

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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AST RESEARCH INC /DE/

CIK: **725182** | IRS No.: **953525565** | State of Incorpor.: **DE** | Fiscal Year End: **0630**
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IRVINE CA 92713
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 2, 1994

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. 0-13941

AST RESEARCH, INC.

(Exact name of registrant as specified in its charter)

Delaware 95-3525565
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

16215 Alton Parkway
Irvine, California 92718
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (714) 727-4141

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

There were 32,327,750 shares of the registrant's Common Stock, par value \$.01 per share, outstanding on April 29, 1994.

AST RESEARCH, INC.
INDEX

<TABLE>
<CAPTION>

<S>
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

	Page

Consolidated Balance Sheets at April 2, 1994 (Unaudited) and July 3, 1993	3
Consolidated Statements of Income (Unaudited) for the three months and nine months ended April 2, 1994 and April 3, 1993	4
Consolidated Statements of Cash Flows (Unaudited) for the nine months ended April 2, 1994 and April 3, 1993	5-6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11-17
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PART II. OTHER INFORMATION

Item 1. Legal Proceedings	18
Item 4. Submission of Matters to a Vote of Security Holders	18
Item 6. Exhibits and Reports on Form 8-K	19

SIGNATURES	20
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</TABLE>

AST RESEARCH, INC.
CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

(In thousands, except share amounts)	April 2, 1994 (Unaudited)	July 3, 1993
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 151,880	\$ 121,600
Accounts receivable, net of allowance for doubtful accounts of \$18,743 at April 2, 1994 and \$11,671 at July 3, 1993	342,209	236,020
Inventories	341,878	342,307
Deferred income taxes	41,273	46,058
Other current assets	10,811	15,230
Total current assets	888,051	761,215
Property and equipment	157,407	134,422
Accumulated depreciation and amortization	(52,712)	(39,500)
Net property and equipment	104,695	94,922
Other assets	42,342	30,022
Total assets	\$ 1,035,088	\$ 886,159
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 50,000	\$ 59,217
Accounts payable	215,460	157,996
Accrued salaries, wages and employee benefits	30,292	19,042
Other accrued liabilities	97,176	178,835
Income taxes payable	43,004	44,832
Current portion of long-term debt	362	247
Total current liabilities	436,294	460,169
Long-term debt	212,522	92,258
Other non-current liabilities	17,006	14,926
Contingencies		
Shareholders' equity:		
Common stock, par value \$.01; 70,000,000 shares authorized, 32,294,000 shares issued and outstanding at April 2, 1994, and 31,579,115 shares at July 3, 1993	323	316
Additional capital	140,858	129,784

Retained earnings	228,085	188,706
Total shareholders' equity	369,266	318,806
	\$ 1,035,088	\$ 886,159

</TABLE>

See accompanying notes.

AST RESEARCH, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

<TABLE>
<CAPTION>

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	April 2, 1994	April 3, 1993	April 2, 1994	April 3, 1993
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 591,349	\$ 370,251	\$1,782,769	\$1,002,941
Cost of sales	490,243	298,430	1,481,197	789,921
Gross profit	101,106	71,821	301,572	213,020
Selling and marketing expenses	50,031	35,200	145,124	103,494
General and administrative expenses	19,968	12,435	57,256	36,922
Engineering and development expenses	9,579	8,368	30,226	24,487
Total operating expenses	79,578	56,003	232,606	164,903
Operating income	21,528	15,818	68,966	48,117
Interest income	625	688	1,252	3,002
Interest expense	(2,881)	(361)	(7,067)	(813)
Other income (expense), net	750	(94)	(3,485)	(1,815)
Income before provision for income taxes	20,022	16,051	59,666	48,491
Provision for income taxes	6,808	5,006	20,287	15,224
Net income	\$ 13,214	\$ 11,045	\$ 39,379	\$ 33,267
Net income per share:				
Primary	\$.40	\$.35	\$ 1.21	\$ 1.05
Fully diluted	\$.38	\$.35	\$ 1.18	\$ 1.04
Weighted average common and common equivalent shares outstanding:				
Primary	33,080	32,010	32,512	31,820
Fully diluted	37,179	32,011	34,238	31,856

</TABLE>

See accompanying notes.

AST RESEARCH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

(In thousands)	Nine Months Ended	
	April 2, 1994	April 3, 1993
<S>	<C>	<C>
Cash flows from operating activities:		
Cash received from customers	\$1,666,651	\$ 942,266

Cash paid to suppliers and employees	(1,697,421)	(985,382)
Interest received	1,358	3,982
Interest paid	(2,668)	(860)
Income tax refunds received	1,192	-
Income taxes paid	(13,305)	(12,070)
Other cash received (paid)	888	(6,652)
<hr/>		
Net cash used in operating activities	(43,305)	(58,716)
<hr/>		
Cash flows from investing activities:		
Purchases of short-term investments	-	(35,155)
Proceeds from short-term investments	-	87,986
Payment related to Tandy/GRiD acquisition	(15,000)	-
Purchases of capital equipment	(20,902)	(14,724)
Proceeds from disposition of capital equipment	1,169	655
Purchases of other assets	(758)	(336)
<hr/>		
Net cash provided by (used in) investing activities	(35,491)	38,426
<hr/>		
Cash flows from financing activities:		
Short-term borrowings, net	(9,203)	47,990
Repayment of long-term debt	(136)	(551)
Proceeds from issuance of long-term debt, net	107,974	-
Proceeds from issuance of common stock	8,991	4,200
<hr/>		
Net cash provided by financing activities	107,626	51,639
<hr/>		
Effect of exchange rate changes on cash and cash equivalents	1,450	2,536
<hr/>		
Net increase in cash and cash equivalents	30,280	33,885
<hr/>		
Cash and cash equivalents at beginning of period	121,600	87,874
<hr/>		
Cash and cash equivalents at end of period	\$ 151,880	\$ 121,759

</TABLE>

See accompanying notes.

AST RESEARCH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES:
<CAPTION>

(In thousands)	Nine Months Ended	
	April 2, 1994	April 3, 1993
<S>	<C>	<C>
Net income	\$ 39,379	\$ 33,267
<hr/>		
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	17,818	9,274
Provision for deferred income taxes	104	4,005
Change in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(108,440)	(60,675)
Inventories	5,643	(70,373)
Other current assets	8,349	312
Accounts payable and accrued expenses	32,831	30,245
Income taxes payable	(1,741)	(4,990)
Other current liabilities	(40,578)	4,748
Exchange loss	3,330	(4,529)
<hr/>		
Net cash used in operating activities	\$ (43,305)	\$ (58,716)

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

The Company purchased certain assets relating to Tandy/GRiD France's personal computer operations effective September 1, 1993. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 10,171	-
Note payable	(6,720)	-

Liabilities assumed	\$ 3,451	-
=====		
Tax benefit of employee stock options	\$ 1,823	\$ 3,927
=====		

</TABLE>

See accompanying notes.

AST RESEARCH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
April 2, 1994

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company without audit (except for the balance sheet information as of July 3, 1993) in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

The accompanying consolidated financial statements do not include certain footnotes and financial presentations normally required under generally accepted accounting principles and, therefore, should be read in conjunction with the audited financial statements included in the Company's 1993 Annual Report. The results of operations for the three and nine month periods ended April 2, 1994 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended July 3, 1993.

Fiscal Quarter

The Company operates within a conventional 52/53 week accounting fiscal year. Fiscal 1994 represents a 52 week fiscal year, while fiscal 1993 represented a 53 week fiscal year and, as a result, the first nine months of fiscal 1994 included 39 weeks compared to 40 weeks for the comparable prior year period. However, the third quarter of fiscal 1994 and 1993 both included 13 weeks.

Income Taxes

The Company provides for income taxes in interim periods based on the estimated effective income tax rate for the complete fiscal year. For the nine-month period ended April 2, 1994, the estimated rate is less than the U.S. statutory rate primarily due to estimates of the proportion of the Company's fiscal 1994 consolidated income which will be earned in lower rate foreign tax jurisdictions. Differences between the estimated effective tax rate and the Company's actual effective tax rate could result from changes in the mix of earnings in the various tax jurisdictions and are recognized when known.

Acquisitions and Restructuring

Effective June 30, 1993, the Company purchased certain assets and assumed certain liabilities utilized in connection with Tandy Corporation's ("Tandy") personal computer manufacturing operations and the GRiD North American and European sales divisions, excluding Tandy/GRiD France. Effective September 1, 1993, the Company purchased certain assets and assumed certain liabilities of Tandy/GRiD France. The combined purchase price included \$15 million in cash and a three-year promissory note in the principal amount of \$96.7 million.

The acquisitions have been accounted for by the purchase method of accounting, and the net assets are included in the Company's consolidated balance sheets based upon their estimated fair values at the transactions' effective dates. The Company's consolidated statements of income include the revenues and expenses of the acquired businesses subsequent to the transactions' effective dates. The excess of the purchase price over the estimated fair value of the net assets acquired of \$20.5 million is being amortized on a straight line basis over 10 years. The purchase price allocations are based on preliminary estimates of the fair value of the net assets acquired and are subject to adjustment as additional information

becomes available during fiscal 1994. The Company expects to conclude this assessment in the fourth quarter which could result in an increase in the \$20.5 million.

AST RESEARCH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
APRIL 2, 1994

In connection with the Company's acquisition of Tandy Corporation's personal computer manufacturing and engineering operations and GRiD North American and European sales and marketing operations, the Company recorded a pretax restructuring charge of \$125 million in the fourth quarter of fiscal 1993. The charge was comprised of asset write-downs of \$68 million and accruals of estimated future cash expenditures of \$57 million. The charge, which was incurred as a result of the Tandy/GRiD acquisition and restructuring plan, reflects estimated expenses to combine and restructure the Company's existing manufacturing capacity, as well as its marketing, engineering, distribution, sales, and service operations. Also included within the restructuring charge were inventory valuation adjustments necessary to realign existing AST product lines and to curtail production of certain AST product offerings as a result of the newly acquired Tandy/GRiD product offerings.

During the first nine months of fiscal 1994, the Company substantially completed its product realignment strategy and in November 1993, the Company announced its plans regarding realignment of its worldwide manufacturing, engineering and service operations and restructuring of its European operations which is expected to be completed within the next six months. In the third fiscal quarter, the Company began limited product reconfiguration activities within its new Limerick, Ireland manufacturing facility. Also, as part of the Company's previously announced restructuring plan, the Company began the centralization of its European, African and Middle Eastern distribution and European service and support operations in Limerick, Ireland. The Company's Scotland facility, which was acquired as part of the Company's purchase of Tandy Corporation's personal computer operations, is scheduled to terminate operations during the fourth fiscal 1994 quarter. The Company intends to complete the shift of a majority of its USA desktop computer production from Fountain Valley, California to Fort Worth, Texas by the end of the fiscal year. At April 2, 1994, \$43.4 million of the original \$125 million restructuring charge remains on the Company's consolidated balance sheet which the Company believes should be adequate to allow for the completion of its restructuring plan. The Company anticipates that the majority of the remaining restructuring related expenses will be incurred during the fourth quarter of fiscal 1994.

Deferred Grants

During fiscal 1994, the Company secured various grants from the Industrial Development Authority of the Republic of Ireland. These grants include employment, training, and capital grants and extend through December 1996. At April 2, 1994, approximately \$2.1 million in grant funds have been received and are reflected as deferred credits on the Company's consolidated balance sheet. The Company has a ten year contingent liability to repay, in whole or in part, grants received under certain circumstances pursuant to the Capital and Employment Grant Agreements which began February 1994. In addition, the Company has a \$1.4 million ten year contingent liability which began November 1993 and is payable in the event that the Company should terminate operations in Ireland.

Contingencies

The Internal Revenue Service (IRS) has completed its examination of the Company's federal income tax returns for the years ended June 30, 1987 and 1988. As a result of this examination, the IRS has proposed adjustments to the Company's federal tax liabilities for such years of approximately \$8.3 million, excluding interest. The majority of such proposed adjustments relate to the allocation of income between the Company and its foreign manufacturing and sales subsidiaries. Management believes that its position has substantial merit and intends to vigorously contest these proposed adjustments. Furthermore, management believes that any liability that may result upon the final resolution of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company was named as defendant or co-defendant, in most cases, along with other personal computer manufacturers, including IBM, AT&T, Unisys, Digital Equipment Corporation, NEC, Olivetti, NCR, Panasonic, and Matsushita, in eleven similar lawsuits each of which alleges as a factual basis the occurrence of carpal tunnel syndrome or repetitive stress injuries, which are being alleged with increasing frequency as a result of the use of various computer products. The Company may be named in additional suits, but it is impossible to predict how many may be filed.

The Company is also subject to other legal proceedings and claims which arise in the normal course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, management does not believe the outcome of any of these matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

Per Share Information

Primary earnings per common share have been computed based upon the weighted average number of common and common equivalent shares outstanding. Common equivalent shares result from the assumed exercise of outstanding stock options that have a dilutive effect when applying the treasury stock method. The fully diluted per share calculation assumes, in addition to the above, (i) that the Company's Liquid Yield Option Notes were converted from the date of issuance with earnings being increased for interest expense, net of taxes, that would not have been incurred had conversion taken place, and (ii) the potential additional dilutive effect of stock options.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

<TABLE>
<CAPTION>

(In thousands)	April 2, 1994	July 3, 1993
<S>	<C>	<C>
Purchased parts	\$ 121,666	\$ 146,565
Work in process	46,784	30,890
Finished goods	173,428	164,852
	\$ 341,878	\$ 342,307

</TABLE>

Long-Term Debt

Long-term debt consists of the following:

<TABLE>
<CAPTION>

(In thousands)	April 2, 1994	July 3, 1993
<S>	<C>	<C>
Liquid Yield Option Notes (zero coupon convertible subordinated notes) due 2013, less original issue discount of \$203,266, 5.25% yield to maturity	\$ 111,734	\$ -
Promissory note payable, interest due annually at initial rate of 3.75%, principal due July 1996	96,720	90,000
Other notes payable due in various installments through April 2002	4,430	2,505
	212,884	92,505
Less current portion of long-term debt	(362)	(247)
Long-term debt	\$ 212,522	\$ 92,258

</TABLE>

AST RESEARCH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
April 2, 1994

On December 14, 1993, the Company issued \$315 million par value of Liquid Yield Option Notes (LYONs) due December 14, 2013. The LYONs are zero coupon convertible subordinated notes which were sold at a significant discount to par value with a yield to maturity of 5.25% and a total value at maturity of \$315 million. There are no periodic payments of interest on the LYONs. Each \$1,000 principal amount at maturity of LYONs is convertible into 12.993 shares of the Company's common stock at any time. Upon conversion of a LYON, the Company may elect to deliver shares of common stock at the conversion rate or cash equal to the market value of the shares of common stock into which the LYONs are convertible. The holder of a LYON may require the Company to purchase its LYONs on December 14, 1998, December 14, 2003 and December 14, 2008 (the "Purchase Dates"), and such payments may reduce the liquidity of the Company. However, the Company may, subject to certain exceptions, elect to pay the purchase price on any of the three Purchase Dates in cash or shares of common stock or any combination thereof.

Total proceeds received from the sale of the LYONs were \$111.7 million and have been utilized for working capital, repayment of bank borrowings under its revolving credit facilities, new product development, and other general corporate purposes.

In connection with the Tandy acquisition, the Company issued a \$96.7 million promissory note to Tandy Corporation which is due on July 11, 1996. Upon maturity of the note, up to fifty percent of the initial principal amount of the promissory note may be converted, at the option of the Company, into common stock of the Company based upon its then fair market value, as defined in the note. Interest is payable annually at an initial rate of 3.75% per annum, adjusted once each year to the lower of either 5% or the three month rate within the meaning of Section 1274(d)(2) of the Internal Revenue Code of 1986. There are no sinking fund requirements. The note also requires the Company to maintain a standby letter of credit payable to Tandy Corporation in the amount of 70% of the face value of the note or \$67.7 million. This standby letter of credit was issued under the terms of the Company's revolving credit agreement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
April 2, 1994

RESULTS OF OPERATIONS

The following table shows the results of operations for the periods indicated as a percentage of net sales.

<TABLE>
<CAPTION>

	Percentage of Net Sales Three Months Ended		Percentage of Net Sales Nine Months Ended	
	April 2, 1994	April 3, 1993	April 2, 1994	April 3, 1993
<S>	<C>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	82.9	80.6	83.1	78.8
Gross profit	17.1	19.4	16.9	21.2
Selling and marketing expenses	8.5	9.5	8.1	10.3
General and administrative expenses	3.4	3.4	3.2	3.7
Engineering and development expenses	1.6	2.3	1.7	2.4
Operating income	3.6	4.2	3.9	4.8
Other income (expense), net	(0.2)	0.1	(0.6)	-

Income before provision for income taxes	3.4	4.3	3.3	4.8
Provision for income taxes	1.2	1.3	1.1	1.5

Net income	2.2%	3.0%	2.2%	3.3%
=====				

</TABLE>

Sales

Net sales for the nine-month period ended April 2, 1994 increased 78% to \$1.783 billion from \$1.003 billion in the nine-month period ended April 3, 1993. This improvement in revenues was primarily due to increased demand for the Company's desktop and notebook computer system products. The Company shipped 1,084,000 computer systems in the first nine months of fiscal 1994, an increase of 93% over the 562,000 units shipped in the same prior year period.

Revenues from desktop system products increased 64% to \$1.109 billion for the nine-month period ended April 2, 1994 from \$676 million in the comparable prior year period. Strong demand for the Advantage! 486SX, 486/66, Bravo 486SX/25, 486/33, 486/66D, and the Premmia 486 product lines all contributed to the record level of computer system revenues. Revenues from Tandy's retail operations and the recently acquired GRiD and Victor product families combined to contribute to the significant desktop revenue growth. Included within total desktop revenues were sales of the Company's 80386 systems which declined to \$49.5 million in the nine-month period ended April 2, 1994, compared to \$187.3 million in the first nine months of fiscal 1993.

The Company's notebook computer product revenues rose 110% to \$422 million in the nine-month period ended April 2, 1994 from \$201 million in the comparable prior year period. This increase reflects a 95% increase in unit shipments to 213,000 for the nine-month period ended April 2, 1994 from 109,000 in the same prior year period. Notebook systems sales growth occurred in all key notebook product line offerings including the Bravo notebooks, the Advantage! Explorer, and the PowerExec.

North American revenues (including Canada) increased by 97% to \$1.164 billion during the first nine months of fiscal 1994 over the comparable prior year period, primarily due to growth in both desktop systems and notebook computer sales. While revenue growth occurred in each of the Company's North American distribution channels, sales to the consumer retail channel, which includes sales made to Tandy Corporation, increased 223% and accounted for 33% of North American revenues for the first nine months of fiscal 1994 compared to 20% in the same fiscal 1993 period. The Company believes that the substantial growth in this channel is partially due to the seasonal nature of the retail channel in which sales are historically strongest during the third and fourth calendar quarters. Sales to the independent reseller/dealer channel for the nine-month period ended April 2, 1994 also rose substantially, increasing 79% over the same prior year period and accounted for 44% of total North American revenues. The national distributor channel and the original equipment manufacturers (OEM) channel accounted for 11% and 12%, respectively, of total North American revenues during the nine-month period ended April 2, 1994.

Nine month fiscal 1994 international revenues rose 50% to \$619 million from \$411 million in the comparable prior year period and accounted for 35% of total year-to-date fiscal 1994 revenues. New European subsidiaries in Denmark, Finland, Norway, and Scotland, as well as significant revenue growth in France, Sweden, Switzerland, and the United Kingdom, resulted in total European revenues rising 84% to \$395 million in the nine-month period ended April 2, 1994 from \$214 million in the prior year period. Increased demand for the Company's Bravo desktop systems and the Bravo and PowerExec notebook systems contributed to the European revenue growth. Also, during the second quarter of fiscal 1994 and consistent with the Company's realignment of its European operations, a new subsidiary was established in Limerick, Ireland. In the third quarter of fiscal 1994, the subsidiary began limited European distribution of AST products and by the fourth fiscal quarter, the Company expects it to begin limited desktop production. The Company's Scotland facility, which was acquired as part of AST's purchase of Tandy Corporation's personal computer operations, is scheduled to terminate operations during the fourth fiscal 1994 quarter.

Pacific Rim revenues totaled \$182 million in the nine-month period ended April 2, 1994, up 8% from the prior year total of \$168 million. A significant portion of the Company's Pacific Rim revenues are derived from sales to the Hong Kong government and to Hong Kong based dealers who ultimately market the Company's products within the People's Republic of China (PRC). Although the PRC has historically provided the Company with significant revenues and profitability, future sales of the Company's products into the PRC are highly

dependent upon continuing favorable trade relations between the United States and the PRC and the general economic and political stability of the region. Economic factors such as short-term fluctuations in foreign currency exchange rates and changes in the PRC tax structure could have a corresponding impact on future sales and operating results. Despite these uncertainties, in March 1994, as part of the Company's commitment to the Pacific Rim, the Company established a new sales and manufacturing subsidiary in Tianjin, China through a joint venture with a corporation affiliated with the Chinese government.

In the Company's Rest of World region, revenues increased 47% to \$42 million in the nine-month period ended April 2, 1994 compared to the same prior year period. This increase is primarily due to an 86% growth rate in the Company's Middle East operations.

Revenues for the quarter ended April 2, 1994 increased 60% to \$591 million from \$370 million in the quarter ended April 3, 1993 due to strong demand for the Company's desktop and notebook system sales. During the third quarter of fiscal 1994, the Company introduced the AST Advantage! EXP/60 and the Premmia GX desktop system based on Intel's Pentium processor; the Bravo LC 4/100t, supporting the new IntelDX4 processor; the Bravo NB 4/33s notebook; and the GRIDPAD 2390, a hand held PC companion currently available in North America only. In addition, the Company began shipments of its new line of Pentium-based Premmia mini-tower and full-size servers.

The Company's future success is highly dependent upon its ability to continue to develop and market products that incorporate new technology, are priced competitively and achieve significant market acceptance. There can be no assurance that the Company's products will continue to be commercially successful or technically advanced due to the rapid improvements in computer technology and resulting product obsolescence. There is also no assurance that the Company will be able to deliver commercial quantities of new products in a timely manner, or that such products will receive favorable market acceptance. The Company regularly introduces new products designed to replace existing products. While the Company closely monitors such new product introductions, there can be no assurance that such transitions will occur without adversely affecting the Company's net sales and profitability. In addition, the personal computer industry is characterized by an extremely competitive pricing environment which continues to experience frequent dramatic price reductions at all levels of competition and the Company expects these pricing pressures on its products to continue. There can be no assurance that future pricing actions by the Company's competitors will not adversely impact the Company's net sales and effect the Company's revenue growth.

Gross Profit

Gross profit margins decreased to 16.9% in the nine-month period ended April 2, 1994 from 21.2% in the nine-month period ended April 3, 1993. This decline in margins is primarily due to price reductions prompted by competitive market conditions which have occurred throughout the past year impacting all of the Company's computer system products. Also contributing to the lower gross profit margins was the increased percentage of revenues generated by sales to the Company's consumer retail (including sales to Tandy's retail operations) and OEM channels, which typically yield lower gross margins.

The results of the Company's international operations are subject to currency fluctuations. As the value of the U.S. dollar strengthens relative to other currencies, revenues from sales in those currencies convert to fewer U.S. dollars. This effect on revenue has a corresponding impact on gross profit, as the Company's production costs are incurred primarily in U.S. dollars. When comparing the nine-month period ended April 2, 1994 to the nine-month period ended April 3, 1993, the U.S. dollar rose substantially against nearly all European currencies. This year-to-year currency fluctuation resulted in a 2.3 percentage point gross margin reduction in fiscal year-to-date 1994 results compared to the comparable prior year period.

The Company has generally been able to obtain parts from multiple sources without significant difficulty. However, increases in demand for personal computers have created industry-wide shortages at times resulting in premium prices paid for key components, such as Dynamic Random Access Memories and high quality liquid crystal display screens. These shortages have occasionally resulted in the Company's inability to procure these components in sufficient quantities to meet demand for its products. In addition, a number of the Company's products include certain components, such as active-matrix displays, CD-ROMs, application specific integrated circuits, and microprocessors, that are currently purchased from single sources due to availability, price, quality or other considerations. The Company purchases

components pursuant to purchase orders placed in the ordinary course of business and has no guaranteed supply arrangements with single source suppliers. While the Company is working with its suppliers to minimize component part shortages, there can be no assurance that future disruptions in delivery of components will not occur. Should such shortages occur or component costs significantly increase, the Company's net sales and profitability may be adversely affected.

The personal computer industry continues to experience dramatic price reductions and the Company anticipates that pricing pressures will continue to be significant and is prepared to adjust its pricing as required by the marketplace. During the nine-month period ended April 2, 1994, the Company and the majority of its competitors have introduced new, lower-priced models of personal computers and have significantly reduced prices on their existing products. Major competitors have priced some personal computers competitively with some of the Company's products that have similar hardware configurations. There can be no assurance that future pricing actions by the Company and its competitors will not adversely impact the Company's gross margin or profitability.

Gross profit margins declined to 17.1% in the quarter ended April 2, 1994 from 19.4% in the comparable prior year quarter. This decline is related to price reductions prompted by competitive market conditions, a shift into the lower yielding consumer retail channel and an .8 percentage point decline due to the negative impact of currency fluctuations. Gross margins have improved slightly each quarter throughout fiscal 1994. However, due to continuing industry pricing pressures and the potential significant impact of shifts within the Company's channel mix, the Company is unable to determine whether this trend will continue.

The personal computer industry is characterized by rapid technological change and product obsolescence. Accordingly, the Company's product designs generally have short commercial lives. If the Company's products become technically obsolete, the Company's net sales and profitability may be adversely affected. Lower gross margins could also result in decreased liquidity and adversely affect the Company's financial position.

Operating Expenses

Total operating expenses increased 41.1% to \$232.6 million in the nine-month period ended April 2, 1994 from \$164.9 million in the nine-month period ended April 3, 1993. However, as a percentage of sales, operating expenses decreased to 13.0% from 16.4% in the comparable prior year period. The increase in actual operating expenses was primarily due to the increased level of sales compared to the same prior year period.

Selling and marketing expenses increased 40.2% to \$145.1 million in the nine months ended April 2, 1994 from \$103.5 million in the prior year period. Selling and marketing expenses increased due to higher payroll and related costs consistent with increases in sales and marketing staff throughout the world. In addition, the Company's continued focus on increasing brand name awareness led to an increase in media advertising expenses. Also, product marketing and dealer activities including co-op advertising and other promotion expenses increased as a result of increased sales levels. As a percentage of sales, selling and marketing expenses declined to 8.1% for the period ended April 2, 1994 from 10.3% in the prior year period.

General and administrative expenses increased by 55.1% to \$57.3 million in the nine-month period ended April 2, 1994 from \$36.9 million in the same fiscal 1993 period. Depreciation and amortization expenses increased primarily due to the expanded fixed asset base resulting from the acquisition of Tandy's personal computer business. In addition, continued expansion of the Company's domestic and international operations including France, Ireland, Sweden and the United Kingdom resulted in increased costs for payroll, payroll related expenses, insurance, rent, and professional fees. As a percentage of sales, general and administrative expenses decreased to 3.2% from 3.7% in the comparable prior year period.

Engineering and development costs rose by 23.4% to \$30.2 million for the nine-month period ended April 2, 1994 from \$24.5 million in the comparable prior fiscal period. The Company's new product development programs have resulted in increased expenses for payroll and payroll-related costs and engineering materials. Significant new notebook product introductions have been made during the first three quarters of fiscal 1994, including the Power Exec 4/33SL and 4/25SL Special Edition, the Bravo Notebook, and the Advantage! Explorer. Other new product introductions during the period included desktop additions to the Advantage!, Bravo, and Premmia product lines as well as the new Pentium-based Premium SE server and Premmia MTE P/60 and SE P/60 servers,

and the hand held GRiD PalmPad SL and GRIDPAD 2390. As a percentage of sales, engineering and development costs declined to 1.7% for the period ended April 2, 1994 from 2.4% in the comparable prior year period.

Total operating expenses for the quarter ended April 2, 1994 increased 42.1% to \$79.6 million from \$56.0 million in the same fiscal 1993 quarter. As a percentage of sales, operating expenses decreased to 13.5% from 15.1% in the prior year quarter. The overall increased spending is primarily due to increased payroll and employee benefit costs related to worldwide expansion and expanded sales and marketing activities consistent with increased sales levels.

Other Income and Expense

For the nine-month period ended April 2, 1994, the Company had net interest expense of \$5.8 million compared to net interest income of \$2.2 million in the corresponding fiscal 1993 period. Interest expense increased as a result of the additional interest expense related to the note payable to Tandy, the debt associated with the Company's December 1993 issuance of Liquid Yield Option Notes and increased utilization of the Company's bank credit facilities.

In the first nine months of fiscal 1994, the Company recognized net other expenses of \$3.5 million compared to \$1.8 million for the same fiscal 1993 period. These amounts relate primarily to foreign currency transaction and remeasurement gains and losses and the costs associated with the Company's foreign currency hedging activities. The Company adheres to a hedging strategy which is designed to minimize the effect of remeasuring local currency balance sheets of its foreign subsidiaries on the Company's consolidated financial position and results of operations.

Provision for Income Taxes

The Company's effective tax rate increased to 34% in the nine-month period ended April 2, 1994 from 31% in the comparable prior year period. The increased tax rate is attributable to changes in the proportion of income earned within various taxing jurisdictions and the tax rates in the locations in which those earnings were generated.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased to \$452 million at April 2, 1994 from \$301 million at July 3, 1993. During the first nine months of fiscal 1994, the Company used \$43.3 million of cash principally to fund increased levels of accounts receivable consistent with increased worldwide sales levels. The Company's cash and cash equivalents totaled \$151.9 million at April 2, 1994 compared to \$121.6 million at July 3, 1993. Completion of the December 1993 public debt offering (partially offset by increases in accounts receivable) accounted for the higher cash level.

Capital expenditures totaled \$20.9 million in the first nine months of fiscal 1994 and consisted of additions to plant and engineering equipment, office furniture and fixtures, and worldwide information systems. Included in total capital expenditures are land and an existing manufacturing plant purchased for \$4.2 million and machinery and equipment for \$1.5 million in Limerick, Ireland.

The Company intends to fund its fiscal 1994 cash requirements through a combination of cash on hand, cash provided by operations, available borrowings under its revolving credit facilities and possible future public or private debt and/or equity offerings. At April 2, 1994, the Company had available a \$225 million unsecured revolving credit facility with a final maturity date of September 30, 1996. This revolving credit agreement allows the Company to borrow, subject to certain leverage and total debt restrictions, at rates based upon the bank's reference rate, or a spread of 5/8% over the LIBOR rate, 3/4% over the domestic certificate of deposit rate, or at a rate bid by a bank, as selected by the Company. On March 30, 1994, the Company amended its \$225 million unsecured credit facility to redefine certain covenants pursuant to the agreement. At April 2, 1994, there was \$50 million outstanding as drawings under this credit facility and \$67.7 million outstanding in the form of a letter of credit issued to Tandy Corporation in support of the acquisition note payable. On April 27, 1994, the Company amended its \$225 million unsecured credit facility to increase the total amount available to \$275 million and to allow the Company to increase the facility to \$300 million with additional bank commitments. On May 13, 1994, the Company added three banks to the facility and increased the total amount available to \$300 million. All other terms remained the same. The Company also has various additional letter of credit facilities available for use by the Company and its subsidiaries.

In connection with the Tandy acquisition, the Company issued a \$96.7 million promissory note to Tandy Corporation which is due on July 11, 1996. Interest is payable annually at an initial rate of 3.75% per annum, adjusted once each year to the lower of either 5% or the three month rate within the meaning of Section 1274(d)(2) of the Internal Revenue Code of 1986. There are no sinking fund requirements. The note also requires the Company to maintain a standby letter of credit payable to Tandy in the amount of 70% of the face value of the note or \$67.7 million. Upon maturity of the note, up to 50% of the initial principal amount of the promissory note may be converted, at the option of the Company, into common stock of the Company based upon its then fair market value, as defined in the promissory note.

On December 14, 1993, the Company issued \$315 million par value of Liquid Yield Option Notes (LYONs) due December 14, 2013. The LYONs are zero coupon convertible subordinated notes which were sold at a significant discount to par value with a yield to maturity of 5.25% and a total value at maturity of \$315 million. There are no periodic payments of interest on the LYONs. Each \$1,000 principal amount at maturity of LYONs is convertible into 12.993 shares of the Company's common stock at any time. Upon conversion of a LYON, the Company may elect to deliver shares of common stock at the conversion rate or cash equal to the market value of the shares of common stock into which the LYONs are convertible. Total proceeds received from the sale of the LYONs were approximately \$111.7 million, which have been utilized for working capital, including the financing of expected increases in accounts receivable and inventories, repayment of bank borrowings under the Company's revolving credit facilities, new product development, and other general corporate purposes. The holder of a LYON may require the Company to purchase its LYONs on December 14, 1998, December 14, 2003 and December 14, 2008 (the "Purchase Dates"), and such payments may reduce the liquidity of the Company. However, the Company may, subject to certain exceptions, elect to pay the purchase price on any of the three Purchase Dates in cash or shares of common stock or any combination thereof. The Company has made no decision as to whether it will meet future purchase obligations in cash, common stock, or any combination thereof. Such decision will be based on market conditions at the time a decision is required, as well as management's view of the liquidity of the Company at such time.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

Future operating results may be impacted by a number of factors, including worldwide economic and political conditions, industry specific factors, the Company's ability to develop and produce commercially viable products, the Company's ability to manage expense levels in response to decreasing gross profit margins, the continued financial strength of the Company's dealers and distributors and the Company's ability to successfully integrate the acquired Tandy/GRiD operations into the Company's business model.

The Company anticipates that the personal computer industry will continue to experience intense price competition, dramatic price reductions, rapid technological change and product obsolescence. There can be no assurance that future pricing actions by the Company and its competitors will not adversely impact the Company's gross margins or that the Company will be able to deliver commercial quantities of new, technically advanced products in a timely manner, or that its new products will receive favorable market acceptance.

Consistent with industry practice, the Company provides certain of its larger distributors, consumer retailers and dealers with stock balancing and price protection rights which permit these distributors, retailers and dealers to return slow-moving products to the Company for credit or to receive price adjustments if the Company lowers the price of selected products within certain time periods. To date, the Company has not experienced any material adverse impact from stock balancing returns or price protection adjustments; however, there can be no assurance that the Company will not experience increased rates of return or price protection adjustments in the future. Any significant returns or adjustments could adversely effect the Company's net sales, gross profit and profitability.

The Company believes that, with the acquisition of additional manufacturing facilities from Tandy Corporation and the purchase of manufacturing facilities both in China and Ireland, production capacity should be sufficient to support anticipated increases in unit volumes. The Company also expects to increase inventory levels to support higher production volumes. However, if the Company is unable to obtain certain key components, or to effectively forecast customer demand or manage its inventory, these higher inventory levels may result in increased obsolescence and adversely impact the Company's gross margins and results of operations. Additionally, if the Company is unable to timely ramp up its manufacturing operations in Texas and Ireland it could

adversely impact the Company's net sales, gross profit and profitability.

The Company's international operations may be affected by foreign currency fluctuations. The financial statements of the Company's foreign subsidiaries are remeasured into the United States dollar functional currency for consolidated reporting purposes. Gains and losses resulting from this remeasurement process are recognized currently in the consolidated results of operations. The Company attempts to minimize the impact of these remeasurement gains and losses by adhering to a hedging strategy utilizing forward exchange contracts and, to a lesser extent, foreign currency borrowings. The Company's exposure to currency fluctuations will continue to increase as a result of the expansion of its international operations. Significant fluctuations in currency values could have an adverse effect on the Company's net sales, gross margins and profitability.

The Company's international operations may be affected by changes in United States trade relationships and the economic stability of the locations in which sales occur. The Company operates in foreign locations, such as the People's Republic of China, where future sales may be dependent upon continuing favorable trade relations. Additionally, foreign locations such as the People's Republic of China may experience changes in their general economic stability due to such factors as increased inflation. Any significant change in United States trade relations or the economic stability of foreign locations in which the Company sells its products could adversely affect the Company's net sales and profitability.

From time to time the Company is notified that certain of its products may infringe upon the intellectual property rights of others. The Company generally evaluates all such notices on a case-by-case basis to determine whether licenses are necessary or desirable. If such claims are made, there can be no assurance that licenses will be available on commercially reasonable terms or that retroactive royalty payments on sales of the Company's computers will not be required. In addition, substantial costs may be incurred in disputing such claims. Should this occur, the Company's profitability may be adversely affected.

The Company's corporate headquarters and certain manufacturing operations are located near major earthquake faults which have experienced earthquakes in the past. While the Company does carry insurance, operating results could be adversely affected in the event of a major earthquake.

Because of these and other factors affecting the Company's operating results, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In June 1989, Texas Instruments Inc. (TI) advised the Company that it believed certain AST computer products infringe certain TI patents. On January 4, 1994, the Company initiated litigation in the U.S. District Court for the Central District of California against TI alleging certain violations of licensing agreements, federal antitrust laws and the California Unfair Practices Act. In addition, the Company alleged that TI is infringing an AST patent and that certain TI patents are invalid or inapplicable. TI has alleged that the Company is infringing patents owned by TI. This litigation with TI is proceeding. Management does not believe that the outcome of this matter will have a material adverse impact on the Company's consolidated financial position or results of operations.

On March 3 and March 14, 1994, complaints were filed by two shareholders against the Company and certain of its officers and directors requesting certification of a class action, asserting claims under state and federal securities law based on allegations that the Company made inadequate and false disclosures and seeking unspecified compensatory damages and related fees and costs. The complaints were filed in the United States District Court for the Central District of California. On May 9, 1994, the Court consolidated the two cases under the case name Frank E. Marschall and Saul Jones, on Behalf of Himself and All Others Similarly Situated v. Bruce C. Edwards, Wai S. Szeto, Safi U. Qureshey, Richard P. Ottaviano, James T. Schraith, Carmelo J. Santoro, AST Research, Inc. Management has reviewed the allegations and the complaints and believes such allegations are without merit and intends to vigorously defend the complaints.

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

The Company's 1993 Annual Meeting of Shareholders was held on January 28, 1994 in Newport Beach, California. Matters submitted to a vote of security holders included:

- (1) The election of the following five directors to hold office until the next annual meeting and until their successors are elected and duly qualified:

Safi U. Qureshey
Richard J. Goeglein
Jack W. Peltason
Carmelo J. Santoro
Delbert W. Yocam

- (2) The approval of the amendment of the 1989 Long-Term Incentive Program and 1991 Non-Employee Option Plans to establish limits on the number of options and restricted shares that may be granted to any one individual in a calendar year.

In Favor	24,488,523
Opposed	943,744
Abstentions	98,257
Broker Non-Votes	723,385

- (3) The approval of the appointment of Ernst & Young as independent auditors for the fiscal year ending July 2, 1994.

In Favor	26,139,149
Opposed	61,965
Abstentions	52,795

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

<TABLE>

<CAPTION>

(a) Exhibits

<C> <S>

- 10.124 First Amendment dated March 30, 1994 to Credit Agreement dated September 30, 1993 among AST Research, Inc., Bank of America NT & SA as co-agent and National Westminster Bank Plc as co-agent.
- 10.125 Second Amendment dated April 27, 1994 to Credit Agreement dated September 30, 1993 among AST Research, Inc., Bank of America NT & SA as co-agent and National Westminster Bank Plc as co-agent.
- 10.126 Joint Venture Contract dated September 7, 1993 between Tianjin Economic - Technological Development Area Business Development Co. and AST Research (Far East) Limited.
11. Computation of Net Income Per Share.

</TABLE>

(b) Reports on Form 8-K

On January 10, 1994, the Company filed a report on Form 8-K/A to provide "Other Information" under Item 5 of said Form regarding the agreement with Tandy Corporation concerning the completion of the purchase of certain assets and assumption of certain liabilities relating to Tandy/GRiD France, effective September 1, 1993.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AST RESEARCH, INC.

(Registrant)

Date: May 16, 1994

/s/ BRUCE C. EDWARDS

Bruce C. Edwards
Senior Vice President,
Finance and Chief
Financial Officer

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (the "Amendment"), dated as of March 30, 1994, is entered into by and among AST RESEARCH INC., a Delaware corporation (the "Company"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as Administrative Agent, Co-Agent and Issuing Bank (the "Administrative Agent"), NATIONAL WESTMINSTER BANK PLC, as Co-Agent, and the several financial institutions party to the Credit Agreement (collectively, the "Banks").

RECITALS

A. The Company, the Banks and the Administrative Agent are parties to a Credit Agreement dated as of September 30, 1993 (the "Credit Agreement"), pursuant to which the Administrative Agent and the Banks have extended certain credit facilities to the Company.

B. The Company has requested that the Banks agree to certain amendments of the Credit Agreement.

C. The Banks are willing to amend the Credit Agreement, subject to the terms and conditions of this Amendment.

NOW, THEREFORE, for the valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to them in the Credit Agreement.

2. Amendments to Credit Agreement.

(a) Section 8.10 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"8.10 Tangible Net Worth. The Company shall not suffer or permit its Tangible Net Worth as of the last day of any fiscal quarter to be less than the greater of: (a) the sum of (i) \$280,000, plus (ii) 75% of cumulative net income for the Company and its Subsidiaries determined on a consolidated basis beginning with the fiscal quarter ended April 2, 1994, determined quarterly and not reduced by any quarterly loss, plus (iii) 75% of the Net Proceeds of any sale of capital stock of the Company by and for the account of the Company from January 1, 1994, plus (iv) 75% of the amount by which the Tangible Net Worth of the Company is increased, in accordance with GAAP, due to conversion of debt to common stock from January 1, 1994, less (v) the

amount and value of cash or other property paid or transferred in connection with stock repurchases or redemptions made by the Company not to exceed in the aggregate \$50,000,000 since the Closing Date; provided, however, that such amount shall not include any payments made pursuant to any redemption, conversion or repurchases of any of the Notes or any similar debt issues; and (b) \$280,000,000."

(b) Section 8.13 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"8.13 Leverage Ratio(s). (a) The Company shall not suffer or permit its ratio of Total Liabilities to Tangible Net Worth at any time to be greater than the amount set forth opposite the applicable period below:

PERIOD	RATIO
Closing Date through March 31, 1995	2.15:1.00
April 1, 1995 through September 29, 1995	1.90:1.00
September 30, 1995 through March 29, 1996	1.75:1.00
March 30, 1996 and thereafter	1.50:1.00

(b) The Company shall not suffer or permit its ratio of Total Liabilities, plus Subordinated Indebtedness, to Tangible Net Worth (the "Adjusted Leverage Ratio") at any time to be greater than the amount set forth opposite the applicable period below:

PERIOD	RATIO
Closing Date through March 31, 1995	2.40:1.00
April 1, 1995 through September 29, 1995	2.30:1.00
September 30, 1995 through December 29, 1995	2.10:1.00
December 30, 1995 and thereafter	1.90:1.00

(c) Subsection 9.1(e) of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"(e) Other Specified Defaults. The Company fails to perform or observe any term, covenant or agreement contained in the following Sections and such failure continues for the amount of time specified: Sections 7.1 or 7.2 for 15 days; and Section 8.1 (only with respect to any Liens other than Voluntary Liens), Section 8.6 and Section 8.16 for 30 days; or"

3. Representations and Warranties. The Company hereby represents and warrants to the Administrative Agent and the Banks as follows:

(a) No Default or Event of Default has occurred and is continuing.

(b) The execution, delivery and performance by the Company of this Amendment have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable. The Credit Agreement as amended by this Amendment constitutes the legal, valid and binding obligations of the Company, enforceable against it in accordance with its respective terms, without defense, counterclaim or offset.

(c) All representations and warranties of the Company contained in the Credit Agreement are true and correct.

(d) The Company is entering into this Amendment on the basis of its own investigation and for its own reasons, without reliance upon the Administrative Agent and the Banks or any other person.

4. Effective Date. This Amendment will become effective as of March 30, 1994 (the "Effective Date"), provided that each of the following conditions precedent has been satisfied:

(a) The Administrative Agent has received from the Company and the Majority Banks a duly executed original of this Amendment.

(b) The Administrative Agent has received from the Company a copy of a resolution passed by the board of directors of the Company, certified by the Secretary or an Assistant Secretary of the Company as being in full force and effect on the date hereof, authorizing the execution, delivery and performance of this Amendment.

(c) The Administrative Agent has received from the Company, for the ratable account of the Banks in accordance with their respective Commitment Percentages, the amount of \$112,500, representing payment in full of a non-refundable amendment fee, which amount the Company hereby covenants to pay to the Administrative Agent, for the ratable account of the Banks in accordance with their respective Commitment Percentages, on demand.

5. Miscellaneous

(a) Except as herein expressly amended, all terms, covenants and provisions of the Credit Agreement are and shall remain in full force and effect and all references therein to such Credit Agreement shall henceforth refer to the Credit Agreement as amended by this Amendment. This Amendment shall be deemed incorporated into, and a part of, the Credit Agreement.

(b) This Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective

successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(c) This Amendment shall be governed by and construed in accordance with the law of the State of California.

(d) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

(e) This Amendment, together with the Credit Agreement, contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein and therein. This Amendment supersedes all prior drafts and communications with respect thereto. This Amendment may not be amended except in accordance with the provisions of Section 11.1 of the Credit Agreement.

(f) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Credit Agreement, respectively.

(g) Company covenants to pay to or reimburse the Administrative Agent, upon demand, for all reasonable costs and expenses (including allocated costs of in-house counsel) incurred in connection with the development, preparation, execution and delivery of this Amendment.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

AST RESEARCH, INC.

By: /s/BRUCE C. EDWARDS
Title: Senior Vice President and
Chief Financial Officer

By: /s/DENNIS R. LEIBEL
Title: Vice President, Legal &
Treasury Operations

BANK OF AMERICA NATIONAL TRUST AND
SAVINGS ASSOCIATION, as Co-Agent and
Administrative Agent

By: /s/JUDITH L. KRAMER
Title: Vice President

BANK OF AMERICA NATIONAL TRUST AND
SAVINGS ASSOCIATION, as a Bank and
Issuing Bank

By: /s/KEVIN McMAHON
Title: Vice President

NATIONAL WESTMINSTER BANK, PLC, as a
Bank and as Co-Agent

By: /s/MICHAEL E. KEATING
Title: Vice President

CIBC INC.

By: /s/JAMES E. ANDERSON
Title: Manager Director

BANQUE NATIONAL DE PARIS

By: /s/CHRISTIAN MORIO
Title: Senior Vice President
and Manager

By: /s/TJALLING TERPSTRA
Title: Vice President
Sanwa Bank California

By: /s/NICOLE GARNIER

Title: Vice President

Citicorp USA, Inc.

By: /s/JAMES J. SHERIDAN
Title: Vice President
Managing Director

Commonwealth Bank of Australia

By: /s/CHRISTINE A. RENARD
Title: Vice President and
Senior Manager

The Industrial Bank of Japan,
Ltd, Los Angeles Agency

By: /s/CARL-ERIC BENZINGER
Title: Vice President

The Long Term Credit Bank of Japan
Ltd., Los Angeles Agency

By: /s/CURT M. BIREN
Title: Vice President

Shawmut Bank, N.A.

By: /s/FRANK H. BENESH III
Title: Vice President

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (the "Amendment"), dated as of April 27, 1994, is entered into by and among AST RESEARCH, INC., a Delaware corporation (the "Company"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as Administrative Agent (the "Administrative Agent"), Co-Agent and Issuing Bank, NATIONAL WESTMINSTER BANK PLC, as Co-Agent, and the several financial institutions party to the Credit Agreement (collectively, the "Banks").

RECITALS

A. The Company, the Banks, the Co-Agents and the Administrative Agent are parties to a Credit Agreement dated as of September 30, 1993, as amended by the First Amendment to Credit Agreement dated as of March 30, 1994 (as so amended, the "Credit Agreement"), pursuant to which the Banks have extended certain credit facilities to the Company.

B. The Company has requested that the Administrative Agent, the Co-Agents and the Banks agree to certain amendments of the Credit Agreement.

C. The Administrative Agent, the Co-Agents and the Banks are willing to amend the Credit Agreement, subject to the terms and conditions of this Amendment.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to them in the Credit Agreement.

2. Amendments to Credit Agreement.

(a) The following definitions of the terms "Addendum" and "Additional Bank" shall be and hereby are added to Section 1.1 of the Credit Agreement, in appropriate alphabetical order:

"`Addendum' has the meaning specified in Section 2.15.

`Additional Bank' shall mean each commercial bank acceptable to the Administrative Agent and the Company which hereafter becomes a party to this Agreement in accordance with the provisions of Section 2.15."

(b) The definition of the term "Agreement" contained in Section 1.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"`Agreement' means this Credit Agreement, including all Schedules and Exhibits hereto, as amended, supplemented or

modified from time to time, including by each Addendum."

(c) The definition of the term "Aggregate Commitment" contained in Section 1.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"`Aggregate Commitment' means at any time an amount equal to the aggregate amount set forth opposite the Banks' names in Schedule 2.1 under the heading "Commitments" at such time plus, in the case of each Additional Bank, the Commitment amount set forth in the Addendum at such time with respect to such Additional Bank; as such amount may be reduced from time to time pursuant to this Agreement."

(d) The first sentence of the definition of the term "Banks" contained in Section 1.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, such sentence reads as follows:

"`Banks' means the several financial institutions from time to time parties to this Agreement, including pursuant to an Addendum."

(e) The definition of the term "Cash Collateral" contained in Section 1.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"`Cash Collateral' means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Administrative Agent, the Co-Agents, the Issuing Bank and the Banks, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Administrative Agent and the Issuing Bank (which documents are hereby consented to by the Banks). Derivatives of such term shall have corresponding meaning."

(f) The definition of the term "Co-Agent" contained in Section 1.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"`Co-Agent' means each of BofA, National Westminster Bank Plc, CIBC Inc. and Shawmut Bank, N.A., in their capacity as co-agents for the Banks."

(g) The definition of the term "Commitment Percentage" contained in Section 1.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"`Commitment Percentage' means, as to any Bank at any time, the percentage equivalent of such Bank's Commitment divided by the Aggregate Commitment at such time. The initial Commitment Percentage of each Bank is set forth opposite such Bank's name in Schedule 2.1 under the heading "Commitment Percentage" and, in the

case of each Additional Bank, the Commitment amount set forth in the Addendum with respect to such Additional Bank."

(h) The first sentence of Section 2.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"Each Bank severally agrees, on the terms and conditions hereinafter set forth, to make Committed Loans to the Company from time to time on any Business Day during the period from the Closing Date to the Termination Date, in an aggregate amount not to exceed at any time outstanding the amount set forth opposite the Bank's name in Schedule 2.1 under the heading "Commitments" and, in the case of each Additional Bank, the Commitment amount set forth in the Addendum with respect to such Additional Bank (such amount as the same may be reduced pursuant to Section 2.6 or as a result of one or more assignments pursuant to subsection 11.7(a), the Bank's "Commitment"); provided, however, that, after giving effect to any Borrowing of Committed Loans, the Effective Amount of all outstanding Loans together with the Effective Amount of the Letter of Credit (if outstanding) shall not exceed the Aggregate Commitment."

(i) Section 2.10 shall be amended by adding the following to the end thereof:

"(d) Second Amendment Arrangement Fee. The Company shall pay to BA Securities, Inc. and National Westminster Bank Plc fees as set forth in letter agreements dated the date of the Second Amendment to Credit Agreement relating to this Agreement."

(j) The following Section 2.15 shall be and hereby is added to Article 2 of the Credit Agreement, immediately after Section 2.14 thereof:

"2.15 Additional Banks. Additional Banks may become parties to this Agreement by means of the execution and delivery by each such Additional Bank, the Company and the Administrative Agent of a duly completed addendum (each, an "Addendum") substantially in the form of Exhibit O hereto; provided, however, that with respect to each such Addendum (a) the Aggregate Commitment shall not exceed three hundred million dollars (\$300,000,000), taking into account the Commitment of the Additional Bank executing such Addendum, and (b) on the Effective Date (as that term is defined in the Addendum) of such Addendum, no Default or Event of Default shall exist or shall result from the execution and delivery of such Addendum."

(k) The following subsection (d) shall be and hereby is added to Section 4.4 of the Credit Agreement, immediately after subsection (c) thereof:

"(d) upon (i) any Additional Bank becoming a party hereto pursuant to an Addendum, or (ii) any Bank increasing its Commitment pursuant to Section 11.1 hereof, the Company agrees to reimburse each Bank on demand for any loss, cost or expense which such Bank may sustain

or incur, including any such loss, cost or expense arising from the liquidation or reemployment of funds obtained by it to maintain its Offshore Committed Loans or CD Rate Loans hereunder or from fees payable to terminate the deposits from which such funds were obtained."

(l) The introductory clause to Section 7.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, such introductory clause reads as follows:

"7.1 Financial Statements. The Company shall deliver to the Administrative Agent and each Bank in form and detail satisfactory to the Majority Banks:"

(m) Section 8.15 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"8.15 Sale and Leaseback Agreement. The Company shall not, and shall not suffer or permit any of its Subsidiaries to, enter into any sale and leaseback agreement covering any of its fixed or capital assets. The Company covenants and agrees that the real property located at the northeast corner of Alton Parkway and Laguna Canyon Road in Irvine, California, together with all improvements erected thereon, and all personal property now or hereafter located on such property shall remain owned by the Company or by any other entity in which the Company maintains at least a 70% ownership interest and which is a Subsidiary of the Company. This Section 8.15 shall not be deemed to prohibit the sale and leaseback of such property so long as the lessee is the Company or any other entity in which the Company maintains at least a 70% ownership interest and which is a Subsidiary of the Company or the sale and leaseback of the real property located at 11/F Floor, Vanta Industrial Centre, Kwai Chung, N.T., Hong Kong, together with all improvements erected thereon."

(n) Section 10.10 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"10.10 Co-Agents. None of the Co-Agents shall, as such, have any right or power (except as otherwise expressly provided herein), nor any obligation, liability, responsibility or duty (express or implied, including any fiduciary duty) under this Agreement other than those applicable to all Banks as such. Each Bank acknowledges that it has not relied, and will not rely, on any of the Co-Agents so identified in deciding to enter into this Agreement or in taking or not taking action hereunder."

(o) Section 11.1 of the Credit Agreement shall be and hereby is amended and restated in its entirety so that, as amended and restated, it reads as follows:

"11.1 Amendments and Waivers. Subject to the final paragraph of this Section 11.1, no amendment or waiver of any provision of this Agreement or any other Loan Document and no

consent with respect to any departure by the Company therefrom, shall be effective unless the same shall be in writing and signed by the Majority Banks, and then such waiver shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such waiver, amendment or consent shall, unless in writing and signed by all the Banks, do any of the following:

(a) subject to the final paragraph of this Section 11.1, increase or extend the Commitment (and/or the L/C Commitment) of any Bank or subject any Bank to any additional obligations;

(b) postpone or delay any date fixed for any payment of principal, interest, fees or other amounts due hereunder or under any Loan Document;

(c) reduce the principal of, or the rate of interest specified herein on any Loan, or of any fees or other amounts payable hereunder or under any Loan Document;

(d) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans which shall be required for the Banks or any of them to take any action hereunder; or

(e) amend this Section 11.1 or Section 2.14;

and, provided, further, that (A) no amendment, waiver or consent shall, unless in writing and signed by the Issuing Bank in addition to the Majority Banks or all the Banks, as the case may be, affect the rights or duties of the Issuing Bank under this Agreement or any L/C-Related Document, and (B) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent or the affected Co-Agent, in addition to the Majority Banks, affect the rights or duties of the Administrative Agent or such Co-Agent under this Agreement.

Notwithstanding the foregoing, (i) each Bid Loan Lender may, in its sole discretion, if there exists no Default or Event of Default, and without the consent or signature of the Administrative Agent or any other Bank (provided, however, that prompt notice thereof is provided by such Bid Loan Lender to the Administrative Agent), accept any prepayment on account of any such Bid Loan Lender's Bid Loans, (ii) the Issuing Bank and the Company may, from time to time, if there exists no Default or Event of Default, and without the consent or signature of the Co-Agents or any other Bank, amend the Letter of Credit to increase or decrease the face amount thereof or extend the expiry date thereof; provided, however, that the face amount thereof shall at no time exceed \$75,000,000, nor shall the expiry date thereof be later than September 30, 1996, without the consent of all of the Banks, and (iii) the Administrative Agent, the Company and any Bank (the "Affected Bank") may, from time to time, if there exists no Default or Event of Default, and without the consent or

signature of the Co-Agents or any other Bank (provided, however, that prompt notice thereof is provided by the Administrative Agent to the Co-Agents and such other Banks), increase the Commitment of the Affected Bank by amending Schedule 2.1, provided, however, that with respect to each such increase, the Aggregate Commitment shall not exceed three hundred million dollars (\$300,000,000), taking into account such increase, and provided, further, that the Affected Bank shall, as of the date of the increase of the Affected Bank's Commitment (A) make available to the Administrative Agent in immediately available funds, for the account of the other Banks, the amount necessary to purchase from the other Banks such participations in the Committed Loans made by them and outstanding as shall be necessary to cause the Affected Bank to share the Committed Loans ratably with each of them after taking into account the increase in the Affected Bank's Commitment, and (B) be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Bank a participation in the Letter of Credit and each drawing thereunder in an amount equal to the product of (I) its Commitment Percentage, times (II) the maximum amount available to be drawn under the Letter of Credit and the amount of such drawing, respectively, and, as of the date of the increase of the Affected Bank's Commitment, make available to the Administrative Agent in immediately available funds, for the account of the Issuing Bank, the amount necessary to purchase from the Issuing Bank such participation in any drawing under the Letter or Credit (the Administrative Agent will keep records, which shall be conclusive and binding in the absence of manifest error, of participations purchased by an Affected Bank and will in each case notify the other Banks following any such purchases)."

(p) Section 11.14 of the Credit Agreement shall be and hereby is amended by inserting after the phrase "subsections 2.10(a)," the following: "2.10(d),".

(q) Schedule 2.1 to the Credit Agreement shall be and hereby is superseded and replaced by Schedule 2.1 attached to this Amendment.

(r) Exhibit O attached to this Amendment shall be and hereby is added to the Credit Agreement as Exhibit O thereto.

(s) CIBC Inc. and Shawmut Bank, N.A. are hereby added as Co-Agents for the Banks under the Credit Agreement, and all references to the Co-Agents in the Credit Agreement shall refer to them, as well as Bank of America National Trust and Savings Association and National Westminster Bank Plc, in their capacity as Co-Agents.

3. Representations and Warranties. The Company hereby represents and warrants to the Administrative Agent and the Banks as follows:

(a) No Default or Event of Default has occurred and is continuing.

(b) The execution, delivery and performance by the Company of this Amendment have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable. The Credit Agreement as amended by this Amendment constitutes the legal, valid and binding obligations of the Company, enforceable against it in accordance with its respective terms, without defense, counterclaim or offset.

(c) All representations and warranties of the Company contained in the Credit Agreement are true and correct.

(d) The Company is entering into this Amendment on the basis of its own investigation and for its own reasons, without reliance upon the Administrative Agent and the Banks or any other person.

4. Effective Date. This Amendment will become effective as of April 27, 1994 (the "Effective Date"), provided that each of the following conditions precedent has been satisfied:

(a) The Administrative Agent has received from the Company and each of the Banks a duly executed original of this Amendment.

(b) The Administrative Agent has received from the Company a copy of a resolution passed by the board of directors of the Company, certified by the Secretary or an Assistant Secretary of the Company as being in full force and effect on the date hereof, authorizing the execution, delivery and performance of this Amendment.

(c) The Administrative Agent has received from the Company the fees set forth in the separate "Second Amendment Fee Letter Agreement" dated on or about the date hereof, which fees are payable to the Banks that increased their Commitments pursuant hereto and are a percentage of such increased amount, and which fees the Company hereby covenants to pay to the Administrative Agent on demand.

(d) The Administrative Agent has received from the Company executed copies of additional separate letter agreements dated on or about the date hereof, pursuant to which the Company covenants to pay to BA Securities, Inc. and National Westminster Bank Plc, as arrangers, certain other fees, as provided therein.

For purposes of this Section 4, the Administrative Agent may receive and rely upon, in lieu of originals, legible telefacsimile copies of any and all documents required to be delivered hereunder. For purposes hereof, the transmission of any such executed document by telefacsimile shall constitute the delivery of an original thereof.

5. Miscellaneous.

(a) Except as herein expressly amended, all terms, covenants and provisions of the Credit Agreement are and shall remain in full force and effect and all references therein to such Credit Agreement shall henceforth refer to the Credit Agreement as amended by this Amendment. This Amendment shall be deemed incorporated into, and a part of, the Credit Agreement.

(b) This Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(c) This Amendment shall be governed by and construed in accordance with the law of the State of California.

(d) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

(e) This Amendment, together with the Credit Agreement, contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein and therein. This prior drafts and communications with respect thereto. This Amendment may not be amended except in accordance with the provisions of Section 11.1 of Agreement.

(f) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Credit Agreement, respectively.

(g) Company covenants to pay to or reimburse the Administrative Agent, upon demand, for all reasonable costs and expenses (including allocated costs of in-house counsel) incurred in connection with the development, preparation, execution and delivery of this Amendment and the other documents contemplated hereby.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

AST RESEARCH, INC.

By: _____
Title: Senior Vice President and
Chief Financial Officer

By: _____
Title: Vice President, Legal &
Treasury Operations

BANK OF AMERICA NATIONAL TRUST AND SAVINGS
ASSOCIATION, as Administrative Agent and
Co-Agent

By: _____
Title: Vice President

BANK OF AMERICA NATIONAL TRUST AND SAVINGS
ASSOCIATION, as a Bank and Issuing Bank

By: _____
Title: Vice President

NATIONAL WESTMINSTER BANK PLC, as a Bank
and as Co-Agent

By: _____
Title:

SHAWMUT BANK, N.A., as a Bank
and as Co-Agent

By: _____
Title:

CIBC INC., as a Bank and as
Co-Agent

By: _____
Title:

BANQUE NATIONALE DE PARIS

By: _____
Title:

By: _____
Title:

SANWA BANK CALIFORNIA

By: _____
Title:

CITICORP USA, INC.

By: _____
Title:

COMMONWEALTH BANK OF AUSTRALIA

By: _____
 Title:

THE INDUSTRIAL BANK OF JAPAN,
 LTD., LOS ANGELES AGENCY

By: _____
 Title:

THE LONG-TERM CREDIT BANK OF
 JAPAN, LTD., LOS ANGELES AGENCY

By: _____
 Title:

SCHEDULE 2.1

COMMITMENTS

<TABLE>
 <CAPTION>

Banks	Commitment Amount	Commitment Percentage
<S>	<C>	<C>
Bank of America National Trust and Savings Association	\$45,000,000	16.363636363
National Westminster Bank Plc	\$45,000,000	16.363636363
CIBC Inc.	\$40,000,000	14.545454545
Shawmut Bank, N.A.	\$40,000,000	14.545454545
Banque Nationale de Paris	\$20,000,000	7.272727273
Sanwa Bank California	\$20,000,000	7.272727273
Citicorp USA, Inc.	\$20,000,000	7.272727273
Commonwealth Bank of Australia	\$15,000,000	5.454545455
The Industrial Bank of Japan, Ltd., Los Angeles Agency	\$15,000,000	5.454545455
The Long-Term Credit Bank	\$15,000,000	5.454545455

Total \$275,000,000 100.000000000%2

</TABLE>

EXHIBIT O

ADDENDUM

The undersigned _____ (the "Additional Bank") is executing and delivering this Addendum pursuant to Section 2.15 of the Credit Agreement dated as of September 30, 1993 (as amended from time to time, the "Credit Agreement"), among AST Research Inc. (the "Company"), the Banks party thereto (the "Banks"), Bank of America National Trust and Savings Association, as Administrative Agent (in such capacity, the "Administrative Agent"), Co-Agent and Issuing Bank and National Westminster Bank Plc, CIBC Inc. and Shawmut Bank, N.A., as Co-Agents. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms as set forth in the Credit Agreement.

1. On the Effective Date (as defined below), the Additional Bank hereby agrees to, and hereby does, become and shall be a Bank under and a party to the Credit Agreement. The Additional Bank shall be entitled to the rights and benefits of the Credit Agreement and the other Loan Documents and, to the extent of its percentage interest, have the obligations of a Bank under the Credit Agreement as if it had been named therein as a Bank and was originally a party thereto. The Additional Bank's Commitment and Commitment Percentage shall be as follows:

Commitment \$ _____
Commitment Percentage _____%

The Additional Bank shall purchase from the other Banks such participations in the Committed Loans made by them and outstanding on and as of the Effective Date as shall be necessary to cause the Additional Bank to share the Committed Loans ratably with each of them as of the Effective Date. The Additional Bank shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Bank a participation in the Letter of Credit and each drawing thereunder in an amount equal to the product of (i) its Commitment Percentage, times (ii) the maximum amount available to be drawn under the Letter of Credit and the amount of such drawing, respectively. The Administrative Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased pursuant hereto and will in each case notify the Banks following any such purchases.

2. This Addendum will become effective as of _____, 199__ (the "Effective Date"); provided, that each of the following conditions precedent has been satisfied:

(a) Following the execution of this Addendum by the Additional Bank, it will be delivered to the Administrative Agent and the Company for acceptance and, in the case of the Administrative Agent, recording; provided,

however, that this Addendum shall not be effective until accepted by the Administrative Agent and the Company.

(b) The Additional Bank shall make available to the Administrative Agent in immediately available funds, for the account of the Banks, the amount necessary to fund the purchase of participations set forth in Paragraph 1 above.

(c) The Company shall execute and deliver to the Additional Bank a Bid Note in the stated principal amount of the Additional Bank's Commitment.

(d) The Administrative Agent has received from the Company, for the account of the Additional Bank, such fee as may be set forth in a separate letter agreement dated on or about the Effective Date, which fee (if any) the Company hereby covenants to pay to the Administrative Agent on demand.

3. From and after the Effective Date, except to the extent otherwise provided in the Credit Agreement, the Administrative Agent will make all payments under the Credit Agreement which are payable to the Administrative Agent for the account of the Banks to the appropriate Banks severally in proportion to their respective percentages determined after giving effect to this Addendum, pro rated as appropriate, when payment is due.

4. The Additional Bank (a) confirms that it has received a copy of the Credit Agreement, the First Amendment thereto dated March 30, 1994, the Second Amendment thereto dated April 27, 1994 and all subsequent amendments, and all other Loan Documents, together with copies of such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter this Addendum; (b) agrees that it will, independently and without reliance upon Administrative Agent, any Co-Agent or any Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement and the other Loan Documents; (c) appoints and authorizes Administrative Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement and the other Loan Documents as are delegated to Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (d) agrees to indemnify the Agent-Related Persons and the Co-Agent-Related Persons pursuant to Section 10.7 of the Credit Agreement, regardless of whether the action, omission to act, occurrence or event giving rise to such indemnification occurred prior to or after the Effective Date, and (e) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement and the other Loan Documents are required to be performed by a Bank thereunder.

5. The following administrative details apply to the Additional Bank:

(a) Offshore Lending Office:

Additional Bank name: _____

Address: _____

Attention: _____

Telephone: () _____

Fax: () _____
Telex: _____

(b) Domestic Lending Office:

Additional Bank name: _____
Address: _____

Attention: _____
Telephone: () _____
Fax: () _____
Telex: _____

(c) Notice Address:

Additional Bank name: _____
Address: _____

Attention: _____
Telephone: () _____
Fax: () _____
Telex: _____

(d) Payment Instructions:

Account No.: _____
At: _____

Reference: _____
Attention: _____

6. This Addendum shall be governed by, and construed in accordance with, the laws of the State of California.

IN WITNESS WHEREOF, the Additional Bank has executed and delivered this Addendum as of the ___ day of _____, 199__.

[NAME OF ADDITIONAL BANK]

By: _____

Title: _____

Accepted this ___ day
of _____, 199__

Accepted this ___ day
of _____, 199__

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION
as Administrative Agent

AST RESEARCH, INC.

By: _____
Vice President

By: _____
Title: _____

By: _____
Title: _____

#4078678.07

#4078678.07

JOINT VENTURE CONTRACT

THIS CONTRACT is made in _____, the People's Republic of China on this ___ day of _____, 1993 by and between Tianjin Economic-Technological Development Area Business Development Co. (Party A), an enterprise legal person duly organized and registered under the laws of the People's Republic of China, and AST Research (Far East) Limited, (Party B) a corporation incorporated under the laws of Hong Kong.

CHAPTER I GENERAL PROVISIONS AND DEFINITIONS

In accordance with the "Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures Using Chinese and Foreign Investment" (the "Joint Venture Law") and other relevant Chinese laws and regulations and the provisions of this Contract, TIANJIN ECONOMIC-TECHNOLOGICAL DEVELOPMENT AREA BUSINESS DEVELOPMENT COMPANY and AST RESEARCH (FAR EAST) LIMITED adhering to the principle of equity and mutual benefit and through friendly consultations, both agree to jointly invest to establish a joint venture enterprise in Tianjin Economic-Technological Area, the People's Republic of China. The contract hereunder is concluded and is agreed as follows:

Unless the terms or context of this Contract otherwise specifically provide, the following terms shall have the meanings set out below:

A. "Articles of Association" shall mean the Articles of Association of the Company.

B. "Board" shall mean the Board of Directors of the Company.

C. "Company" shall mean "AST Computers China Limited", the joint venture limited liability company formed by Party A and Party B pursuant to the Joint Venture Law, the Joint Venture Regulations, other relevant Chinese laws and this Contract.

D. "Effective Date" shall mean the date on which the Examination and Approval authority issues an approval document approving all of the terms and conditions of this Contract and its appendices.

E. "Establishment Date" shall mean the date on which the business license for the Company is issued by the relevant office of the State Administration for Industry and

Commerce.

F. "Examination and Approval Authority" shall mean the authority empowered by the Chinese government to approve this Contract.

G. "Feasibility Study Report" shall mean the written analysis approved May 10, 1992, Approval Case Number 1992543 regarding the feasibility of the joint venture and the establishment of the Company.

H. "Senior Management Personnel" shall mean the General Manager, Deputy General Manager, financial controller of the Company and such other personnel designated as Senior Management Personnel by the Board of directors of the Company.

I. "Site" shall mean that parcel of land consisting of 46866.271 square meters located at the northwest corner of the Beijing Tianjin Highway and Bohai Road, immediately to the west of the parcel occupied by Motorola China in 1993 as described in the Site Map attached to this Contract As Appendix A.

J. "Technology License Contract" shall mean the contract for the license of technology to the Company.

K. "Trademark License Contract" shall mean the contract for the license of certain valuable trademarks to the Company.

L. "Joint Venture Products" shall mean the computer parts assembled produced or processed by the Company and associated support services.

CHAPTER II PARTIES TO THE CONTRACT

Article 1

1.1 The parties to this Contract are as follows:

PARTY A: TIANJIN ECONOMIC-TECHNOLOGICAL AREA BUSINESS DEVELOPMENT CO.,

PLACE OF REGISTRATION: Tianjin Economic-Technological Development Area,

LEGAL ADDRESS: The Fifth Street, Dongting Lu, Tianjin Economic-Technological Development Area, Tianjin, People's Republic of China.

LEGAL REPRESENTATIVE: Name: Gao Tianjin
Position: General Manager
Nationality: Chinese

PARTY B: AST Research (Far East) Limited

PLACE OF REGISTRATION: Hong Kong

LEGAL ADDRESS: 27/F, Alexandra House, 16-20 Chater Road,
Central, Hong Kong

LEGAL REPRESENTATIVE: Name: Philip Wong
Position: Vice President
Nationality: British

1.2 Representations and Warranties

Each of the Parties represents and warrants that:

- (a) it possesses full power and authority to enter into this Contract and to perform its obligations hereunder;
- (b) its representative whose signature is affixed hereto has been fully authorized to sign this Contract pursuant to a valid power of attorney or equivalent legal document; and
- (c) upon the Effective Date, the provisions of this Contract shall constitute its legal, valid and binding obligations.

CHAPTER III PURPOSE AND SCOPE OF JOINT VENTURE COMPANY

Article 2

2.1 The purpose and aims of the Company are to manufacture, process and sell Joint Venture Products and, in conformity with the wish of enhancing the economic cooperation and technical exchanges, to adopt advanced and practical technology and scientific methods for business management, to upgrade existing products, to substitute import products, to expand the network of importation, to increase income in foreign currency, to raise economic results and efficiency and to ensure satisfactory economic benefits for both investors and to

make contributions to the prosperity and development of the Tianjin Economic-Technological Development Area.

2.2 The business scope of the Company includes processing, manufacturing, assembling, producing, distributing and servicing computer related products and parts thereof and to provide associated after sale maintenance and support service for all AST products.

CHAPTER IV THE JOINT VENTURE COMPANY

Article 3

3.1 The name of the Company in English is "AST Computers China Limited". The name of the Company in Chinese is _____.

3.2 Party A and Party B agree that the names "AST" and "AST Computers China Limited" may be used only by the Company, except that Party B may use the name "AST" at any and all times. Party A and Party B also agree that the Company must cease use of the names "AST Computers China Limited" and "AST" immediately if, at any time,

a. Party B has less than a fifty percent (50%) ownership interest in the equity of the Company, or

b. Party B no longer has the right to appoint a majority of the voting Directors on the Company's Board of Directors.

3.3 Neither Party A nor Party B may use the name "AST Computers China Limited" for its own commercial use without the consent of the majority of the Directors of the Company. Under no circumstances may Party A use the name "AST" for any purpose without the prior written consent of Party B.

Article 4

4.1 The organization form of the Company is a limited liability Company. Party A and Party B are liable to the Company only within the respective limits of their contributions to the registered capital of the Company. Except as otherwise provided herein, once a Party has paid in full its contribution to the registered capital of the Company, it shall not be required to provide any further funds to or on behalf of the Company by way of capital contribution, loan, advance guarantee or otherwise. Creditors of the Company shall have recourse only to the assets of the Company and shall not seek repayment from any of the Parties. The Company shall indemnify, defend and hold the Parties harmless against any and all losses, damages or liability suffered by the Parties in respect of third-party claims arising out of the operation of the Company. Subject to the foregoing, the profits, and losses of the Company shall be shared respectively by the

parties in proportion to and limited by their contributions to the registered capital of the Company. Both parties shall contribute to the registered capital in cash through remittance.

4.2 The Parties hereby agree to cause the Company immediately after its Establishment Date, (or as soon thereafter as the Company Directors may decide), by acting through the individual Directors of the Company nominated by the Parties pursuant to this Contract, to approve the entering into and execution of a technology License Contract, and the Trademark License Contract.

4.3 The Parties hereby agree to cause the Company, immediately after its Establishment Date (or as soon thereafter as the Company directors may decide), by acting through the individual directors of the Company nominated by the Parties, to open a bank account at a bank located in China which is acceptable to Party B.

CHAPTER V INVESTMENT AND REGISTERED CAPITAL

Article 5

5.1 The total amount of investment required by the Company is sixteen million U.S. Dollars (US\$16,000,000).

Article 6

6.1 The total amount of the Company's registered capital shall be six million four hundred thousand U.S. Dollars (US\$6,400,000).

Article 7

7.1 Party A's contribution to the registered capital of the Company shall be six hundred forty thousand U.S. Dollars (US\$640,000), representing ten per cent (10%) of the registered capital of the Company.

7.2 Party A's contribution shall consist of the following:

Cash (in US\$): US\$ 640,000

7.3 Party B's contribution to the registered capital of the Company shall consist of cash in the total amount of five million, seven hundred sixty thousand U.S. Dollars (US\$5,760,000), representing ninety percent (90%) of the registered capital of the Company.

7.4 Party B's contribution shall consist of the following:

Cash (in US\$): US\$ 5,760,000

7.5 A portion of Party B's cash contribution to the registered

capital may, upon the direction of the General Manager or the Directors of the Company, be used for the purchase from Party B of production equipment, vehicles, office equipment, telecommunication equipment and other machinery or equipment or services necessary for initiating operation of the Company.

7.6 The Parties' obligations to make their respective contributions to the Company's registered capital shall not arise until each of the following conditions has been fulfilled or waived by mutual agreement of the Parties:

- a. Issuance by the Examination and Approval Authority of an unconditional approval of this Contract and its Appendices;
- b. Issuance to the Company of a Business License with a scope of business as set forth in this Contract;
- c. Issuance to the Company of a Land Use Certificate over the Site in accordance with the provisions of this Contract.

All of the above documents must be in a form reasonably acceptable to both Parties. If any of the above conditions precedent is not fulfilled within ninety (90) days after the Effective Date, the Parties may agree in writing either to waive all or part of such conditions or to extend the deadline for their partial or complete fulfillment to a specified date agreed by the Parties.

Article 8

8.1 Subject to the fulfillment of the conditions specified above, the registered capital shall be paid in two installments. Each installment shall be as follows:

- a. The first installment shall be paid within one (1) month after the Establishment Date for the Company. At that time, Party A shall pay one half of its total registered capital contribution, which is three hundred twenty thousand US Dollars (US\$320,000). At that time, Party B shall pay one half of its total registered capital contribution, which is two million eight hundred eighty thousand US Dollars (US\$2,880,000).
- b. The second installment shall be paid twelve months after the Establishment Date. At that time, Party A shall pay the remaining one half of its total registered capital contribution, three hundred twenty thousand US Dollars (US\$320,000). At that time, Party B shall pay the remaining one half of its total registered capital contribution, which is two million eight hundred eighty

thousand US Dollars (US\$2,880,000).

8.2 The registered capital subscribed by both parties must, as stipulated in above paragraphs, be contributed in two installments through remittance to the bank account opened for the Company pursuant to Paragraph 4.3.

8.3 If a Party fails to pay in its respective share of the registered capital as described above, the failing Party shall be liable to pay to the Company interest on the amount overdue from the time due until the time paid at two percent (2%) above the annual interest rate published by the Bank of China at that time for loans in U.S. Dollars granted to Chinese-foreign joint ventures. The interest shall be payable monthly in arrears to the Company until the overdue amount is paid in full.

Article 9

9.1 After each Party's payment of its contribution to the registered capital has been made in full, an international accounting firm registered in China, recommended by Party B and approved by the Board, shall verify the contribution and issue a contribution verification report. Thereupon, the Company shall issue within sixty (60) days after the payment of the contribution an Investment Certificate to each Party signed by the Chairman and the Vice Chairman of the Board.

Article 10

10.1 In addition to the registered capital, the Company's operations may be financed with bank loans or other sources negotiated by a Financial Representative recommended by Party B and approved by a majority of the Company's Board of Directors. Neither Party A nor Party B may negotiate financing on behalf of the Company without prior written authorization of the Board. The Company shall not use or pledge its assets as security for any loan or other financing without the prior approval of the majority of the Board of Directors. Neither Party A nor Party B shall be obligated to act as guarantor or provide security for any financing for the Company without its prior written consent.

10.2 If additional financing is obtained by the Company from either Party, its affiliate or subsidiary, the terms of such financing shall be in accordance with prevailing market rates or as negotiated on an arm's length basis.

10.3 Neither Party A nor Party B may transfer, assign, sell or otherwise dispose of all or any part of its interest in the Company or its capital contribution without the prior written consent of the other Party and approvals from all required Chinese authorities. The Party desiring such transfer, assignment, sale or disposition (the

"disposing Party") shall notify the other Party in writing of all salient terms of the proposed disposition, and such other Party shall have a period of at least 30 days in which to consent or reject the proposed disposition through written notice to the disposing Party. If the other Party consents to the disposition, the disposing Party will then afford the other Party the preemptive rights prescribed in this Contract. Upon receipt of approvals from required Chinese authorities, the Company shall register the change in ownership with the relevant Chinese authorities.

10.4 If one Party is to assign, sell or otherwise dispose of all or any part of its interest in the Company or its capital contribution pursuant to paragraph 10.3 above, and if the other Party consents to such disposition, such other Party has a preemptive right of purchase at a price equal to that offered by a third party or, in the absence of a third party offer, at a fair market value as determined by an international accounting firm registered in China recommended by Party B and approved by the majority of the Board of Directors of the Company. The disposing Party shall notify the other Party in writing of the terms and conditions of any such offers by third parties ("offer terms"). The Party with the preemptive right of purchase must exercise such right within 30 days of its receipt of the offer terms or within thirty days after receipt of the valuation from the international accounting firm. The preemptive right may be exercised by providing written notice of exercise to the disposing Party and providing full payment to the disposing Party within thirty days thereafter.

10.5 Party A hereby consents to the transfer by Party B of all or a portion of Party B's interest in the Company or contribution to the Company's registered capital to any subsidiary or affiliated company of Party B, and in particular to a transfer of Party B's registered capital in the Company to a wholly foreign owned enterprise established in China by Party B or any of its affiliates or subsidiaries for the purpose of holding the investments in China of Party B and its affiliated companies. Party A hereby waives any preemptive right to purchase Party B's interest in the company or registered capital in respect of such a transfer and agrees that it shall cause its appointed Directors of the Company to approve any such transfer.

10.6 If either Party transfers all or any part of its interest in the Company or its registered capital in accordance with this Contract, it shall deliver up to the Company for cancellation the Investment Certificate issued to it by the Company. The Company shall, in accordance with the circumstances, promptly issue a new Investment Certificate to the transferee.

10.7 Neither the business of the Company nor the performance of its contracts shall be interrupted nor its organizational structure affected by any such sale, transfer, assignment or other disposal of

any Party's interest in the Company or any amount of its capital contribution.

10.8 Party A and Party B agree that the disposing Party shall continue to comply with the obligations imposed by Chapter XVII of this contract, "Intellectual Property and Confidentiality" for a period of twenty (20) years after the transfer, sale, assignment or other disposal of the disposing Party's interest in the Company or capital contribution.

10.9 Party A and Party B agree that any liability of the disposing Party to the Company or the other Party for breach of any material term of this Contract shall not be affected by the sale, transfer, assignment or other disposal of the disposing Party's interest in the Company or its capital contribution.

10.10 Any increase in the registered capital of the Company must be approved by a unanimous vote of the Directors in a duly constituted meeting and, if required under applicable law, be submitted to the Examination and Approval Authority for examination and approval. Upon receipt of the approval by such Authority, the Company shall register the increase in the registered capital with the relevant office of the Chinese government. Each Party will pay its respective share of the increase within thirty (30) days of the approval for such increase or such additional time as a majority of the Board may deem reasonable. In the event that payment in full is not made by the end of such period, or any extension authorized by the Board, interest shall be charged to the Party failing to pay as provided in Provision 8.3.

CHAPTER VI RESPONSIBILITIES OF EACH PARTY TO THE JOINT VENTURE COMPANY

Article 11

11.1 In addition to its other obligations under this Contract, Party A shall have the following responsibilities to be performed only upon request by the Company:

- (a) Contributing its investment in the manner stipulated in this Contract.
- (b) Assisting the Company in applying for and obtaining approvals, registrations, licenses, permits and other matters concerning the establishment and operation of the Company from relevant Chinese authorities.
- (c) Assisting the Company to organize the design and construction of the premises and other engineering facilities necessary for the project as may be directed by the Company, including but not limited to assistance in placement of contracts or agreements with third parties.

(d) Assisting the Company in applying for and obtaining the most favorable tax or duty reductions, deductions and exemptions and other investment incentives available for the Company under the laws of China and relevant local laws and as may be stipulated elsewhere in this Contract or Appendices.

(e) Assisting the Company in liaising with the relevant authorities to effectively procure the external water supply, fuel supply, power supply, transportation, communications and other services, materials or utilities necessary for the implementation of this Contract or as may be required by the Company or its facilities.

(f) Assisting the Company in selecting and procuring the site necessary for the operation of the Company.

(g) Assisting the Company in preparation of the site for construction, establishing construction offices and recruiting qualified Chinese working personnel and arranging for the transport of imported equipment, services or material necessary for construction of the Company's facilities.

(h) Assisting with the procedures of applying for and procuring licenses for the import of equipment, raw materials, products and supplies as required by the Company, including the processing of any import customs declarations.

(i) Assisting the Company in purchasing or leasing of equipment, raw materials office articles, transportation, communication facilities or other goods or services needed in China.

(j) Assisting any expatriate employees and work force of the Company to obtain all entry visas and work permits necessary and arrange boarding, lodging, office space, transportation and medical facilities for such persons in China during the operation of the Company as may be required by the Company.

(k) Assisting the Company in securing preferential purchasing status of purchases of raw material or services in China, including the necessary official allocations of all raw materials the Company may require.

(l) Assisting the Company in processing the remittance of foreign currency earned by Party B and the Company.

(m) Assisting the Company in applying for and obtaining approvals for the sales of increasing amounts of Joint Venture Products in the domestic market.

(n) Assisting the Company in handling of all other matters as may be specifically entrusted by the Company from time to time.

Article 12

12.1 In addition to its other obligations under this Contract, Party B shall have the following responsibilities to be performed only upon request by the Company:

(a) Contributing its investment in the manner stipulated in this Contract.

(b) Execution of contracts for licensing of such technical information, marketing and management information and assistance by Party B to the Company as deemed necessary or appropriate by Party B or the Board of Directors by majority vote.

(c) Assisting the Company to obtain equipment, supplies, services and raw materials not otherwise available on commercially competitive terms in China.

(d) Assisting the Company to select and obtain management and technical personnel to participate in the management and operation of the Company as may be requested by the Company, including assisting in training of personnel selected by the Company in accordance with training plans developed or adopted by the Company and assistance in visa processing for such training as may occur outside China.

(e) Assisting the Company in obtaining additional financing from the Bank of China, other financial institutions in or outside China or from any Party or an affiliate of any Party provided however, to the extent a lender requires security for financing, and subject to each Party's prior written approval, each Party shall provide such security to the lender in proportion to its respective registered capital contribution. Under no circumstances will either Party be required to provide any security, pledge or guarantee for or on behalf of the Company without such Party's prior written consent.

(f) Assisting in the selection of technical and managerial consultants to provide expertise as may be required by the Company.

(g) Assisting the Company in handling of all other matters as may be entrusted by the Company from time to time.

CHAPTER VII THE BOARD OF DIRECTORS AND BUSINESS MANAGEMENT OFFICE

Article 13

13.1 The Board of Directors shall consist of five (5) Directors, one (1) of whom shall be appointed by Party A and four (4) of whom will be appointed by Party B. At the time this Contract is executed and each time Directors are appointed, each Party shall notify the other in writing of the names of its appointees.

13.2 Each Director shall be appointed for a term of four (4) years and may serve consecutive terms if reappointed by the Party originally appointing him. Each term shall be four years from the time of appointment. Either Party may remove any of its appointed Directors upon prior written notice to the other Party. If a seat on the Board is vacated before expiration of a term, the Party which originally appointed such Director shall appoint a successor to serve out its unexpired term.

13.3 A Director appointed by Party B shall serve as Chairman of the Board and a Director appointed by Party A shall serve as Vice Chairman of the Board. The Chairman of the Board shall be the legal representative of the Company. The Vice Chairman shall have such responsibilities and authority as may be delegated by the Chairman and approved by the Board.

13.4 The General Manager and the financial controller of the Company shall be selected and appointed by the Chairman. The Deputy General Manager of the Company may be selected by the Vice Chairman, subject to approval by the Board. The Deputy General Manager shall have such responsibilities and authority as may be delegated by the General Manager.

13.5 Each party shall be responsible for the expenses incurred by its appointed directors in attending Board meetings. This provision shall not apply to any payment due to a director arising out of his status as an employee of the Company.

13.6 The first meeting of the Board of Directors shall be held within three (3) months after the date of issuance of the Company's Business License; thereafter, except as authorized elsewhere in this contract or as may be provided in applicable law or regulation, the Board shall meet at least once each year. Board meetings will be held in Tianjin, Hong Kong or such other places as the Board may determine.

13.7 Meetings of the Board of Directors shall be held on thirty (30) days notice to the Directors, (or such other notice period as may be authorized under applicable law or regulation) provided that any

Director may waive his right to such notice by written consent. A notice of a Board meeting shall include the time and place of the meeting as well as a summary agenda prepared by the Chairman. Meetings may be held by telephone or other electronic means as well as in person. Any action required or permitted to be taken at any board meeting may be taken without a meeting if the Directors consent to such action in writing. The Chairman shall be responsible for convening and presiding over Board meetings; if the Chairman is unable to attend a Board meeting, the Chairman may delegate such tasks to the Vice Chairman.

13.8 If a Board member is unable to participate personally in a Board meeting, such Director may participate by telephone or issue a proxy or may entrust another person to participate in the meeting on his behalf. The representative so entrusted shall have the same rights and powers as the absent Board member. If a Board member fails to participate or to entrust another to participate, such Board member will be deemed as having waived such right.

13.9 Each Director present in person or by proxy or representative or by telephone at a meeting of the Board of Directors shall have one vote.

13.10 Resolutions involving the following matters may only be adopted upon unanimous affirmative vote of each and every director of the Board present in person or by proxy or by telephone at such meeting:

- (i) the amendment of the Articles of Association,
- (ii) the merger of the Company with another organization which is not a subsidiary or affiliate of Party B,
- (iii) dissolution or liquidation of the Company except as either Party may be authorized to terminate this Contract pursuant to Article 21,
- (iv) the increase or transfer of the registered capital of the Company other than pursuant to Provision 10.4 of this Contract.

13.11 Resolutions involving matters other than those set forth in Paragraph 13.10 above may be adopted by the affirmative vote of a majority of the Directors present at a convened meeting in person or by proxy or by telephone.

13.12 The Board shall be the highest authority of the Company. The Board shall discuss and determine all important issues regarding the Company in accordance with the relevant national and local laws of China, this Contract and the Articles of Association for the Company.

13.13 The Company shall not initiate negotiations for additional

financing for the Company or acquire interests in realty without the affirmative vote of a majority of the Board of Directors.

13.14 The Board may, by majority vote, remove from office any member of Company senior management who was originally selected or appointed by the Board.

Article 14

14.1 The Company shall adopt a management system under which the management organization shall be responsible to and under the leadership of the Board of Directors. The Company will establish a management office which shall be responsible for the Company's daily management. The Company shall have a General Manager, Financial Controller and Deputy General Manager who shall be responsible for executing the policies and decisions issued by the Board of Directors. The General Manager, Financial Controller and Deputy General Manager shall serve terms of three years.

14.2 The General Manager shall organize and conduct the daily management of the Company and shall, within the scope of powers and authority empowered him by the Board, represent the Company to third parties, appoint and dismiss subordinates and exercise other functions as authorized by the Board. The General Manager shall be authorized to utilize outside consultants or experts for specific assignments on a temporary basis at his discretion for the Company's account and hire and dismiss employees. In addition, the General Manager shall have final decision making authority in executing the resolutions of the Board. The General Manager shall consult with the Deputy General Manager regarding issues of importance to the Company, but the General Manager shall have final decision making authority. Except as may be specifically authorized by the Board, the General Manager or his designee shall sign all contracts for the Company. The General Manager shall not execute any contracts for loans, additional financing for the Company, or any contracts which pledge the assets of the Company without the prior written authorization of the Board.

14.3 The General Manager may appoint several department managers who shall be responsible for assuring execution of the directions issued by the General Manager or his designee.

14.4 Party A and Party B shall, upon request by the Board or the General Manager, assist the General Manager and other members of the Company's management in all matters pertaining to entry or exit of Chinese territory, including assistance for arranging transportation of personal belongings in accordance with the Customs Law and the Tax Laws of China. Such assistance shall include but not be limited to assistance in obtaining entry visas and application to customs offices for tax exemptions or reductions and for any other preferential treatment available to the Company or its managers.

14.5 Senior management personnel shall be employed by the Company in accordance with the terms of individual employment contracts. The salaries and benefits paid by the Company to the senior management personnel shall be determined by the Board in accordance with domestic and international standards and recognizing differing needs of expatriate personnel.

14.6 Senior management personnel must be full time personnel of the Company and may not concurrently hold any position in another economic organization which is in commercial competition with the Company. If a member of the Company's senior management wishes to resign for any reason, a written notice of such resignation must be submitted to the Board of Directors ninety (90) days prior to the effectivity of resignation.

14.7 Subject to the provisions of this Contract, applicable laws and the Articles of Association of the Company, senior management personnel of the Company may be appointed and removed by the General Manager. Any vacancies among the Company's senior management shall be filled by the Party having the right to nominate such office and in the event neither Party has such right of nomination or fails to exercise such right, the General Manager may appoint a candidate to fill the vacancy.

14.8 Party A and Party B agree that through a consultancy contract between the Company and Party B, Party B may provide to the Company management and technical advice as may be determined by the Board of Directors of the Company by majority vote.

CHAPTER VIII FINANCIAL AFFAIRS

Article 15

15.1 Except as may be authorized by the Board, the financial controller shall be responsible for the financial affairs of the joint venture and shall report to the General Manager and the Board of Directors. The financial controller shall be responsible to submit to the Board reports on the financial condition of the Company at such intervals as the Board may determine.

15.2 The accounting system of the Company shall adopt a fiscal year which shall begin on January 1 of each year and shall end on the following December 31. The first fiscal year will begin on the Establishment Date of the Company and end on the following December 31 and the last fiscal year shall end on the date of the dissolution of the Company. Party B shall be provided with a financial report of the Company after the conclusion of each fiscal year.

15.3 The General Manager and the Financial Controller shall prepare and submit to the Board for approval the accounting system and procedures in accordance with the Accounting System of the People's

Republic of China for Foreign Investment Enterprises and other mandatory regulations. Subsequent to Board approval, the accounting system and procedures will be filed or submitted to appropriate Chinese government authorities. The debit and credit method as well the accrual basis of accounting shall be adopted as the methods and principles for keep accounts. Any changes to the accounting system and procedures shall require the approval of a majority of the Board of Directors.

15.4 The Company's gains and losses of RMB and gains and losses of foreign currency shall be kept in separate accounts. The Company shall use RMB as the standard currency for keeping accounts. The exchange rates between RMB and foreign currencies shall be handled in accordance with the applicable laws and regulations of China.

15.5 All accounting records, vouchers, books and statements of the Company shall be made and kept in Chinese and English. All important financial and accounting documents, records and statements shall require the approval and signature of the Financial Controller. All financial statements shall require the approval and signature of the General Manager.

15.6 The Company shall separately open a foreign exchange account and RMB account at banks selected by the Board of Directors through a majority vote and approved by the Chinese Government. all expenses of the Company shall be paid from such accounts. The Company's foreign exchange transactions shall be handled in accordance with the laws and regulations of China.

15.7 The Company shall, to the extent required by applicable law or as may be determined by the board of Directors, maintain a balance in its foreign exchange receipts and expenditures from the sale of its Joint Venture Products. However, if despite the reasonable efforts of the Parties in performing their obligations under this Contract, the Company is unable to maintain a balance of foreign exchange, the Board may consider and by majority vote approve other legal means of achieving such balance, including but not limited to the following:

(i) conversion of its RMB denominated sales to US Dollars through legal channels.

(ii) establishing and maintaining US Dollar, RMB or other currency bank accounts in China and, if deemed necessary by the Company, abroad.

(iii) requiring Chinese companies, foreign trade corporations or other foreign enterprises in China to pay foreign exchange for purchases of Joint Venture Products.

(iv) paying all taxes, duties or other fees in China owed by the Company or its staff or employees in RMB.

Prior to implementing any such method of achieving foreign exchange balance, the Company shall obtain all approvals or permits required by relevant Chinese authorities. If such means fails to achieve a satisfactory resolution, the Company, through the Board, may seek further assistance from relevant Chinese authorities or either party may terminate this Contract in accordance with Article 19.

15.8 Prior to the start of commercial activity of the Company, foreign exchange held in capital accounts by the Company or to which it is entitled shall be applied in payment of the following in descending order of priority, or such order as the Board by majority vote may approve:

- (i) payment of all suppliers of imported materials, equipment or services imported from outside of China.
- (ii) payment of the Company's expatriate staff salaries,
- (iii) payment of living and travel expenses of company employees on training programs outside China.

15.9 Following the start of commercial activities, foreign exchange earned by the Company or to which it is entitled shall be applied in payment of the following in descending order of priority or such order as the Board by majority vote may approve:

- (i) payment of foreign currency loan interest/principal as due.
- (ii) distribution of profits to Party B
- (iii) payment of imported raw materials, supplies, spare and replacement parts,
- (iv) payment of technology license obligations
- (v) payment of the Company's expatriate staff salaries
- (vi) living and traveling expenses of employees of the Company incurred while traveling and living abroad for training and other business purposes and
- (vii) payment for imported services.

15.10 After payment of income taxes by the Company, the Board will determine the amount of the reserve fund and expansion fund of the company, and the bonus and welfare fund for the workers and staff members which shall be deducted from the after-tax net profits. The total allocation of these funds withdrawn each year shall not exceed

ten percent (10%) of the after-tax profit in such year unless authorized by the Board of Directors.

15.11 The after-tax net profit of the Company shall be distributed between Party A and Party B in proportion to their respective shares in the registered capital after deductions therefrom for various funds as stipulated in Paragraph 15.10, above. The Board shall determine when the profit shall be distributed. If the Company carries losses from the previous years, the profit of the current year shall be first used to cover such losses. No profit shall be distributed unless the deficit from the previous years is made up. The profit retained by the Company and carried over from the previous years may be distributed together with the distributable profit of the current year of after the deficit of the current year is made up.

15.12 All payments to be distributed under this Article 15 shall, at the request of the receiving Party, be transmitted electronically to an account at a bank located in China or abroad, specified in advance by such Party.

15.13 In the event that there is not sufficient foreign exchange to pay Party B's share of distributed profits, the Company shall, to the extent of the unpaid portion, hold distributed RMB profits in trust for Party B in a special interest bearing account established for that purpose, when such account is available, in satisfaction of the Company's obligation to distribute such share of the Company's profit to Party B. From and after the date on which such account is established, the Company will not withdraw or use the funds therein except upon Party B's prior written instructions. When the Company obtains sufficient foreign exchange, the Company shall, at Party B's option, replace the RMB in such account (including any interest earned therefrom) with its US Dollar equivalent in accordance with the average of the buying and selling rates published by the Bank of China (the "Official Rate") at the time of transaction, provided, however, that should Party B require the Company to convert available Renminbi for foreign exchange at any rate other than the Official Rate in order to pay Party B's profits in foreign exchange, then the Company will replace the Renminbi in such account (including interest thereon) with the US Dollar equivalent in accordance with the actual exchange rate of the conversion transaction. The Company then shall immediately pay such US Dollars to Party B.

Article 16

16.1 An independent accountant registered in China and otherwise qualified to render opinions on the compliance by the Company with the accounting standards provided herein, shall be engaged by the Company as its auditor to examine and verify the annual report on the final accounts ("Independent Auditor"). The Company shall submit to the Parties the annual financial statements (including the audited Profit and Loss Account, the Balance Sheet and Cash Flow Balance and Foreign

Exchange Balance for the fiscal year) within three months after the end of the fiscal year, together with the audit report of the Chinese registered accountant. The annual financial statements, the audit report and the monthly reports shall be prepared in both Chinese and English.

16.2 The Board shall review and approve the periodic audits of the accounts. In the event that the Board determines that the audits submitted by the Independent Auditor are unable to properly meet the standards set forth above, the Board may, upon majority vote, replace the Independent Auditor, or retain another auditor at Company expense, to supplement or adjust the work of the Independent Auditor or to perform specific accounting and auditing tasks.

16.3 Each Party may, at its own expense, employ an auditor to undertake financial examination on behalf of such Party. The Company shall provide reasonable assistance to such auditor. The auditor shall be obligated to keep confidential all documents under his auditing.

CHAPTER IX LABOR MANAGEMENT AND WAGES

Article 17

17.1 The Board shall establish policies for the employment, dismissal, wages, labor insurance, welfare, rewards, penalties and other matters concerning the staff and workers of the Company. Such policy shall be formulated in accordance with the principle of employee compensation in accordance with performance and shall conform to the Regulations of the People's Republic of China on Labor Management in Joint Ventures Using Chinese and Foreign Investment. The Company shall execute labor contracts incorporating such policies with the Company's trade union or with each individual employee, as may be determined by the majority vote of the Board. After execution, the labor contracts will be filed with the appropriate labor management department. Employment, salaries, labor insurance, welfare and travel allowance for high-ranking officers shall be decided upon by the Board. Expatriate personnel will receive benefits and remuneration commensurate with those commonly provided in expatriate employment packages.

17.2 The Company will conform to applicable rules and regulations of the Chinese government concerning health, safety, environmental protection, and labor insurance.

CHAPTER X TAXATION AND FOREIGN CURRENCY

Article 18

18.1 The Company shall pay taxes according to the Income Tax Law

Concerning Chinese-Foreign Joint Ventures and other applicable laws and regulations of China.

18.2 Foreign and Chinese high-ranking officers, management, staff and workers of the Company shall respectively pay their individual income tax and individual income adjustment tax in accordance with the applicable tax laws of China.

18.3 The Company will use its best endeavors to apply for and obtain preferential tax treatment, reductions and exemptions to which the Company is entitled. The Company may apply to the relevant Chinese government departments for examination and confirmation that the Company is an export enterprise and technologically advanced enterprise and apply for any preferential treatment granted to such enterprises by the Chinese government.

18.4 The Company shall apply for a drawback of the duties paid on any imported materials which are used for export products.

18.5 The Company shall seek all tax exemptions, reductions and preferences to which it is entitled for materials, equipment, transportation vehicles and office equipment for the purpose of production and management of the joint venture.

18.6 The customs duties, tariffs, or fees for all raw materials imported by the Company shall be processed in accordance with the applicable Chinese regulations on import customs duties issued at the time of importation. The Company shall apply and proceed for tax exemptions on such materials as are exempted from customs duty in accordance with relevant regulations.

CHAPTER XI ALTERATION OF TERMS AND TERMINATION OF THE CONTRACT

Article 19

19.1 No change or alteration to this Contract or its appendices shall be effective unless reduced to writing and signed by both parties to this contract. Neither party has any authority to alter the Contract unilaterally. Changes and alterations to this Contract will be governed by the laws of the People's Republic of China and shall not contravene the public interest.

19.2 The Joint Venture Term of the Company shall commence on the issuance of the business license and shall expire on the date which is thirty years after the issuance of the business license. The term of the Joint Venture may be terminated before the expiration in accordance with this Contract. If both parties agree, an application for extension shall be submitted to the Examination and Approval Authority for approval no less than six (6) months prior to the expiration date of the term of the Joint Venture.

19.3 This Contract shall terminate upon the expiration of the Joint Venture Term unless extended pursuant to this Contract. Either Party may terminate this Contract prior to expiration of the Joint Venture Term of the Company upon written notice to the other Party if:

- a. the other party materially breaches this Contract and such breach is not cured within three months of written notice to the breaching party;
- b. the Company or the other Party becomes bankrupt or is the subject of proceedings for liquidation or dissolution or ceases to carry on business or becomes unable to pay its debts when due;
- c. either Party transfers its equity participation in the Company without the prior consent of the other Party or in violation of the provisions of this Contract;
- d. all or any part of the assets of the Company are expropriated by any government authority;
- e. any government authority having authority over either Party requires any provision of this Contract to be revised in such a way as to cause significant adverse consequences to the Company or any of the Parties;
- f. other unforeseen circumstances arise making it impossible or commercially infeasible for the Company to operate effectively;
- g. conditions or consequences of Force Majeure prevail for a period in excess of six (6) months and the Parties have been unable to find an equitable solution;
- h. despite all reasonable efforts by Party A, Party B and the Company, the Company is unable, for sixty (60) consecutive months, to balance its foreign exchange requirements or its cumulative foreign exchange obligations exceed six million, nine hundred thousand U.S. Dollars (US\$ 6,900,000);
- i. if any ancillary agreements are terminated and such termination prevents or severely inhibits the operation of the Company in accordance with the expectations of the Parties;
- j. either Party's economic benefits are adversely and significantly affected by any new laws, rules or regulations of China or the amendment or interpretation of any existing laws, rules or regulations of China after the date of execution of this Contract, the Parties will

promptly consult with each other and use their best endeavors to implement any adjustments necessary to maintain each Party's economic benefits derived from this Contract on a basis no less favorable than the economic benefits it would have derived if such laws, rules or regulations had not been enacted or amended or interpreted. If the Parties cannot reach an agreement regarding the economic adjustment within sixty (60) days after discussions begin; or

k. for any other reason provided for in this Contract or in relevant laws and regulations.

19.4 Termination for any other reason not specified herein shall require unanimous approval of the Board of Directors.

19.5 If either Party gives notice pursuant to the foregoing of a desire to terminate this Contract, the Parties will promptly negotiate a resolution to the problem for which termination is sought. If the problem cannot be resolved within six (6) months after commencement of negotiations, or if one party refuses to negotiate, the Contract may be terminated.

19.6 Notwithstanding any other provision of this Contract, the Company shall automatically be dissolved upon bankruptcy or dissolution of either Party. Upon the occurrence of either of these events, the Parties shall take any and all actions necessary to effect the dissolution of the Company. Without limiting the foregoing, upon the occurrence of either of these events, a meeting of the Board of Directors shall be convened at which the Parties shall cause their respective representatives to adopt a resolution to dissolve the Company.

19.7 If the Contract is terminated for any reason, the physical assets of the Company shall be valued by and liquidated under the direction of a Liquidation Committee formed in compliance with applicable regulation. In valuing and selling the physical assets, the Liquidation Committee will use every responsible effort to obtain the highest possible price for such assets. After liquidation and settlement of outstanding debts of the Company and subject to the payment of any applicable taxes, the joint venture account shall be paid over to Party A and Party B in proportion to their respective contributions to the Registered Capital of the Company. Party A agrees that, to the extent possible, it will ensure that amounts payable to Party B will be paid in U.S. Dollars and shall be freely remittable by Party B out of China in accordance with the applicable Chinese foreign exchange regulations. In the liquidation of the assets of the Company, the Party which originally contributed assets or the cash to purchase such assets of the Company shall have priority to purchase such assets if the price offered is reasonable. To the extent reasonably possible, sales of the Company's assets will be in U.S. Dollars.

Article 20

20.1 If either Party fails to pay on schedule the contributions to the Registered Capital in accordance with the provisions of this Contract, and such failure is not excused, following the one month period referred to in Article 8.3 above, the breaching Party will pay the other Party liquidated damages each month beginning the second month after the contribution is due. The liquidated damage payments will be five percent (5%) of the amount of the delinquent contribution and shall be payable in cash and in US Dollars. If the breaching Party fails to pay the contribution for three consecutive months, and such failure is not excused, the failure will be deemed a material breach to the Contract and the other Party may immediately terminate pursuant to Article 19 of this Contract and may pursue such other damages or compensation for economic loss as may be provided under Chinese law.

20.2 If the Company cannot continue its operations or achieve the business purpose stipulated in the Contract due to the fact that one of the parties fails to fulfill or seriously violates the obligations prescribed in the Contract, such Party will be deemed to be breaching the Contract. The non-breaching Party may elect to terminate the contract in accordance with Article 19 of this Contract and may recover compensation from the breaching Party commensurate with the economic loss caused by the breach. The Parties may elect to continue the operation of the Company; in such case, the Party who fails to fulfill the obligations shall be liable to the other for the economic loss sustained by the Company or the other Party as a result of such breach.

20.3 Notwithstanding any other provision of this Contract, if a breach is committed by a Party and such breach results in the non-performance of or inability to fully perform this Contract including any annexes, the liabilities arising from such breach will be borne by the Party in breach. If a breach is committed by both Parties, each will bear its individual share of the liabilities arising from its breach of contract.

20.4. If either Party fails to perform its obligations under this Contract it shall promptly inform the other Party in writing, specifying the nature of the failure. If such failure is a breach of this Contract, the non-performing Party will be liable to the other Party and the Company for economic losses sustained as a result of such breach.

20.5 Each Party to the Contract learning through any means whatever that the other Party is unable or will fail to perform its obligations under the Contract, shall promptly verify the failure or

inability to perform and shall take measures of remedy or measures to prevent or mitigate any loss. If loss is increased due to failure to take such measures, or failure to take measures promptly, the party failing to take such measures shall have no right to compensation for the increased part of the loss.

CHAPTER XIIIV FORCE MAJEURE

Article 21

21.1 "Force Majeure" shall mean all events which are beyond the control of the parties to this Contract and which are unforeseen or if foreseen are unavoidable and which arise after the Contract Date and which prevent total or partial performance by either Party. Force Majeure may include but is not limited to strikes, labor disturbances, explosions, fires, flood, earthquake and other natural disasters, acts of war or civil disturbances, acts of any government in its sovereign capacity, sabotage, condemnation or expropriation, or inability to obtain materials or transportation.

21.2 If an event of Force Majeure occurs, the party whose performance is prevented shall notify the other party by most expedient means without delay and within fifteen (15) days thereafter provide to other Party written report detailing the events and providing certification from the local Chamber of Commerce substantiating such occurrences. The Party experiencing the Force Majeure event will exercise all reasonable endeavors to terminate the Force Majeure condition and to minimize all loss to the Company and to the other Party.

21.3 If the Company is unable to operate or the Contract impossible to perform due to an event of Force Majeure, the contractual obligations of the Parties (except obligations pertaining to confidentiality) shall be suspended during the period of delay caused by the Force Majeure and shall automatically be extended, without penalty, for a period equal to such suspension.

21.4 In the event a Force Majeure event exists for such period that the economic success of the Company is irreparably damaged, the Board of Directors of the Company may dissolve the Company and terminate this Contract.

CHAPTER XIV SELLING OF JOINT VENTURE PRODUCTS

Article 22

22.1 In accordance with the relevant laws, regulations and rules of China, the Company may advertise, promote sell and distribute its products in and outside China for its wholesale and retail objectives. The objective of the Company shall be to sell up to seventy percent (70%) of the Joint Venture Products outside China, if such Joint

Venture Products are competitive in price and quality to other similar products on the international market, and to sell not less than thirty percent (30%) of the Joint Venture Products within China. Upon approval by the majority of the Board, and subject to the approval of Party B, the Company may execute an Export Distribution Contract with Party B or its affiliates establishing the terms for international distribution of the Joint Venture Products for the Company.

22.2 The prices of the products of the Company sold outside China will be determined by the Board of Directors in accordance with international competitive marketing. The prices of products sold in China shall be determined by the Board of Directors in accordance with principles of achieving competitive advantages.

22.3 The Joint Venture Products sold in China may be sold either by the Company directly or through other relevant Chinese sales and distribution organizations pursuant to agency contracts entered into between the Company and such organizations.

22.4 The Company may establish branch sales or service offices within or outside China upon the approval of the relevant Chinese authorities with a view to sell its products and perform after sales maintenance service within or outside China.

CHAPTER XV TRADEMARK

Article 23

23.1 Party B or its parent shall license to the Company appropriate trademarks owned by Party B or its parent or affiliates in accordance with the terms of the trademark license contract to be executed after the Establishment Date or at such time as may be determined by the Board of Directors. The licensed trademarks will be used by the Company only in connection with the manufacture, processing and sales of designated Joint Venture Products. Party B will cause the registration of the trademark with the relevant Chinese authorities in accordance with the Trademark Law of the People's Republic of China and its detailed rules for implementation. The trademarks registered in China shall be protected by the Chinese laws. All licensed trademarks shall at all times remain the property of Party B or its affiliates or licensor. After the expiration of or the termination of this Contract, and upon its dissolution, the Company will have no right to use the trademarks. Party A shall have no right of use of the trademark except with the prior written consent of Party B or its parent.

CHAPTER XVI INTELLECTUAL PROPERTY AND CONFIDENTIALITY

Article 24

24.1 The Parties shall, during the term of this Contract and the existence of the Company, and thereafter until the information

properly comes into the public domain or until twenty (20) years following the expiration or termination of this Contact, whichever occurs first, maintain the secrecy and confidentiality of and not disclose to any third person or party any proprietary information or any information considered secret or confidential by either Party which is disclosed, directly or indirectly to the Company or the other Party.

24.2 The Parties will cause their directors, senior staff and other employees and those of their subsidiaries or affiliates also to comply with the confidentiality obligations set forth above.

24.3 The Company shall not disclose proprietary information concerning its sales or finances or products to any persons or entities except, where circumstances warrant, to Party A and Party B during the valid term of this Contract (excluding information which is required to be reported to officials or departments of the Chinese Government), unless such information is already in the public domain.

24.4 This Article and the obligations and benefits hereunder shall survive for twenty (20) years after the termination of this Contract and the termination or dissolution of the Company.

24.5 Both parties to this Contract shall require their appointed Directors to the Company to require Company personnel to execute appropriate contracts or agreements to maintain the secrecy of proprietary and confidential information of the Company.

24.6 The Party breaching the obligations of confidentiality under this Contract will be liable for damages accrued to the non-breaching Party.

CHAPTER XVII INSURANCE

Article 25

25.1 The Company shall, at its own cost and expense, take out and maintain full and adequate insurance of the Company against loss or damage by fire and such other risks as may be decided by the Board through a majority vote of the Directors. The property, transportation, product liability and other items of insurance of the Company shall be obtained within or outside China, subject to any legal restrictions which may apply, and such insurance policies will be denominated in Chinese and foreign currencies, as appropriate. The types and amounts of insurance coverage shall be determined by the Board in accordance with applicable Chinese laws, if any.

CHAPTER XVIII APPLICABLE LAW

Article 26

26.1 The validity, interpretation and implementation of this Contract will be governed by the law of the People's Republic of China which are published and publicly available, but if there is no published and publicly available law in China pertaining to any particular matters relating to this Contract, reference shall be made to general international commercial practices.

CHAPTER XIX SETTLEMENT OF DISPUTES

Article 27

27.1 In the event a dispute arises in connection with the interpretation or implementation of this Contract, the Parties shall attempt in the first instance to resolve such dispute through friendly consultations.

27.2 If the dispute is not resolved through friendly consultations within sixty (60) days after the commencement of discussions, or such longer period as the Parties agree in writing at that time, then notwithstanding any other provision of this Contract, the Parties shall resolve the dispute in Geneva, Switzerland according to the arbitration rules of the International Chamber of Commerce ("ICC"). Arbitration shall be conducted as follows:

(i) All proceedings in any such arbitration shall be conducted in English and a daily transcript in English of such proceeding shall be prepared. All decisions of the arbitrators will be reduced to writing and such decisions will be supported by rationale. Arbitrators may not award any monetary compensation to either Party which is speculative, punitive or was not a direct result of a breach of the other Party's obligations under this Contract.

(ii) There shall be three (3) arbitrators, fluent in English, appointed in accordance with the ICC rules.

(iii) The arbitration award shall be final and binding on the Parties and the Parties agree to be bound thereby and act accordingly.

(iv) When any dispute occurs and when any dispute is under arbitration, except for the matters under dispute, the Parties shall continue to exercise their remaining respective rights and fulfill their remaining respective obligations under this Contract.

(v) In any arbitration proceeding, any legal proceeding to enforce the arbitration award or any legal action between the Parties relating to this Contract, each Party expressly waives the defense of sovereign immunity and any

other defense based upon the fact or allegation that it is an agency or instrumentality of a sovereign state. Any award of the arbitrators shall be enforceable by any court having jurisdiction over the Party against whom the award has been rendered and shall be enforceable in accordance with the "United Nations Convention on the Reciprocal Enforcement of Arbitral Awards (1958).

CHAPTER XX LANGUAGE

Article 28

28.1 This Contract shall be written in Chinese and English versions. Both languages are equally authentic and shall have the same effect.

CHAPTER XXI ASSIGNMENT OF THE CONTRACT

Article 29

29.1 Neither party may transfer or assign any obligation or right under this Contract without the prior written consent of the other party, except that Party A consents to any transfer or assignment of Party B's interests to any other affiliate or subsidiary of Party B. Party B agrees to provide Party A with prior written notice of any such transfer or assignment.

CHAPTER XXII EFFECTIVENESS OF THE CONTRACT AND MISCELLANEOUS PROVISIONS

Article 30

30.1 Any appendices of this Contract are an integral part of the Contract and have the same legal effect as the text of the Contract.

30.2 Notices between the Parties may be sent by mail or telegram, facsimile, or telex. Any notice in connection with any party's rights and obligations shall require a written letter notice, return receipt. The legal addresses of both parties listed in this Contract shall be the posting addresses. Notices shall be deemed effective upon receipt.

30.3 The Contract and its appendices shall be approved by the appropriate Chinese government offices.

30.4 Failure or delay on the part of either Party hereto to exercise any right, power or privilege under this Contract or under any other contract or agreement relating hereto shall not operate as a waiver thereof, nor shall any single or partial exercises of any right, power or privilege preclude any future exercise thereof.

30.5 Nothing in this contract is intended to interfere with or restrict Party B, its parent or affiliates from independently engaging in or pursuing lawful business activity in China.

30.6 This Contract and any appendices hereto attached to this Contract constitute the entire agreement between Party A and Party B with respect to the subject matter and supersede all other discussions, negotiations and agreements, written or oral. In the event of a conflict in the terms of this Contract and the Articles of Association, the term of this Contract will prevail.

Executed by Party A

Executed by Party B

Signature

Signature

Name

Name

Title

Title

Date

Date

Witness for Party A

Witness for Party B

Signature

Signature

Name

Name

Title

Title

Date

Date

EXHIBIT 11

AST RESEARCH, INC.
Computation of Net Income Per Share

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	April 2, 1994	April 3, 1993	April 2, 1994	April 3, 1993
<S>	<C>	<C>	<C>	<C>
Primary earnings per share				
Shares used in computing primary earnings per share:				
Weighted average shares of common stock outstanding	32,103	31,472	31,784	31,206
Effect of stock options treated as equivalents under the treasury stock method	977	538	728	614
Weighted average common and common equivalent shares outstanding	33,080	32,010	32,512	31,820
Net income	\$ 13,214	\$ 11,045	\$ 39,379	\$ 33,267
Earnings per share - primary	\$.40	\$.35	\$ 1.21	\$ 1.05
Fully diluted earnings per share				
Shares used in computing fully diluted earnings per share:				
Weighted average shares of common stock outstanding	32,103	31,472	31,784	31,206
Effect of stock options treated as equivalents under the treasury stock method	983	539	805	650
Shares assumed issued on conversion of Liquid Yield Option Notes	4,093	-	1,649	-
Total fully diluted shares outstanding	37,179	32,011	34,238	31,856
Net income - fully diluted earnings per share:				
Net income - primary earnings per share	\$ 13,214	\$ 11,045	\$ 39,379	\$ 33,267
Adjustment for interest on LYONs, net of tax	890	-	1,066	-
Adjusted net income - fully diluted earnings per share	14,104	11,045	40,445	33,267
Net income per share - fully diluted	\$.38	\$.35	\$ 1.18	\$ 1.04

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