid to independent sales representatives partially offset the general increase in sales and marketing expenses. Increased advertising and promotional expenses in the commercial channel, the specialized technology market and the international market also contributed to the overall increase in sales and marketing expense. Sales and marketing expense as a percentage of net sales decreased from 7.4% in fiscal 1997 to 6.6% in fiscal 1998.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased by $2.1 million, or 19.3%, to $12.7 million in fiscal 1998, as compared to $10.6 million in fiscal 1997. The increase is due primarily to expenses associated with our growth, including increased staffing, occupancy costs and other general operating expenses. Expenses associated with data processing, as well as increased goodwill amortization also contributed to the overall increase in general and administrative expenses. General and administrative expense as a percentage of net sales decreased from 5.3% in 1997 to 4.8% in 1998.

NET INCOME. As a result of the foregoing factors, net income decreased by $9.0 million, or 83.9%, to $1.7 million in fiscal 1998, as compared to $10.7 million in fiscal 1997.

FISCAL YEAR ENDED OCTOBER 31, 1997 COMPARED TO FISCAL YEAR ENDED OCTOBER 31, 1996

NET SALES. Net sales increased by $19.3 million, or 10.7%, from $180.2 million in fiscal 1996 to $199.5 million in fiscal 1997. This increase result from continued growth in all sales channels. Unit volume for fiscal 1997 increased by 27.4% over fiscal 1996. At the same time, our average unit selling prices continued to decline primarily as a result of declines in component costs. OEM channel sales increased $8.0 million, or 5.5%, from approximately $145.5 million in fiscal 1996 to approximately $153.5 million in fiscal 1997. Sales growth in the OEM channel resulted primarily from increased sales to existing customers. Commercial channel sales increased $4.1 million, or 20.8%, from approximately $19.8 million in fiscal 1996 to approximately $23.9 million in fiscal 1997. This moderate increase in sales to the commercial channel resulted primarily from increased sales to established customers. Sales in the specialized technology market experienced significant growth, increasing from approximately $10.9 million in fiscal 1996 to approximately $15.2 million in fiscal 1997, an increase of $4.3 million, or 38.9%. Increased sales to existing customers and the sale of products to OEM workstation groups both contributed to the increase in sales of specialized technology products.

GROSS PROFIT. Gross profit increased by $14.7 million, or 41.9%, to $50.0 million in fiscal 1997, as compared to $35.3 million in fiscal 1996. For the period, gross profit as a percentage of net sales increased to 25.1% from 19.6%. The increase in gross profit margin resulted primarily from increased sales of higher margin specialized technology products and, to a lesser degree, increased sales to the commercial channel. In addition, declines in component costs, economies of scale resulting from higher production volumes and greater manufacturing efficiencies also contributed to the increase in gross profit margin. Decreasing unit sales prices partially offset the increase in gross profit margins.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased by $2.3 million, or 52.2%, to $6.7 million in fiscal 1997, as compared to $4.4 million in fiscal 1996. This increase resulted primarily from additional staffing levels at our headquarters in Richardson, Texas, as well as at our design centers in Houston, Texas and Eugene, Oregon. During 1997 we expanded our research and development efforts by establishing and staffing a design center in Belfast, Northern Ireland. Expenses associated with new product development, software development and continued enhancement and support of our existing products also contributed to the increase. Research and development expenses as a percentage of net sales increased from 2.4% in fiscal 1996 to 3.4% in fiscal 1997.

SALES AND MARKETING EXPENSES. Sales and marketing expenses increased by $3.8 million, or 34.6%, to $14.8 million in fiscal 1997, as compared to $11.0 million in fiscal 1996. This increase resulted from additional staffing and commissions paid as a result of our growth and higher sales levels, as well as increased travel and operating costs. Increased trade show expense, as well as increased advertising and promotional expenses in the commercial channel, the specialized technology market and the international market also contributed to the overall increase in sales and marketing expense. Sales and marketing expense as a percentage of net sales increased from 6.1% in fiscal 1996 to 7.4% in fiscal 1997.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased by $1.1 million, or 11.9%, to $10.6 million in fiscal 1997, as compared to $9.5 million in fiscal 1996. The increase resulted primarily from expenses associated with our growth, including increased staffing and related expenses and data processing costs. An increase in the allocation of certain costs related to the Mexican manufacturing operation to cost of goods sold partially offset the increase in general and administrative expenses. Facility expansion at our headquarters and related occupancy costs, including rent and insurance, also contributed to the overall increase in general and administrative expenses. As a result of the increase in operating income, expenses associated our profit sharing plan also increased. For the periods, general and administrative expense as a percentage of net sales remained unchanged at 5.3%.

NET INCOME. As a result of the foregoing factors, net income increased by $4.7 million, or 77.2%, to $10.8 million in fiscal 1997, as compared to $6.1 million in fiscal 1996.

SEASONALITY

Our quarterly operating results vary significantly depending on factors such as the timing of new product introductions, adequacy of component supply, changes in component costs, variations in our product mix, seasonal promotions by us and our customers and competitive pricing pressures. Because the timing of these factors may vary, the results of any particular quarter may not be indicative of results for the entire year or any future period. In addition, the PC market generally experiences weaker sales during the summer months.

LIQUIDITY AND CAPITAL RESOURCES

Inventory and accounts receivable financing and manufacturing and other equipment expenditures constitute our principal capital and liquidity needs. We have generally financed these requirements and our operations through a combination of cash generated from operations, trade credit from vendors, bank borrowings and the proceeds from our public offerings. As a result of our rapid growth in recent years and our capital requirements, we completed a secondary public offering of 2,775,000 shares of STB Common Stock during the second quarter of fiscal 1998. We used the net proceeds from our secondary offering to reduce indebtedness and retained the balance for general corporate purposes. We recognize that future growth, if any, may require additional capital, particularly to support increased working capital needs, staffing requirements, promotional expenses and manufacturing facilities and equipment requirements.

Cash used in operating activities was $148,000 in fiscal 1998, primarily attributable to increases in inventory and other assets, as well as decreases in accounts payable, partially offset by decreases in

accounts receivable, as a result of declining revenues late in the fourth quarter. Cash used in operating activities was $3.9 million in fiscal 1997, resulting primarily from increases in inventory and accounts receivable, as a result of higher sales, partially offset by increased earnings and increases in accounts payable. At October 31, 1998, the Company's working capital amounted to $83.7 million, compared to $31.4 million at October 31, 1997. Cash and cash equivalents equaled $30.6 million and $3.9 million at October 31, 1998 and 1997, respectively.

In fiscal 1998, we invested $3.1 million in capital equipment, compared with net purchases of equipment aggregating $9.6 million during fiscal 1997. Our investment in equipment is primarily attributable to manufacturing equipment additions and upgrades of existing equipment to support the increased demand for our products. During the first quarter of fiscal 1998, we completed a move to a new manufacturing facility in Juarez, Mexico, immediately adjacent to our previous facility. We have retained one-half of the previous facility for expansion. During the fourth quarter of fiscal 1997, we installed two new high speed surface-mount assembly lines at our new facility, at a total cost of approximately $6.3 million. We installed an additional line in the third quarter of fiscal 1998, at a cost of approximately $2.9 million. We financed this equipment through operating lease finance arrangements. During the fourth quarter of fiscal 1996, we installed four surface-mount technology assembly lines, at an approximate cost totaling $4.2 million. We financed this equipment through traditional lease financing arrangements also. Our aggregate obligations under all such equipment lease financing arrangements totaled approximately $9.2 million at October 31, 1998 (see Note 8 of Notes to Consolidated Financial Statements). We expect that additional capital expenditures for similar types of equipment may be necessary to support any additional future customer demand and production requirements.

We have a $40.0 million revolving credit facility ("Revolving Credit Facility"), as well as a $3.0 million term loan ("Term Loan"). At October 31, 1998, no amounts were outstanding under the Revolving Credit Facility and $2.7 million was outstanding under the Term Loan. Principal amounts outstanding under the Revolving Credit Facility bear interest at LIBOR plus 175 basis points (6.989% at October 31, 1998). Amounts outstanding under the Term Loan bear interest at LIBOR plus 250 basis points and are payable in 60 monthly installments of principal and interest. Payment of principal and interest began November 1, 1997. Formulas based on eligible accounts receivable determine availability under the new Revolving Credit Facility. All indebtedness under the Revolving Credit Facility matures on November 21, 1999, and indebtedness under the Term Loan matures on November 1, 2002 (subject to renewal of the Revolving Credit Facility through such date).

In December 1997, we entered into a five-year agreement to construct and lease a new corporate headquarters in Richardson, Texas. Construction on the 210,000 square foot facility was completed in December 1998, and we completed our move into the facility during that month. We estimate the total cost of the building and the land to be approximately $22.8 million. The lessor agreed to fund the cost of the land and construction of the building. Rental payments commenced upon occupancy. We estimate that we will pay approximately $225,000 per month in rent over a four-year period beginning in the first quarter of fiscal 1999. This amount exceeds the expense of our previous headquarter facilities, because local rental rates have increased and we have increased the square footage of our corporate headquarters. The lease agreement also provides that the amount of the lease payments is subject to adjustment based upon prevailing interest rates. Consequently, an increase in prevailing interest rates will increase the expense of our facilities. We have recently entered into an interest rate swap agreement that fixes the interest rate on a majority of our lease obligation at 7.55%. We are also seeking opportunities to sublease that portion of our new headquarters that we do not expect to utilize immediately. At the end of the initial five-year lease, we have the option to renew the lease for an additional five years, pay off the underlying debt or cause the building to be sold. In the event of a sale, the proceeds are to be used to retire the underlying debt. Any excess will be paid to us. We are generally responsible for any remaining unpaid balance owing on the underlying obligation after the sale of the facility.

YEAR 2000 ASSESSMENT

STATE OF READINESS: STB has performed a company-wide evaluation to assess the ability of its products and its information technology ("IT") and non-IT systems to properly function and execute transactions in the Year 2000. STB's Year 2000 Project is divided into three major sections: (a) Infrastructure, which includes internal management information systems, computers, servers, networks to support the business and any non-IT systems used in the operation of the business; (b) Third party Suppliers, which includes those suppliers that provide STB with components that are used in the manufacture of its products; and (c) STB Products which includes those products that generate revenue for STB. The Project has been divided into six phases: (1) Awareness and Communication; (2) Inventory; (3) Assessment; (4) Renovation; (5) Testing; and (6) Rollout. As discussed below, STB has substantially completed the first three phases of the Year 2000 Project for its Infrastructure; the first phase for its Third Party Suppliers and all phases for its Customer Products and Services. All phases of the Year 2000 Project are expected to be completed by the third quarter of 1999.

INFRASTRUCTURE: STB has completed an assessment of its IT and non-IT systems and currently is in the renovation phase for these systems. STB has completed the renovation of its IT hardware systems and expects to complete a renovation of its various software systems by June 1999. The Renovation, Testing and Rollout phases of the Project are expected to be complete by July 1999. STB has distributed a letter to each of its vendors that supply systems or software for its IT and non-IT systems to determine the systems' Year 2000 status. A majority of the recipients have responded to the letter, and most of the respondents have given assurances that their products and services are able to function in the context of the Year 2000 Problem either currently or through upgrades to existing systems. A majority of the total systems are either compliant currently or have been upgraded. STB is assessing these responses and will continue to communicate with vendors that are material to its operations to gain satisfactory assurances. If such assurances are not obtained, STB will seek alternatives, including contracting with other vendors.

THIRD PARTY SUPPLIERS: STB has taken a inventory of the components supplied from third party suppliers that are used in conjunction with its products. STB has contacted significant third party suppliers in an effort to assess the state of their Year 2000 readiness. To date, a majority of the recipients have responded to the letter, and approximately 20% of the respondents have given assurances that their products and services are able to function in the context of the Year 2000 Problem. Approximately 25% of those responding have not been willing to certify the Year 2000 compliance of their products. STB is continuing to obtain responses to the letter and at the same time is formulating a contingency plan that includes identifying alternate suppliers in the event STB is unable to obtain such assurances. Many of STB's components and services are obtained from sources that are not the sole source for such items. Accordingly, STB believes that alternative means are generally available that are Year 2000 compliant from which to obtain components and services. Other than as described above, STB has not undertaken to employ any independent verification or validation process to determine its third party suppliers' state of Year 2000 readiness.

STB PRODUCTS AND SERVICES: During 1998, all of STB's products that were produced in the last five years were tested and confirmed as compliant. STB has transmitted letters to its customers notifying them of their current year 2000 readiness status. In general, STB believes that the nature of the functionality of its products do not entail any date type functions. Therefore STB believes that, the products do not have any Year 2000 performance implications.

COSTS: To date, STB has spent approximately $170,000 relating to software, training and labor costs for its Year 2000 Project, of which $100,000 was incurred for replacement costs for non-compliant software systems as well as the acceleration of replacement of certain other systems as a result of the Year 2000 Problem. STB currently estimates that its software, training and labor costs through fiscal year 1999 relating to the Year 2000 Project will be approximately $100,000. No assurances, however, can be given that these costs will not exceed such amount or that STB will not have to use other sources for these amounts.

STB has to date only used internal resources to assess its Year 2000 risks and cost estimates and does not expect to use any independent verification or validation process in this regard. None of STB's other IT projects has been delayed due to STB's Year 2000 Project. Funds for the Year 2000 Project are expected to be paid for out of operations.

RISKS: If STB does not successfully complete its Year 2000 Project, it could, among other results, prevent it from receiving orders and delivering Year 2000 compliant goods to customers and prevent it from placing orders and receiving sufficient quantities of supplies from vendors. This could have a material effect on STB's ability to market, sell and implement its products, which could have a material adverse effect on its financial condition and results of operations. STB's most reasonably likely worst case Year 2000 scenario would likely involve the failure of a critical supplier's products to be Year 2000 compliant, which could temporarily suspend the manufacture and delivery of STB's related products while the problem was fixed or an alternate supply source was identified. As indicated above, STB is formulating an informal contingency plan that includes identifying alternate suppliers. In addition, as a result of Year 2000 concerns, the PC industry as a whole may experience declining growth rates and a decreased demand for PCs and PC related products. There can be no assurances that third parties will be Year 2000 compliant in a timely manner.

CONTINGENCY PLANS: STB has to date experienced no significant Year 2000 problems. Although STB has not adopted a formal contingency plan, it is currently assessing alternatives, which may be implemented in the event Year 20000 issues arise.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1997, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("FAS 130"), was issued. FAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. It mandates that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. FAS 130 is effective for fiscal years beginning after December 15, 1997. STB will adopt FAS 130 in the year ending October 31, 1999. Reclassification of financial statements for earlier periods provided for comparative purposes is required upon adoption.

In June 1997, Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("FAS 131"), was issued, FAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. FAS 131 is effective for financial statements for periods beginning after December 15, 1997. STB will adopt FAS 131 in the year ending October 31, 1999.

On March 4, 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use ("SOP 98-1"). SOP 98-1 requires computer software costs related to internal use software that are incurred in the preliminary project stage should be expensed as services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project); and interest costs incurred when developing computer software for internal use should be capitalized. SOP 98-1 is effective for financial statements for fiscal years beginning after December 15, 1998. Accordingly, STB will adopt SOP 98-1 in its financial statements for the year ending October 31, 1999. STB does not believe the adoption of SOP 98-1 will have a material effect on its results of operations or financial condition.

On June 15, 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities"

(FAS 133). FAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999 (November 1, 1999 for STB). FAS 133 requires that all derivatives instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. STB is currently evaluating implementation of FAS 133 and the effects the statement will have on its financial statements and disclosures. STB believes that, due to the current limited use of derivative instruments, adoption of the statement will not have a material effect on its results of operations, financial position, capital resources or liquidity.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

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		Notes to Consolidated Financial Statements.	
	2.	Consolidated Financial Statement Schedules	
		Report of Independent Accountants on Financial Statement Schedule.	S-1
		Consolidated Valuation and Qualifying Accounts.	S-2
		All other schedules for which provision is made in the applicable accounting regulation of the Securities & Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.	
	3.	The following documents are filed or incorporated by reference as exhibits to this Report:	
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	*10.15	Company's Amended and Restated 1995 Long Term Incentive Plan (incorporated by reference to Appendix A of the Company's definitive Proxy Statement for the 1997 Annual Meeting of Shareholders)	
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	10.19	Lease Agreement dated December 6, 1988 by and between STB de Mexico S.A. de C.V. (formerly known as Industrias Fronterizas de Chihuahua, S.A. de C.V.) (a subsidiary of the Company, as lessee) and Complejo Industrial Fuentes, S.A. de C.V (as lessor), including an Agreement for Modification dated February 25, 1994 by and between the same parties (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (Registration No. 33-87612))	
	10.20	Modification Agreement dated October 4, 1996 by and between STB de Mexico, S.A. de C.V. and Complejo Industrial Fuentes, S.A. de C.V. (relating to the Lease Agreement filed as Exhibit 10.1 hereto) (incorporated by reference to Exhibit 10.46 to the Company's Registration Statement on Form S-1 (Registration No. 333-14313))	
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	10.22	Amendment to Lease Agreement dated January 30, 1997, by and between STB de Mexico, S.A. de C.V. (as lessee) and Complejo Industrial Fuentes, S.A. de C.V. (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended October 31, 1997).	
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	10.40	Selling Shareholder Agreement between the Company and each of Messrs. Ogle, Balthaser and Sims (incorporated by reference to Exhibit 10.40 of the Company's Registration Statement on Form S-3, Registration No. 333-4684)	
	10.41	Underwriting Agreement by and among the Company, William E. Ogle, Mark S. Sims, William D. Balthaser and CIBC Oppenheimer (in its own capacity and on behalf of an underwriting syndicate) (incorporated by reference to Exhibit 1.1 of the Company's Registration Statement on Form S-3, Registration No. 333-4684)	
	**10.42	Letter Agreement dated December 11, 1998 between STB Systems, Inc. and Hoak Breedlove Wesneski & Co.	
	11.1	Intentionally omitted.	
	21	Subsidiaries of the Company	
		(a) STB Assembly, Inc., a Texas corporation	

(b) STB de Mexico, S.A. de C.V., a Mexican corporation
(c) Maquilados Continentales de Chihuahua, a Mexican corporation (an inactive shell corporation)
(d) Symmetric Simulation Systems, Inc.
(e) STB Systems, Inc., a Delaware corporation (an inactive shell corporation)

+23	Consent of PricewaterhouseCoopers LLP
**27	Powers of Attorney (included on first signature page)
**27	Financial Data Schedule

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* Management contract or compensatory plan or arrangement. The Company will furnish a copy of any Exhibit listed above to any shareholder without charge upon written request to Mr. Bryan F. Keyes, Secretary, 3400 Waterview Parkway, Richardson, Texas 75080.

** Previously filed.

\+ Filed herewith.

(b) No reports on Form 8-K were filed during the last quarter of the period covered by this Report.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 as amended, STB has duly caused this Amendment No. 2 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

STB SYSTEMS, INC.

By: /s/ WILLIAM E. OGLE

William E. Ogle
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

Dated: March 25, 1999

EXHIBIT INDEX

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	10.38	Lease Schedule No. 1000063905 dated as of December 15, 1997 to Master Lease Agreement dated October 30, 1996 between Banc One Leasing Corporation and the Company (incorporated by reference to Exhibit 10.38 of the Company's Registration Statement on Form S-3, Registration No. 333-4684)	
	10.39	Master Lease Amendment dated as of October 31, 1997 to Master Lease Agreement dated October 30, 1996 between Banc One Leasing Corporation and the Company (incorporated by reference to Exhibit 10.39 of the Company's Registration Statement on Form S-3, Registration No. 333-4684)	
	10.40	Selling Shareholder Agreement between the Company and each of Messrs. Ogle, Balthaser and Sims (incorporated by reference to Exhibit 10.40 of the Company's Registration Statement on Form S-3, Registration No. 333-4684)	
	10.41	Underwriting Agreement by and among the Company, William E. Ogle, Mark S. Sims, William D. Balthaser and CIBC Oppenheimer (in its own capacity and on behalf of an underwriting syndicate) (incorporated by reference to Exhibit 1.1 of the Company's Registration Statement on Form S-3, Registration No. 333-4684)	

**10.42	Letter Agreement dated December 11, 1998 between STB Systems, Inc. and Hoak Breedlove Wesneski & Co.
11.1	Intentionally omitted.
21	Subsidiaries of the Company (a) STB Assembly, Inc., a Texas corporation (b) STB de Mexico, S.A. de C.V., a Mexican corporation (c) Maquilados Continentales de Chihuahua, a Mexican corporation (an inactive shell corporation) (d) Symmetric Simulation Systems, Inc. (e) STB Systems, Inc., a Delaware corporation (an inactive shell corporation)
+23	Consent of PricewaterhouseCoopers LLP
**24	Powers of Attorney (included on first signature page)
**27	Financial Data Schedule

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* Management contract or compensatory plan or arrangement. The Company will furnish a copy of any Exhibit listed above to any shareholder without charge upon written request to Mr. Bryan F. Keyes, Secretary, 3400 Waterview Parkway, Richardson, Texas 75080.

** Previously filed.

\+ Filed herewith.