FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

AURORA ELECTRONICS INC

CIK:**319237**| IRS No.: **751539534** | State of Incorp.:**DE** | Fiscal Year End: **0930**
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SIC: **5045** Computers & peripheral equipment & software

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1996

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-9725

AURORA ELECTRONICS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	75-1539534
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2030 MAIN STREET, SUITE 1120, IRVINE, CALIFORNIA 92614
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (714) 660-1232

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered:
Common Stock, $.03 Par Value	American Stock Exchange
7 3/4% Convertible Subordinated Debentures, Due 2001	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on December 20, 1996, 1996 based on the closing price of the Common Stock on the American Stock Exchange was approximately $8,927,692.

Indicated below is the number of shares outstanding of each class of the registrant's Common Stock, as of December 20, 1996.

Title of Each Class of Common Stock	Number of Outstanding
Common Stock, $.03 par value	5,742,523

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of the Form 10-K
Proxy Statement for the 1997 Annual Meeting of Stockholders	Part III

PART I

ITEM 1. BUSINESS.

OVERVIEW

Aurora Electronics, Inc. ("Aurora" or the "Company") provides spare parts distribution and electronics recycling services to major personal computer manufacturers and computer service organizations. Aurora operates worldwide through its wholly-owned subsidiary, Aurora Electronics Group, Inc. ("AEG") with facilities in the United States, Canada, and Europe. AEG distributes new and refurbished computer spare parts, primarily to the field service departments of computer OEMs, third-party maintenance and multivendor service organizations ("TPMOs" and "MVSOs"), computer resellers and dealers, and large corporate self-maintainers. AEG distributes spare parts from over 500 manufacturers, with particular emphasis on products from Apple Computer, AT&T, AST Computer, Compaq, Dell Computer, Digital Equipment Corporation, Hewlett-Packard, IBM and Toshiba. In addition, AEG provides a broad range of materials management services, such as repair and repair logistics, advance exchange, returned materials management, inventory management, and electronic materials recycling and remarketing.

In March 1996, the Company completed its comprehensive plan to recapitalize the Company (the "Recapitalization"). The Recapitalization included: (1) a tender offer pursuant to which the Company repurchased approximately 4,268,000 shares of common stock at $2.875 per share; (2) the Company's sale of $40 million of convertible preferred stock, $.01 par value per share (the "Preferred Stock"), and $10 million in subordinated debt (with approximately 607,000 shares of common stock attached) to Welsh, Carson, Anderson & Stowe ("WCAS") and certain other purchasers; (3) establishment of a new $35 million senior credit facility with The Chase Manhattan Bank (formerly Chemical Bank, N.A.) (the "Credit Agreement"); (4) the repayment in full of AEG's existing senior bank indebtedness of approximately $26 million; and (5) the redemption of the Company's 9-1/4% Senior Subordinated Notes (approximately $9.3 million). The Preferred Stock is convertible into common stock at the ratio of $2.125 per share and votes on an as-converted basis. As a result, WCAS and its affiliates control about 76.4% of the voting power of the Company.

INDUSTRY

The worldwide personal computer installed base has grown to approximately 180 million units, and requires a wide range of support, maintenance, upgrade and recycling services. Due to the competitiveness of the personal computer industry and the increasingly short manufacturing life cycle of the products, companies involved in the manufacture, service and distribution of computers are seeking outsourcing solutions to meet these requirements, preferably from a single source. Aurora offers its customers a wide range of these critical aftermarket services through integrated outsourcing programs provided on a worldwide basis, thereby allowing its customers to achieve cost savings associated with reduced inventories, lower headcount and less investment in plant and equipment.

As a result of the trend toward outsourcing of support, maintenance, upgrade and recycling activities, an independent spare parts distribution, recycling and repair industry has emerged in support of personal computer manufacturers and maintenance service providers. This industry is comprised of companies that are unaffiliated with the manufacturers of computers and computer parts, yet possess expertise in providing spare parts procurement, distribution, logistics, repair and recycling services. Companies in this industry operate in the secondary market for both new and used spare parts, relying on thousands of parts sourcing contacts among system and subsystem manufacturers, distributors, brokers and large end-users. Aurora is among the largest companies in the independent parts distribution, recycling and repair industry.

BUSINESS STRATEGY

AEG's strategy is to supply an increasing portion of the spare parts-related aftermarket support requirements of major companies in the personal computer industry. Key components of this strategy include:

- Pursue Integrated Support Relationships with Major Computer OEMs and Service Providers. The Company is continuing to aggressively pursue comprehensive aftermarket support relationships with major customers. These relationships range from providing individual services to complete outsourcing of as many of their spare parts distribution, logistics, repair and recycling requirements as possible. The Company believes strongly that over time its customers will prefer developing integrated outsourcing approaches to meeting these needs, and will seek to have as few such partnerships as possible to address their worldwide support requirements.

- Integrate Recycling, Repair and Parts Supply. AEG has major market positions in both recycling of computer systems and spare parts supply. Generally, the most cost effective source for spare parts is recycled

parts, and for out of production parts, it is frequently the only source. Conversely, the best use for recycled parts is to resell them for use in the installed base as either spares or low cost additions to existing systems. Similarly, recycled parts are also often both less expensive and more readily available than repaired parts. The Company's ability to meet a significant portion of its spare parts demand from used or recycled parts sources is a significant competitive advantage, and an area which the Company is attempting to expand.

- Build Strong Parts Supply Relationships with Major Parts Manufacturers. The Company will continue to work closely with both major system and subsystem manufacturers in order to source spare parts in a cost-effective manner. Increasingly, these relationships are based on sophisticated electronic links which allow both parties to service the after-market in a timely and economic fashion.

- Maintain And Extend Industry Leading Knowledge Of Computer Parts and the Associated Secondary Markets. The Company believes it currently is among the industry leaders with respect to knowledge about computer systems, subsystems and spare parts, and the secondary market sources and consumers thereof. This knowledge base is extended every day in operating its business, and catalogued in sophisticated, relational databases. In addition, the Company makes substantial efforts to gather such information from its customers, suppliers, computer OEMs and various reference sources. This knowledge is a key basis for its primary value added to its customers.

- Build a Sophisticated Technology Platform for Enhanced Service Delivery. During the last three years, the Company has invested more than $3 million in sophisticated information systems designed to improve customer service and establish electronic linkages with major customers, and it continues to spend aggressively on building its information systems capabilities. The Company believes that development of a sophisticated technology platform is critical to establishing a leadership position in its industry.

- Continue to Develop AEG's Worldwide Presence. The Company believes that it is critical to provide customers with a worldwide range of capabilities. Accordingly, AEG continues to make important investments in expanding its European operations.

SERVICES

The range of spare parts distribution, electronics recycling services and aftermarket service programs which AEG provides includes:

- Spare Parts Distribution. AEG sources and distributes a wide range of spare parts, many of which are out-of-warranty and often out-of-production. AEG sources these parts either from its own inventory or by utilizing its parts sourcing database to locate and procure the parts, and then ships them to the customer, typically within 24 hours. Currently, approximately 70% of AEG's shipments are products that are sourced, reconditioned and tested the same day. AEG also works directly with computer OEMs and spare parts manufacturers as an authorized parts distributor, providing same and next-day shipment of new spare parts stocked by AEG on behalf of the OEM.

- Aurora Exchange Programs. AEG provides selected customers with good working parts at a discounted price in exchange for their defective parts. In most cases, the defective unit is repaired and placed back into inventory to fulfill future requests under this program.

- Asset Recovery and Remarketing. AEG refurbishes, reconditions, and redistributes systems and subsystems received as a result of manufacturing fallout, field dispositions, dealer and distributor returns, stock rotations, excess and obsolete inventories and customer trade-in and exchange programs. Refurbished systems and subsystems are either utilized for AEG's spare parts inventories or redistributed worldwide.

- Returns Management Programs. AEG's returns management program assists OEMs and distributors by facilitating the return of units which are defective, returned due to buyer's remorse or stock rotation or otherwise removed from the marketplace. Returned units are received, processed, tested, refurbished, as required, and either returned to the manufacturer, sold in secondary channels or used for spare parts inventory.

- Repair and Logistics Programs. AEG's parts repair and logistics programs offer critical support for OEM customers and also serve to

lower AEG's acquisition cost for spare parts, AEG maintains a wide range of parts remanufacturing and repair capabilities, with technical expertise in floppy disks, tape drives, laser printers, monitors, flat panel displays, and CD-ROMs.

- Inventory Management. Under AEG's inventory management programs, the Company takes responsibility for maintaining a customer's parts inventories at pre-arranged levels. Under this program, the Company takes responsibility for procuring, selling and liquidating customer-owned spare parts.

- Parts Procurement Outsourcing. In some cases, customers are interested in total outsourcing of the parts ownership, management and logistics function. In these cases, AEG commits to certain service levels with respect to parts availability and response time, and takes responsibility for all aspects of the parts fulfillment process, including ownership of the part.

CUSTOMERS AND SUPPLIERS

AEG provides spare parts sourcing and distribution services primarily to five groups of customers:

- Customer Maintenance Departments of Major Computer OEMs -- AEG provides spare parts and related repair, spare parts inventory management and logistics programs to support the customer maintenance departments of customers such as AT&T, Compaq, DEC, Hewlett-Packard, IBM and ICL.

- Third-Party Maintenance Organizations and Multi-Vendor Service Organizations -- Customers in this category include not only independent field service organizations (DecisionOne, Entex, Granada, Sorbus, Vanstar), but also MVSOs of current or former computer OEMs (IBM, DEC, Hewlett-Packard, Data General, Unisys).

- Computer Resellers, Distributors and Dealers -- Major computer resellers, distributors and dealers are increasingly offering maintenance services to their customers as a means of capturing additional margin. AEG supports these organizations through parts sourcing and inventory remarketing programs. Typical customers include Circuit City, Compucom, Inacom and Microage.

- Corporate Self-Maintainers -- An increasing number of large corporations are satisfying their internal service requirements through in-house organizations which meet their spare parts requirements through external suppliers such as AEG.

- Major Computer OEM's -- By using recycling services, OEM customers, such as Apple Computer, Compaq Computer, Dell Computer, Hewlett-Packard, IBM and Storage Technology, can reduce or eliminate the potential liability and expense related to disposing of excess, obsolete and defective products, while realizing an economic return on these products

For fiscal 1996, IBM accounted for approximately 19% of the Company's sales. For fiscal 1995 and 1994, no single AEG customer accounted for more than 10% of the Company's revenues.

OPERATIONS

AEG services more than 5,000 customers worldwide, maintains a parts sourcing database of over 8,000 contacts, and completes over 150,000 transactions annually.

Sales and Marketing. AEG believes that it is a market leader in terms of its approach to the sales and marketing of its materials management services, spare parts, and recycled parts, and its utilization of sophisticated information systems to support these efforts. AEG maintains an internal sales and customer support group of 76 employees which handles daily sales transactions involving spare parts and recycled product sales. In addition, AEG's materials management services are marketed through a direct sales force of 9 employees, who work closely with computer OEMs, TPMOs and MVSOs, and computer resellers in developing customized programs that meet their particular materials management requirements. Supporting these sales forces is a marketing department comprised of 9 employees who perform: (i) marketing communications; (ii) OEM and distributor relations; (iii) industry and competitive analysis; and (iv) development of new customer targets and new applications for AEG services.

Information Systems. AEG's spare parts distribution services depend upon the ability to rapidly identify, locate, procure, as is necessary, and deploy a particular spare part from among the thousands of parts that comprise the computer industry installed base. Critical to AEG's success is a

sophisticated information system, which relies on a spare parts identification and sourcing database developed over the last ten years. This database allows AEG's sales force to quickly find and deliver a spare part from inventory or, if a part is not available in inventory, to rapidly query the spare parts sourcing database to locate and procure the part from the hundreds of sources with which AEG regularly does business. The database also allows the salesperson to identify functional equivalents for a part. The system provides the salesperson with a complete pricing history for the part to assist in price discussions with the customer, as well as a transaction history with that particular customer.

Purchasing. Because customers are often under severe time pressure in procuring spare parts, AEG's ability to confirm a customer request immediately from inventory, rather than initiating just-in-time procurement from its parts sourcing suppliers, increases the likelihood of completing a transaction. In order to increase the percentage of spare parts sourced directly from inventory, AEG maintains a department which procures a variety of commonly requested parts in advance and attempts to select parts from the recycle flow which can be sold as spares. AEG's information system regularly examines parts usage patterns and available stocks and performs trend-line analyses to assist this department in its procurement activities.

Processing. AEG provides its spare parts distribution services primarily through distribution facilities in Marina del Rey, California; Toronto, Canada; and Hoofddorp, The Netherlands; and through repair and recycling facilities in Sacramento, California; San Diego, California; and Irvine, Scotland. AEG's distribution operations receive purchased spare parts or perform specific tear-down of whole systems in order to obtain spare parts, identify and cross-reference those parts for the AEG database, test and/or refurbish, as required, package, warehouse and ship. Often these activities must be performed within a 12 hour period in order to fulfill same-day requirements. AEG's recycling operations rely on the Company's ability to receive, identify, test, tear down as appropriate and dispose of materials rapidly, in large volumes and consistent with customers' requirements. The Company's San Diego facility has recently been awarded ISO 9002 certification, and the Company believes it is the only such certified electronics recycling facility in the world. The Company is currently working towards similar certification for all of its recycling operations. AEG has developed proprietary methods for recycling and reconditioning certain materials, particularly including integrated circuits (ICs), the purpose of which is to produce material that is of the highest value for either return to the recycling customer or resale. A key value to customers is the Company's ability to dispose of all unsalable materials in environmentally safe ways, thus minimizing such customers', and the Company's, environmental liability.

AEG's principal repair facility in Sacramento, California is also ISO 9002 certified. In Sacramento the Company has repair and repair logistics processes for disk drives, CD-ROM drives, CRT monitors, flat panel displays, printed circuit boards, laser and ink-jet printers, and a variety of other computer products. The facility is an authorized service center for several major brands of computers and sub systems. During 1996, the Sacramento facility performed work for various major manufacturers including Apple, Compaq, Digital, Hewlett Packard, IBM, NCR, Nokia, MKE, and Packard Bell.

COMPETITION

The independent spare parts distribution and the electronic recycling services industry is fragmented with widespread competition from a variety of small independent suppliers. AEG believes that competition for OEM, TPMO and MVSO customers is based on a number of factors, including: (i) breadth of parts distributed; (ii) ability to offer sophisticated inventory and materials management programs; (iii) ability to offer rapid delivery and sophisticated logistics programs; and (iv) price. Among AEG's major independent competitors are DecisionOne, Data Trend, PC Service Source, and The Cerplex Group

PATENTS/TRADEMARKS

The Company does not currently hold any patents or registered trademarks. However, the Company has developed several private labels for use in its business, including PartSmart, Micro-C, Memory Master, MM, and Advantage. The Company has applied for registration of "The PartSmart Company" trademark. While management believes that this approach helps distinguish the Company to its customers, none of these brand names is material to the continuation of the business.

ENVIRONMENTAL REGULATION

The Company's business is subject to various federal, state and local environmental laws and regulations relating to the disposal of waste material. The Company believes that it is in compliance with such environmental laws and regulations and is not aware of any situation or condition that could reasonably be expected to have a material adverse affect on the Company's financial condition or competitive position.

SEASONALITY

The Company does not consider its business to be seasonal.

EMPLOYEES

On December 20, 1996, the Company had approximately 413 employees. None of the Company's employees is represented by a union and none are subject to a collective bargaining agreement. The Company has never experienced a work stoppage due to labor difficulties and believes that its employee relations are good.

ITEM 2. PROPERTIES.

The following table sets forth certain information as of December 20, 1996 relating to the Company's principal properties, all of which are leased. The Company believes that its properties are adequate and suitable for its current needs.

LOCATION	Principal Use	Approximate Square Footage
Marina del Rey, CA (1)	Office, Warehouse and Service Facility	106,715
San Diego, CA	Office, Processing and Warehouse Facility	56,808
Sacramento, CA	Office, Processing and Warehouse Facility	59,000
Los Gatos, CA	Sales Office	1,398
Irvine, CA	Corporate Headquarters	2,825
Toronto, Canada	Warehouse and Service Facility	9,475
Hoofddorp, Netherlands	Warehouse and Service Facility	8,945
Irvine, Scotland	Processing Facility	3,000
Chicago, IL (2)	Discontinued Operations	163,000

(1) The Company subleased 48,473 square feet of the Marina del Rey, California facility to an unrelated third party for a five year period, commencing December 1, 1994.

(2) The Chicago facility is subject to a sale/leaseback arrangement between the Company and an unrelated third party, as lessor. This property relates to a discontinued operation. See Note C of the Notes to Consolidated Financial Statements -- Discontinued Operations, and Note M of the Notes to Consolidated Financial Statements -- Commitments and Contingencies. The lease expires in 2005.

ITEM 3. LEGAL PROCEEDINGS.

The Company is engaged in routine legal proceedings incidental to its business, none of which the Company believes will have a material adverse effect on the financial position of the Company. See Note M of the Notes to Consolidated Financial Statements -- Commitments and Contingencies.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

The names of the executive officers of the Company, their ages, titles and biographies as of December 20, 1996, are set forth below. All officers are elected for a one-year term.

NAME	AGE	PRESENT POSITION	COMPANY OFFICER SINCE
Jim C. Cowart	45	Chairman of the Board and Chief Executive Officer	1992
John P. Grazer	42	President and Chief Financial Officer	1993
Richard A. Kain	58	Senior Vice President - North American Operations	1995
George M. Korchinsky	55	Managing Director - European Operations and Senior Vice President	1996
Amir Asadi	38	Vice President - Information Systems	1996
Jonathan Shultz	36	Vice President - Finance and Administration	1996
Stephen F. Weber	45	Vice President - Marketing	1996

8

JIM C. COWART, since December 1992, has served as the Chairman of the Board and Chief Executive Officer of the Company and formerly served as Vice President of Strategic Development of the Company. Since February 1992, Mr. Cowart has served as Chairman of EOS Capital, Inc., a private capital firm which has been, from time to time, retained by the Company. From 1987 to 1991, Mr. Cowart was a founding General Partner of Capital Resource Partners, a private capital firm and investment manager for institutional investors. Mr. Cowart is also a director of B/E Aerospace, Inc. ("BEAV" - NASD), a leading manufacturer of aircraft cabin interior products. Mr. Cowart has been a director of the Company since October 1992.

JOHN P. GRAZER, since October 1996, has served as President and Chief Financial Officer. From May 1993 to October 1996 Mr. Grazer served as Senior Vice President, Finance and Administration of the Company. From 1992 to April 1993, Mr. Grazer served as Vice President of Finance and Administration of Home Fashions Inc. From 1990 to 1992, Mr. Grazer served as Vice President of Finance and Chief Financial Officer of RB Industries, Inc. From 1985 to 1990, Mr. Grazer served as Vice President, Finance of Amplica, Inc. a COMSAT company.

RICHARD A. KAIN, since October 1996, has served as Senior Vice President - North American Operations. Mr. Kain joined Aurora in May, 1995 as Vice President Operations and General Manager. From 1985 to 1995, Mr. Kain served as Vice President Operations for Symbol Technologies, Inc. From 1984 to 1985, Mr. Kain served as Vice President - Operations for Pancretec, Inc. From 1978 to 1984, Mr. Kain served as Manager - Manufacturing Scientific Instruments Division for Beckman Instruments, Inc.

GEORGE M. KORCHINSKY is Managing Director - European Operations and Senior Vice President. Mr. Korchinsky joined Aurora in November 1996. From May 1991 to October 1996, Mr. Korchinsky served as Vice President & Managing Director - Europe, Middle East, Africa for Symantec. From January 1989 to May 1991, Mr. Korchinsky served as General Manager Northern & Central Europe from Cognos Ltd. From January 1987 to January 1989, Mr. Korchinsky served as Managing Director Data Communications Equipment for Paradyne Ltd. and from 1984 to 1987 held various sales, marketing and technical management positions with Paradyne Ltd.

AMIR ASADI joined Aurora in April 1996 as Vice President - Information Systems. From June 1990 to April 1996, Mr. Asadi served as Vice President, Information Systems for Home Fashions Inc. From October 1987 to June 1990, Mr. Asadi served as Director, Systems Development of Beech Street of California. From May 1986 to October 1987, Mr. Asadi served as Information Systems Consultant, Project Manager for Fremont Indemnity.

JONATHAN SHULTZ, since October 1996, has served as Vice President Finance and Administration. Since joining Aurora in October 1992, Mr. Shultz has held the following positions: From May 1995 to October 1996, Mr. Shultz served as Vice President Finance and Administration, ARS Division. From June 1994 to May 1995, Mr. Shultz served as Vice President Controller/Treasurer. From September 1993 to June 1994, Mr. Shultz served as Corporate Controller, and from October 1992 to September 1993, he served as Controller, Micro-C Division. From January 1986 to October 1992, Mr. Shultz served as Audit Manager/Technology Coordinator for Ernst & Young.

STEPHEN F. WEBER, since May 1996, has served as Vice President Marketing. From January 1995 to May 1996, Mr. Weber was a co-founder of MindShare Associates, LLC. From July 1993 to January 1995, Mr. Weber served as Director, Storage Marketing for Avnet EMG. From March 1992 to July 1993, Mr. Weber served as Corporate Marketing Manager for Avnet EMG. From 1984 to 1992, Mr. Weber was a sales representative for Anthem Electronics.

9

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is traded on the American Stock Exchange ("AMEX") under the symbol AUR. The following table sets forth the range of the high and low sales prices for the Common Stock for each quarterly period during the last two fiscal years.

<TABLE>
<CAPTION>

	FISCAL YEAR 1996		FISCAL YEAR 1995	
	HIGH	LOW	HIGH	LOW

<S>	<C>	<C>	<C>	<C>
First Quarter	3-1/4	1-3/4	5-3/4	4-1/4
Second Quarter	2-15/16	1-1/2	5-1/8	3-3/8
Third Quarter	4-3/4	2-1/2	3-15/16	2-7/8
Fourth Quarter	3-3/8	1-15/16	4-11/16	2-15/16

</TABLE>

On December 20,1996 the last sale price of the Common Stock as reported by AMEX was $1- 9/16 per share. As of December 20, 1996, the Company had 634 recordholders of its Common Stock, and four (4) holders of warrants to purchase, in the aggregate, up to 1,694,000 shares of its Common Stock. See Note J of the Notes to Consolidated Financial Statements -- Stockholders' Equity.

The Company has not paid any cash or stock dividend on its Common Stock since September 30, 1993. At present, it is the policy of the Company to retain all earnings for reinvestment into the Company. In addition, the Credit Agreement restricts AEG's ability to pay dividends to the Company, and thus limits the Company's ability to pay dividends to its stockholders.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth selected financial data regarding the Company's results of operations and financial position. This information should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and related Notes included elsewhere herein.

(In thousands, except per share figures)

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED SEPTEMBER 30,				FOR THE NINE MONTHS ENDED SEPTEMBER 30,
OPERATING DATA	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Net revenues	$98,019	$141,852	$120,386	$58,328	$ --
Gross profit	24,443	34,582	26,350	11,274	--
SG&A expenses	25,943	28,170	17,573	4,657	1,864
Amortization of intangibles	18,042 (1)	9,073 (2)	4,539 (3)	1,284	--
Restructuring charge and other	--	5,643 (4)	2,161	--	--
Litigation settlement	--	--	1,943	--	--
Operating income (loss)	(19,542)	(8,304)	134	5,333	(1,864)
Other income (expenses)	(7,505)	(5,406)	(4,252)	(1,276)	2,269
Earnings (loss) from continuing operations	(30,353)	(13,710)	(4,118)	2,505	(1,791)
Net income (loss)	(31,753)	(15,030)	(6,518)	3,005	(13,505)
Earnings (loss) from continuing operations per share	$ (4.44)	$ (1.79)	$ (0.55)	$ 0.40	$ (0.38)
Net income (loss) per share	$ (4.44)	$ (1.79)	$ (0.87)	$ 70.48	$ (2.85)
Weighted average number of shares outstanding	7,159 (5)	8,379	7,491	6,273	4,738

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(1) During the fourth quarter of fiscal 1996, approximately $16,580 relating to a write-down of intangible assets associated with the integrated circuit business acquired in fiscal 1992 in connection with the Micro-C Corporation acquisition was charged to operations.

(2) During fiscal 1995, approximately $7,400 relating to a write-down of intangible assets associated with the repair business acquired in fiscal 1993 in connection with the FRS, Inc. acquisition was charged to operations.

(3) During fiscal 1994, approximately $2,400 relating to a write-down of intangible assets associated with a covenant not to compete was charged to operations.

(4) During fiscal 1995, the Company substantially completed a major corporate reorganization into two core businesses operating through the IC recycling and recovery division and the spare parts distribution division.

(5) In connection with the Recapitalization, on March 29, 1996, the Company repurchased approximately 4,268 shares of Common Stock and issued 607 shares of Common Stock and 400 shares of Preferred Stock to WCAS and certain other purchasers. The Preferred Stock is convertible into 18,824

shares of Common Stock.

<TABLE>
<CAPTION>

BALANCE SHEET DATA	AT SEPTEMBER 30, 1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Working capital	$ 610	$ 196	$ 9,013	$ 10,713	$ 1,732
Total assets	52,788	80,716	102,927	76,857	48,468
Long-term obligations (less current maturities)	25,842	46,183	51,761	25,904	24,081
Redeemable convertible preferred stock	40,000	--	--	--	--
Stockholders' equity	(31,690)	12,338	26,903	26,655	4,710

</TABLE>

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

(In thousands, except per share figures)

OVERVIEW

Aurora as it exists today was formed on September 30, 1992. Prior to September 30, 1992, the corporation was known as BSN Corp. and was engaged in the sporting goods industry. From 1990 through 1992, BSN divested itself of a majority of its sporting goods assets and, effective September 30, 1992, announced that all of its remaining sporting goods assets would be accounted for as discontinued operations and that such operations would be sold. Effective September 30, 1992, the Company entered the computer and electronics industry through the acquisition of Micro-C Corporation, a San Diego, California based company founded in 1985, which provided both IC recycling services to computer OEMs and memory IC distribution services for semiconductor manufacturers. Effective September 30, 1993, Aurora acquired FRS, Inc., a Sacramento, California based company founded in 1984, which provided depot repair services to computer and peripherals OEMs. Effective March 1, 1994, Aurora acquired Century Computer Marketing, a Marina del Rey, California based company founded in 1984, a leading supplier of new and refurbished spare parts to the computer maintenance market.

In the third quarter of fiscal 1995, the Company completed a corporate reorganization, in which it: (a) exited the memory upgrade manufacturing and supply business (formerly known as the Premier Division); and (b) substantially downsized its depot repair services operation (acquired in the FRS, Inc. acquisition), and refocused these operations to support the Company's remaining spare parts distribution and electronic recycling services business.

In March 1996, the Company completed the Recapitalization. See Item 1. Business -- Overview.

RESULTS OF OPERATIONS -- YEAR ENDED SEPTEMBER 30, 1996, COMPARED WITH YEAR ENDED SEPTEMBER 30, 1995.

Net revenues for the year ended September 30, 1996 for the Company were $98,019 as compared to $141,852 for the year ended September 30, 1995. The Company's decline in revenues was due primarily to the discontinuation of the Premier Division ($36,254) during fiscal 1995. Excluding the Premier Division, net revenues for fiscal 1996 decreased 7.2% over the comparable period in fiscal 1995. The decrease was due to a 27.4% decline in revenues in the IC recycling and recovery business known as the Asset Recovery Services Division (ARS), offset by an increase of 5.3% in revenues for the spare parts distribution business, known as the Parts Support Services Division (PSS). The decline in revenues for ARS was due primarily to a decline during the year in the average sales price for DRAM chips of approximately 87.0%.

Gross profit for fiscal 1996 was $24,443 (24.9% of net revenues) as compared to $34,582 in gross profit for the comparable period last year (24.4% of net revenues). The decrease in gross profit was due primarily to the discontinuation of the Premier Division and the decrease of approximately $6,261 for ARS over the comparable period in fiscal 1995. This decline in profitability is due to the fallen DRAM prices discussed above.

SG&A expenses for fiscal 1996 were $25,943, or 26.5% of revenues, as compared to $28,170, or 19.9% of revenue for fiscal 1995. Included in the SG&A expenses were approximately $725 in one time charges related to the Recapitalization. The increase of the SG&A expenses as a percentage of revenue

was due to the reduction in revenues from the discontinuation of the Premier Division and the decline in revenues for ARS.

Amortization expense for fiscal 1996 was $18,042, or 18.4% of revenues, as compared to $9,073, or 6.4% of revenues, for fiscal 1995. The increase was due to the write-off in the fourth quarter of fiscal 1996 of $16,580 of goodwill related to the acquisition of Micro-C Corporation, which was only partially matched by the third quarter of fiscal 1995 write-off of goodwill related to the acquisition of FRS, Inc. Management wrote off the goodwill related to the Micro-C acquisition due to the deterioration of the pricing levels in the integrated circuit market and their negative effects on the Company's business prospects going forward.

Net interest expense for fiscal 1996 was $6,221, or 6.3% of revenues, as compared to $5,522, or 3.9% of revenues, for fiscal 1995. The interest expense for 1996 includes approximately $2,243 of charges related to the Recapitalization completed on March 29, 1996. This amount includes approximately $1,070 of previously capitalized financed charges, $917 of interest, fees and expenses due to the Company's previous lenders and $256 relating to the 9-1/4% Senior Subordinated Notes.

Other expense for fiscal 1996 included writedowns and disposal of property and equipment totaling $1,369.

Provision for income taxes for fiscal 1996 was $3,306, or 3.4% of revenues, as compared to $1,320, or .9% of revenues, for fiscal 1995. This provision includes the increase of the deferred income tax valuation allowance in the amount of $3,234 due to management's determination that the deferred tax asset will not be fully realized. Management reached this conclusion as a result of the limitation in the utilization of the Company's net operating loss carryforwards caused by the change of ownership pursuant to the Recapitalization.

Net loss applicable to common stockholders for fiscal 1996 was $31,753 as compared to a net loss of $15,030 for fiscal 1995. The fiscal 1996 loss included approximately $6,620 of charges incurred in the second quarter of fiscal 1996 due to the Recapitalization completed on March 29, 1996, $6,320 of reduced operating income from the ARS when compared to 1995, dividends on preferred stock of approximately $1,400, writedowns and disposal of property and equipment totaling $1,369, and the write-off of goodwill from the Micro-C acquisition totaling $16,580.

RESULTS OF OPERATIONS -- YEAR ENDED SEPTEMBER 30, 1995, COMPARED WITH YEAR ENDED SEPTEMBER 30, 1994.

Net revenues for the year ended September 30, 1995 for the Company were $141,852 as compared to $120,386 in net revenues for the year ended September 30, 1994. The increase in revenues was primarily due to the inclusion of the PSS business for a full twelve months ($27,860) and a 54% revenue growth in the ARS business ($15,752). These revenue increases offset a 53% revenue decrease in the repair business and a 24% revenue decrease in the Premier Division.

Gross profit for the year ended September 30, 1995 was $34,582 (24.4% of net revenues) as compared to $26,350 in gross profit for the year ended September 30, 1994 (21.9% of net revenues). The increase was due primarily to the gross profits associated with the higher volumes in ARS and Century's parts distribution business. This increase was partially offset by the significant decreases in the volume and profitability for both the Premier Division and the repair business.

SG&A expenses for the year ended September 30, 1995 were $28,170, or 19.9% of revenues, as compared to $17,573, or 14.6% of revenues for the comparable 1994 period. The increase of approximately $10,600 was due primarily to the inclusion of a full year of PSS's SG&A expenses, expenditures related to the reorganization, non-recurring professional fees, and the investments in systems and support costs required to support the growth in the Company's business.

Amortization expense for the year ended September 30, 1995 was $9,073, or 6.4% of revenues, as compared to $4,539, or 3.8% of revenues, for the comparable 1994 period. With the completion of the corporate reorganization in the third quarter of fiscal 1995, management charged the remaining balance of goodwill related to the acquisition of FRS totaling $7,407 to operations. This charge was determined to be necessary as management estimated that the amortization of the goodwill balance over its remaining life would not be recovered through the projected non-discounted future cash flows over the remaining amortization period.

Restructuring charges for the year ended September 30, 1995 were $5,643 and consisted of costs related to the shutdown of the Premier Division and the restructuring and downsizing of the Company's repair services operations. The charge consists primarily of $2,800 in inventory writedowns, $900 in employee

severance, and $600 in facilities termination costs associated with the reorganized product lines and businesses. In addition, there were no program development costs for the year ended September 30, 1996 as compared to $925, or .8% of revenues, for the comparable 1994 period. The expense in the 1994 period was related to development of a new service line to complement the then existing repair business. Also included in the restructuring charges were losses on disposition of assets of approximately $944. This was primarily due to a charge of $695 related to the writedown of the investment in the Aurora Merchant Systems joint venture.

13

Net interest expense for the year ended September 30, 1995 was $5,522 or 3.9% of revenues, as compared to $4,449 or 3.7% of revenues, for the comparable 1994 period. The increase of $1,073 in net interest expense was principally the interest expense related to the Company's working capital facilities.

The net loss for the year ended September 30, 1995 was $15,030 as compared to a net loss of $6,518 for the comparable period in 1994. The increase in net loss is due primarily to the charges recorded in connection with the restructuring and reorganization of the Company's businesses.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary requirements for capital are directly related to its accounts receivable, inventory levels and improvements to its property and equipment, as well as costs resulting from the consolidation of its businesses. The Company's working capital was $610 as of September 30, 1996, compared to $196 as of September 30, 1995.

On March 29, 1996, the Company completed the Recapitalization of the Company (see Note J of the Notes to Consolidated Financial Statements -- Stockholders' Equity). In conjunction with the Recapitalization, the Company entered into a $35,000 senior credit facility pursuant to a Credit Agreement dated March 29, 1996. The facility consists of a $15,000 Senior Secured Asset Based Revolving Credit ("Working Capital Revolving Credit") and a $20,000 Senior Secured Reducing Revolving Credit ("Reducing Revolving Credit"). The purpose of the Working Capital Revolving Credit is to fund ongoing working capital needs. Funds are available based on a percentage of eligible accounts receivables and inventory. The Reducing Revolving Credit is to be used for (i) approved acquisitions, (ii) regularly scheduled payments due under the Subordinated Notes, and (iii) other payments as mutually agreed upon in the Credit Agreement. As of September 30, 1996, the Company had drawn down $3,707 on the Working Capital Revolving Credit and $2,635 on the Reducing Revolving Credit. The facilities bear interest at a rate of either LIBOR plus 2.75% or prime rate plus 1.25%, at the Company's option. All indebtedness of the Company under the Credit Agreement is secured by substantially all of the assets of the Company, and the Company is subject to a number of restrictions including covenants relating to Company's financial performance and various other limitations on the Company's activities.

As of June 30, 1996, the Company was not in compliance with certain financial covenants under its Credit Agreement dated March 29, 1996. The primary reason for the non-compliance was due to the decline in operating income from ARS due to the fallen DRAM prices discussed above and the flatness in revenue performance in the PSS. To obtain a waiver of noncompliance from the bank lender, the Company obtained WCAS' limited guarantee of up to $3 million under the Working Capital Revolving Credit and, if drawn upon, up to $9 million under the Reducing Revolving Credit. In return, the Company granted WCAS warrants that, if fully vested, would give WCAS the right to buy a number of shares equal to the indebtedness guaranteed divided by the lower of the Common Stock price on the date the guarantees were initially issued or on certain anniversary dates. The warrants vest 20% on issuance, 20% on June 1, 1997, 20% on March 1, 1998 and 100% if at any time the bank calls the guarantees. The guarantees will be released, and unvested warrants will expire, if and when the Company returns to full compliance with the original financial covenants under the Credit Agreement.

As of September 30, 1996, the bank had waived compliance with the financial covenants under the Credit Agreement, and effective December 31, 1996, amended financial covenants took effect under which the Company expects to be in compliance.

Other than the funds for the remaining discontinued operations, the Company had no material capital commitments at September 30, 1996.

14

Management believes existing cash on hand, funds generated from operations, and funds available under its credit facilities will be sufficient to meet the operating requirements for the next twelve months. The Company's

cash and credit facilities are managed in order to be available for strategic investment opportunities.

OUTLOOK AND UNCERTAINTIES

Aurora does not provide forecasts of potential future financial performance. While management of the Company is optimistic about Aurora's long-term prospects, the following issues and uncertainties, among others, should be considered in evaluating its growth outlook.

Market in Early Stages of Development. The Company believes that the market for its spare parts distribution and electronics recycling services is in the early stages of development and that awareness among certain potential customers of the availability of these services may be relatively low. Once customers are made aware of the availability of and benefits provided by these aftermarket support services, however, the Company's experience is that customers are generally receptive to making these services an important element of their manufacturing, post-sales support and environmental strategies. While the Company believes that it offers a mutually beneficial solution to large customers' and field service organizations' spare parts, recycling and asset recovery requirements, and has therefore targeted these entities as its primary potential customers, there is no assurance that these entities will choose to make use of these services, continue to outsource their spare parts, recycling and asset recovery needs, or choose not to become direct competitors of the Company. The Company addresses these issues in many ways, particularly including the development of information tools to use in its business, and the installation of information processing software. These projects require large budgets and manpower commitments, and have uncertain time schedules. Successful completion of these projects is not certain, and a failure of these projects may have adverse consequences for the development of the Company's business and/or its ability to successfully compete.

Dependence on the Computer Industry. The Company's business is dependent upon the continued growth, viability and financial stability of its customers and potential customers in the computer industry. The computer industry has been characterized by rapid technological change, compressed product life cycles, and pricing and margin pressures. While these factors could be beneficial to the Company's business, such factors affecting segments of the computer industry in general, and the Company's customers in particular, could have an adverse effect on the Company's business.

Inventory Obsolescence. The market for personal computers and subsystems is characterized by rapidly changing technology and frequent new product introductions. Innovations and improvements in computer and subsystem design, engineering and production may shorten the useful lives of existing systems and associated spare parts. Such rapid changes and improvements in technology, coupled with the need to maintain sufficient inventory levels of spare parts to ensure ready availability, subject the Company to the risk of inventory obsolescence. The Company has successfully reduced its exposure to such inventory obsolescence by maintaining rapid inventory turnover. There can be no assurance that the Company's efforts in this area will continue to be successful.

Lack of Long-Term Supply Contracts. The Company's success is dependent on its ability to continue to sell spare parts to its customers and to attract a reliable stream of recyclable material from its customers. Generally, the Company distributes spare parts to, and receives its recyclable material from, customers pursuant to non-exclusive contracts that to do not contain guaranteed or minimum quantities and are subject to cancellation on short notice at the customer's discretion. There is no assurance that the

Company's customers will continue to do business with the Company. The termination of a material contract or any substantial decrease in demand for spare parts or of the supply of recyclable material from significant customers could result in a significant decrease in the Company's sales.

Cyclicality and Price Fluctuation in the IC Industry. The Company derives some of its revenue from the sale of ICs. The IC industry has been characterized in the past periods of cyclicality in which prices of commodity ICs, such as DRAMs, SRAMs, EPROMs and microprocessors, have fluctuated. In periods of IC oversupply, prices have declined. Similarly, one generation of commodity ICs can decline in price as the next generation comes to market. Significant declines in unit volume demand or unit pricing could have an adverse effect on the Company's business.

Dependence on Key Personnel. The success of the Company is dependent, in part, upon key management personnel. The loss of the services of any of the Company's key management personnel could have a material adverse effect on the Company. Expansion of the Company's business may require additional managers and employees with industry experience. Competition for skilled management personnel in the industry is intense.

Competition. The independent spare parts distribution and the electronic recycling services industry is fragmented with widespread competition from a variety of small independent suppliers. The Company believes that competition for OEM, TPMO and MVSO customers is based on a number of factors, including: (i) breadth of parts distributed; (ii) ability to offer sophisticated inventory and materials management programs; (iii) ability to offer rapid delivery and sophisticated logistics programs; and (iv) price. Among the Company's major independent competitors are DecisionOne, Data Trend, PC Service Source, and The Cerplex Group. Certain of these competitors are larger in total company revenue or have larger capitalizations than the Company.

Control by Major Shareholder. As discussed above under "Recapitalization," WCAS, and their affiliates, own approximately 76.4% of the Company's voting stock. As a result, WCAS is able to elect the entire Board of Directors, and will retain the voting power to control all matters requiring shareholder approval. The Company's ability to raise additional capital or to sell control of the Company to third parties will be restricted if it is unable to obtain such shareholder approval.

Other Uncertainties. Other operating, financial or legal risks or uncertainties are discussed in the Form 10-K in specific contexts. The Company is, of course, also subject to general economic risks, the risk of interruption in the source of supply, the risk of loss of a major customer, dependence on key personnel and other risks and uncertainties.

NEW ACCOUNTING STANDARDS

In 1997, the Company will be required to adopt SFAS No. 123, Accounting for Stock-Based Compensation. However, the Company has decided to continue to account for employee stock options under Accounting Principles Board Opinion No. 25. This standard will be effective for transactions entered into after October 1, 1996. The primary impact of this standard will be to disclose the fair market value of equity issued to employees and third parties.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

<TABLE>
<CAPTION>

AURORA ELECTRONICS, INC. AND SUBSIDIARIES

</TABLE>

All other financial statement schedules are omitted as the required information is presented in the financial statements or the notes thereto or is not necessary.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of Aurora Electronics, Inc.:

We have audited the accompanying consolidated balance sheets of Aurora Electronics, Inc. (a Delaware Corporation) and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended September 30, 1996, 1995 and 1994. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aurora Electronics, Inc. and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for the years ended September 30, 1996, 1995 and 1994 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule listed in the index to the consolidated financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Orange County, California
December 30, 1996

ARTHUR ANDERSEN LLP

AURORA ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	September 30, 1996	September 30, 1995
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,537	$ 81
Trade receivables, less allowance for doubtful accounts of $1,209 ($1,414 in 1995)	8,629	15,828
Inventories	4,098	4,021
Deferred income taxes	500	1,532
Other current assets	716	516
Total current assets	15,480	21,978
Property, plant and equipment, net	4,811	5,752
Deferred income taxes	-	2,202
Intangible and other assets	32,497	50,784
Total assets	$ 52,788	$ 80,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,974	$ 6,700
Accounts payable	8,465	8,105
Accrued compensation	1,912	2,021
Accrued interest	433	920
Current portion of reserve for discontinued operations	702	1,569
Other current liabilities	1,384	2,467
Total current liabilities	14,870	21,782
Reserve for discontinued operations	2,366	2,504
Long-term debt	25,842	44,092
Commitments and contingencies		

Redeemable convertible preferred stock, 400,000 shares issued	41,400	-
Stockholders' equity:		
Preferred stock, 1,000 shares authorized, none issued	-	-
Common stock, 10,486 shares issued (8,062 shares in 1995)	315	242
Additional paid-in capital	61,679	61,932
Accumulated deficit	(77,045)	(44,683)
Treasury stock, at cost, 4,743 shares (561 shares in 1995)	(16,639)	(5,153)
Total stockholders' equity	(31,690)	12,338
Total liabilities and stockholders' equity	$ 52,788	$ 80,716

</TABLE>

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

AURORA ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE FIGURES)

<TABLE>
<CAPTION>

	Years ended September 30		
	1996	1995	1994
<S>	<C>	<C>	<C>
Net revenues	$ 98,019	$ 141,852	$ 120,386
Cost of sales	73,576	107,270	94,036
Gross profit	24,443	34,582	26,350
Selling, general and administrative expenses	25,943	28,170	17,573
Amortization of intangibles, including write-offs of $16,580, $7,407 and $2,400 in 1996, 1995 and 1994, respectively	18,042	9,073	4,539
Restructuring charges and other	-	5,643	2,161
Provision for litigation settlements	-	-	1,943
Operating income (loss)	(19,542)	(8,304)	134
Interest expense	(6,221)	(5,522)	(4,449)
Other income (expense), net	(1,284)	116	197
Loss from continuing operations before provision for income taxes	(27,047)	(13,710)	(4,118)
Provision for income taxes	3,306	1,320	-
Loss from continuing operations	(30,353)	(15,030)	(4,118)
Discontinued operations, net of income taxes:			
Loss on disposal	-	-	(2,400)
Net loss	(30,353)	(15,030)	(6,518)
Dividends on preferred stock	(1,400)	-	-
Net loss applicable to common shareholders	$ (31,753)	$ (15,030)	$ (6,518)
Loss per share of common stock:			
Continuing operations	$ (4.44)	$ (1.79)	$ (0.55)
Discontinued operations	-	-	(0.32)
Net loss per share of common stock	$ (4.44)	$ (1.79)	$ (0.87)
Weighted average number of common and common equivalent shares	7,159	8,379	7,491

</TABLE>

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

AURORA ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

<TABLE>
<CAPTION>

	Common stock	Additional

	Shares	Par Value	paid-in capital
<S>	<C>	<C>	<C>
Balance at September 30, 1993	7,744	$ 232	$ 55,260
Issuance of common stock/treasury stock - acquisitions	271	8	4,718
Common stock to be issued - acquisitions	-	-	559
Exercise of stock options	5	-	40
Purchase of treasury stock	-	-	-
Treasury stock - sale of assets	-	-	-
Common stock to be issued - litigation settlement	-	-	1,250
Net loss	-	-	-
Balance at September 30, 1994	8,020	240	61,827
Issuance of common stock/treasury stock - acquisitions	42	2	(240)
Common stock to be issued - acquisitions	-	-	345
Net loss	-	-	-
Balance at September 30, 1995	8,062	242	61,932
Issuance of common stock/treasury stock - acquisitions	1,476	45	66
Issuance of common stock with notes payable	607	18	1,029
Repurchase of common stock	-	-	-
Issuance of common stock	340	10	903
Financing costs from issuance of redeemable, convertible preferred stock	-	-	(2,254)
Accretion of dividends on redeemable, convertible preferred stock	-	-	-
Exercise of stock options	1	-	3
Net loss	-	-	-
Balance at September 30, 1996	10,486	$ 315	$ 61,679

</TABLE>

<TABLE>
<CAPTION>

	Accumulated deficit	Treasury stock	Total
<S>	<C>	<C>	<C>
Balance at September 30, 1993	$ (22,683)	$ (6,154)	$ 26,655
Issuance of common stock/treasury stock - acquisitions	(99)	560	5,187
Common stock to be issued - acquisitions	-	-	559
Exercise of stock options	-	-	40
Purchase of treasury stock	-	(226)	(226)
Treasury stock - sale of assets	-	(44)	(44)
Common stock to be issued - litigation settlement	-	-	1,250
Net loss	(6,518)	-	(6,518)
Balance at September 30, 1994	(29,300)	(5,864)	26,903
Issuance of common stock/treasury stock - acquisitions	(353)	711	120
Common stock to be issued - acquisitions	-	-	345
Net loss	(15,030)	-	(15,030)
Balance at September 30, 1995	(44,683)	(5,153)	12,338
Issuance of common stock/treasury stock - acquisitions	(601)	771	281
Issuance of common stock with notes payable	-	-	1,047
Repurchase of common stock	-	(12,271)	(12,271)
Issuance of common stock	(8)	14	919
Financing costs from issuance of redeemable, convertible preferred stock	-	-	(2,254)
Accretion of dividends on redeemable, convertible preferred stock	(1,400)	-	(1,400)
Exercise of stock options	-		3
Net loss	(30,353)		(30,353)
Balance at September 30, 1996	$ (77,045)	$ (16,639)	$ (31,690)

</TABLE>

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

AURORA ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	Years ended September 30		
	1996	1995	1994
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss from continuing operations	$ (30,353)	$ (15,030)	$ (4,118)
Adjustments to reconcile loss from			

continuing operations to net cash flows from operating activities:			
Depreciation and amortization	19,686	10,493	6,451
Noncash interest expense	1,340	655	352
Noncash portion of litigation provision	-	-	1,250
Loss on disposition of assets	1,369	944	711
Changes in assets and liabilities, net of acquisitions:			
Trade receivables, inventories and other assets	7,133	6,667	(5,113)
Accounts payable, accrued compensation and other liabilities	(729)	(1,789)	454
Accrued interest and income taxes receivable/payable	632	(60)	260
Deferred income taxes	3,234	1,304	-
Net cash flows from continuing operations	2,312	3,184	247
Net cash flows from discontinued operations	(1,005)	(951)	(1,336)
Net cash flows from operating activities	1,307	2,233	(1,089)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment	(2,072)	(1,440)	(1,993)
Payments for purchases of companies, net of cash acquired	-	-	(12,131)
Proceeds from sales of marketable securities and SSG note	-	1,171	975
Net cash flows from investing activities	(2,072)	(269)	(13,149)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on debt	(19,454)	(4,092)	(5,840)
Issuance of preferred stock	37,747	-	-
Issuance of common stock	-	-	40
Purchases of treasury stock, net	(12,271)	-	(226)
Advances under line of credit	7,486	12,070	22,238
Repayments under line of credit	(11,287)	(11,400)	(16,636)
Net cash flows from financing activities	2,221	(3,422)	(424)
Net change in cash and cash equivalents	1,456	(1,458)	(14,662)
Cash and cash equivalents at beginning of period	81	1,539	16,201
Cash and cash equivalents at end of period	$ 1,537	$ 81	$ 1,539

</TABLE>

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

AURORA ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	Years ended September 30		
	1996	1995	1994
<S>	<C>	<C>	<C>
SUPPLEMENTAL DISCLOSURES:			
Cash paid (refunded) for:			
Interest	$ 5,368	$ 4,157	$ 3,837
Income taxes	$ 72	$ 1	$ (337)
In conjunction with the acquisition of the stock or assets of certain entities, the following liabilities were assumed as follows:			
Fair value of assets acquired	$ -	$ -	$ 45,039
Cash paid for the acquisitions, net of cash acquired	-	-	(7,356)
Imputed interest	-	-	352
Debt issued for the acquisitions	-	-	(27,345)
Common stock issued for the acquisitions	-	-	(4,660)
Liabilities assumed	$ -	$ -	$ 6,030
Payment of employment contract with issuance of stock	$ -	$ 119	$ -
Contingent shares issuable for additional acquisition costs	$ -	$ 345	$ 445
Reduction in 7% debt as a result of common stock sale	$ 956	$ -	$ -
Reduction in 9 1/4% debt as a result of issuance of Notes	$ 8,593	$ -	$ -

Reduction in 7% debt as a result of indemnity claim settlement	$ -	$ 1,224	$ 3,507

</TABLE>

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

AURORA ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share figures)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Aurora Electronics, Inc. operates in one business segment providing spare parts distribution and electronics recycling services to major personal computer manufacturers and field service organizations.

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Aurora Electronics, Inc. (the "Company") and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain operating segments that have been sold and segments for which a plan of disposal had been adopted as of September 30, 1992 have been reported as discontinued operations.

Use of Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's industry is subject to significant fluctuations in prices and technologies.

Cash and Cash Equivalents. The Company considers all liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Reserves for cost in excess of net realizable value are determined periodically by comparing sales prices and volumes to cost and quantity of inventory on hand.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost and is depreciated over the estimated useful lives of the related assets by the straight-line method for financial reporting purposes, and accelerated methods with respect to certain assets for income tax purposes. Property, plant and equipment includes computer hardware, software and implementation costs which are purchased, acquired and modified for internal use. The Company's policy is to capitalize and accumulate such costs as incurred and to commence amortization when placed in service. Leasehold improvements are amortized over the terms of the related leases or their useful lives, whichever is shorter.

Intangible Assets. Goodwill associated with acquisitions is amortized using the straight-line method over forty years. The Company assesses the recoverability of its goodwill by determining whether the amortization of the goodwill balance over its remaining life can be recovered through projected non-discounted future cash flows over the remaining amortization period. If projected future cash flows indicate that unamortized goodwill will not be recovered, an adjustment is made to reduce the net goodwill to an amount consistent with projected future cash flows discounted at the Company's incremental borrowing rate. Cash flow projections, although subject to a degree of uncertainty, are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Revenue Recognition. Revenue is recognized upon shipment of products to customers. The Company warrants products against defects and has policies permitting the return of products under

certain circumstances. Provisions are made for warranty costs and returns. Such costs generally have not been material. The Company does not offer price protection to its customers.

The Company performs ongoing credit evaluations of its customers and has established provisions for potential credit losses.

Earnings Per Share of Common Stock. Earnings per share of common stock

is based upon the weighted average number of common and common equivalent shares outstanding, less cumulative dividends to holders of the Company's preferred stock. Outstanding stock options and warrants are treated under the treasury stock method as common stock equivalents when dilution results from their assumed exercise. The Company's Redeemable Convertible Preferred Stock, 7-3/4% Convertible Subordinated Debentures due April 15, 2001, and 7% Subordinated Convertible Promissory Notes (the "7% Notes") due September 30, 1997, were not common stock equivalents at the time of issuance and are therefore not included in the calculation of primary earnings per share. Fully diluted net earnings per share is not presented as it is anti-dilutive.

New Accounting Standards

In 1997, the Company will be required to adopt SFAS No. 123, Accounting for Stock-Based Compensation. However, the Company has decided to continue to account for employee stock options under Accounting Principles Board Opinion No. 25. This standard will be effective for transactions entered into after October 1, 1996. The primary impact of this standard will be to disclose the fair market value of equity issued to employees and third parties.

NOTE B - ACQUISITIONS

Micro-C Corporation ("Micro-C")

Effective September 30, 1992, the Company acquired all of the outstanding Common Stock of Micro-C, a recycler of integrated circuits for the electronics industry. The purchase price consisted of $10,949 in cash and the issuance of the 7% Notes in the original principal amount of $7,379. Additionally, the purchase agreement provided for the issuance of up to approximately 447 shares of the Company's Common Stock valued at $11.20 per share (subject to anti-dilution adjustments) to the sellers over a three year period commencing in 1993. In fiscal 1996, 1995 and 1994, the Company issued 82, 77 and 61 shares, respectively in connection with the fiscal 1995, 1994 and 1993 operating results. Pursuant to the terms of a settlement agreement, the remaining 227 shares will not be issued.

FRS, Inc. ("FRS")

On September 30, 1993, the Company acquired all of the outstanding Common Stock of FRS, a provider of maintenance and repair services on selected computer peripherals and products. FRS also provides inventory management control services to certain manufacturers of electronic products and third party maintenance organizations. Pursuant to the Merger Agreement, the total consideration paid to the former shareholders of FRS was approximately $5,400 comprised of cash of approximately $100 and 744 shares of the Company's Common Stock valued at $7.125 per share (the last closing share price of Aurora's Common Stock prior to signing the Merger Agreement on September 12, 1993).

Century Computer Marketing ("Century")

Effective March 1, 1994, the Company acquired substantially all of the assets and assumed substantially all of the liabilities of Century. Century is a distributor of new and refurbished spare parts to the computer maintenance market, supporting the products of over 500 manufacturers. Pursuant to the terms of the Asset Purchase Agreement, the total consideration paid to Century was approximately $29,000 in cash, $2,000 in Common Stock of the Company and an additional $2,700 in Common Stock of the Company. The Company financed the acquisition of Century with proceeds from a five year $25,000 senior term loan and internally generated cash.

All acquisitions have been accounted for by the purchase method of accounting, and accordingly each purchase price has been allocated to the assets acquired and the liabilities assumed based on the

estimated fair values at the date of the acquisitions. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill amortizable over 40 years. The contingent consideration was recorded as additional goodwill when the related contingencies were resolved and the consideration was determined. Goodwill from the Micro-C and FRS acquisitions has been written off. See Note F -- Intangibles and Other Assets.

The estimated fair value of assets and liabilities as of the date of the acquisitions are summarized as follows:

<TABLE>
<CAPTION>

	MICRO-C	FRS	CENTURY
<S>	<C>	<C>	<C>
Current assets	$ 4,911	$ 3,588	$ 8,545
Machinery and equipment	497	1,082	947

Identifiable intangible and other assets	4,000	142	3,578
Goodwill	15,444	7,625	31,730
Liabilities	(12,302)	(7,135)	(5,630)
	$ 12,550	$ 5,302	$ 39,170

</TABLE>

The following table presents the unaudited pro forma results of operations of the Company for the year ended September 30, 1994, assuming the Century acquisitions had occurred on October 1, 1993.

<TABLE>
<CAPTION>

	1994 (unaudited)
<S>	<C>
Net revenues	$ 137,236
Gross Profit	32,988
Operating income	2,315
Earnings (loss) from continuing operation before tax	(3,510)
Net income (loss)	(6,151)
Net income (loss) per share	$ (0.82)

</TABLE>

NOTE C - DISCONTINUED OPERATIONS

Commencing in 1990, the Company began to discontinue its sporting goods operations and divest itself of the related assets. Effective September 30, 1992, the Company announced that its remaining sporting goods operations would be accounted for as discontinued operations and the remaining assets would be sold. As of September 30, 1994, no material assets remained related to the discontinued operations. During 1994, management revised the estimated reserve for remaining contractual and contingent obligations resulting in a provision for loss on disposal of $2,400. Such obligations and contingencies relate primarily to a leased building, reserves for helmet litigation, and estimation of liabilities due to an income tax dispute. (See Note M of the Notes to Consolidated Financial Statements -- Commitments and Contingencies).

NOTE D - INVENTORIES

Inventories at September 30, 1996 and 1995 consisted of the following:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Spare and repair parts	$ 395	$ 535
Work in process	59	253
Finished goods	3,644	3,233
Total inventories	$ 4,098	$ 4,021

</TABLE>

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 1996 and 1995 consisted of the following:

<TABLE>
<CAPTION>

	ESTIMATED LIFE	1996	1995
<S>	<C>	<C>	<C>
Furniture, fixtures and equipment	3 - 5 year	$ 7,150	$ 7,801
Leasehold improvements	1 - 5 years	949	707
		8,099	8,508
Less accumulated depreciation and amortization		(3,288)	(2,756)
Total property, plant and equipment		$ 4,811	$ 5,752

</TABLE>

The Company leases office, processing and warehousing facilities under various operating leases through 2001. Future minimum lease payments under

non-cancelable operating leases with remaining terms in excess of one year for the fiscal year ending September 30 are as follows: 1997 - $1,789; 1998 - $1,676; 1999 - $1,592; 2000 - $842; 2001 - $104. Rent expense was approximately $1,246, $1,662, and $1,393 for the years ended September 30, 1996, 1995 and 1994, respectively.

NOTE F - INTANGIBLES AND OTHER ASSETS

Intangibles and other assets at September 30, 1996 and 1995 consisted of the following:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Goodwill	$31,730	$50,152
Database valuation	1,462	1,462
Debt issuance costs	1,485	1,939
Other	620	832
Less accumulated amortization	(2,800)	(3,601)
	$32,497	$50,784

</TABLE>

Due to the deterioration of the pricing levels in the integrated circuit market in the latter part of fiscal 1996 and their related negative effects on the Company's business prospects, management charged the remaining balance of goodwill related to the acquisition of Micro-C, totaling $16,580, to operations in the fourth quarter of fiscal 1996. Also, upon the completion of a major corporate reorganization in the third quarter of fiscal 1995, management charged the remaining balance of goodwill related to the acquisition of FRS, totaling $7,407, to operations in fiscal 1995. These charges were determined necessary as management estimated that the amortization of the respective goodwill balances over their remaining lives would not be recovered through the projected non-discounted future cash flows over their respective remaining amortization periods. Other reductions of goodwill related to the reduction of the notes payable due to the sellers of Micro-C as a result of a favorable arbitration award in April 1995. (See Note G -- Long-Term Debt.)

In fiscal 1994, management determined that the remaining unamortized balance of $2,400, which had been assigned to a non-compete agreement with the sellers of Micro-C, should be charged to operations. The non-compete agreement was determined to be of no continuing value due to the decision by the Company's major supplier of reduced specification ICs to indefinitely suspend shipments and to the decline of the Company's activities in general in the reduced specification IC business.

NOTE G - LONG-TERM DEBT

Long-term debt consists of the following:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Revolving line of credit	$ 6,342	$ 9,295
Senior term loan	-	19,000
9-1/4% Senior subordinated notes	-	8,724
10% Senior subordinated notes	9,043	-
7-3/4% Convertible subordinated debentures	10,326	10,299
7% Subordinated convertible promissory notes	1,692	2,648
Capital lease financing	413	826
	27,816	50,792
Less current portion of long-term debt	(1,974)	(6,700)
	$ 25,842	$ 44,092

</TABLE>

Bank Financing

In March 1996, in conjunction with the successful recapitalization of the Company ("Recapitalization"), the Company's operating subsidiary, Aurora Electronics Group, Inc. ("AEG"), entered into a the Credit Agreement with a group of financial institutions (lenders) which provides for up to $35,000 of borrowings. The Credit Agreement consists of borrowings totaling $15,000 for

working capital purposes, and $20,000 ($18,000 at September 30, 1996) that may be used to repay outstanding debt and for approved future acquisitions. All borrowings under the Credit Agreement are secured by substantially all of the assets of AEG.

The term of the Credit Agreement is five years. The availability of the $20,000 portion of the Facilities is reduced by $1,000 each quarter commencing June 1996, with the remainder due and payable at maturity. The Facilities also provide for mandatory prepayments in the event of asset sales, new stock or debt financing and extraordinary receipts. The interest rate will be based on LIBOR plus 2.75% or the Bank's Base Rate plus 1.25%, with interest rate adjustments based on the ratio of total funded senior debt to the Company's earnings before interest, taxes, amortization and depreciation.

AEG failed to meet certain of the financial covenants imposed by the Credit Agreement for the year ended September 30, 1996. The lenders waived compliance for failure to meet certain of the fiscal 1996 covenants. Effective December 31, 1996, the lenders have issued modified covenants for two years through September 30, 1998. The covenants include minimum levels of earnings and interest coverage (as defined) and stipulate maximum levels of leverage (as defined).

In connection with the Credit Agreement, the Company's largest shareholder agreed to guarantee up to $3,000 of AEG borrowings. In consideration for the guarantee, the shareholder will receive warrants to purchase up to 1,397 shares of common stock. at an exercise price of $2.075 per share. The number of shares under warrant is determined based on the length of time the guarantee remains in force and the price may be adjusted lower due to antidulution provisions in the warrant agreements. (See Note J of the Notes to Consolidated financial Statements -- Stockholders' Equity.)

10% Senior Subordinated Notes

In connection with the Recapitalization, the Company issued 10% Notes to its largest shareholder with a face value of $10 million due September 30, 2001. The Notes are shown net of the value of 607 shares of common stock issued simultaneously with the Notes. Interest on the Notes is payable on March 31 and September 30 of each year beginning September 30, 1996 through maturity. The proceeds of the Notes were used to repay the 9-1/4% Senior Subordinated Notes due November 1996. (See Note J of the Notes to Consolidated Financial Statements -- Stockholders' Equity.)

7-3/4% Convertible Subordinated Debentures

The 7-3/4% Convertible Subordinated Debentures mature April 15, 2001 ("Convertible Debentures") and are shown net of unamortized discount of approximately $125 and $152 at September 30, 1996 and 1995, respectively. The Company is required to make partial sinking fund payments of approximately $117 and $2,516 in 1999 and 2000, respectively. The Convertible Debentures are convertible into Common Stock of the Company at a conversion price, subject to adjustment in certain instances, of $11.66 per share, and are redeemable at the option of the Company at face value plus accrued interest thereon. Interest on the 7-3/4% Debentures is payable on April 14 and October 14 of each year through maturity.

7% Subordinated Convertible Promissory Notes

In connection with the acquisition of Micro-C, the Company issued 7% Notes to the sellers aggregating approximately $7,379. In April 1995, the Company was awarded in arbitration a final settlement which reduced the outstanding balance of the notes to $2,648. Interest on the 7% Notes is payable on March 31 and September 30 of each year beginning March 31, 1993 through maturity. The remaining principal balance of the 7% Notes is due in monthly installments totaling $74 beginning September 30, 1996 through September 30, 1997, and a final installment of $804 due September 30, 1997. The 7% Notes are convertible into shares of the Company's Common Stock at a rate of $11.20 per share, subject to certain adjustments as defined in the note agreements.

Other Long-term Debt

Additional long-term debt consists primarily of secured equipment financing and capital lease obligations with interest rates ranging from 8.9% to 12.9%, due in monthly installments through 1999.

Aggregate maturities of long-term debt for the fiscal years ending September 30 are as follows: 1997 - $1,974, 1998 - $90, 1999 - $168, 2000 - $2,516 and 2001 - $23,068.

NOTE H - INCOME TAXES

The provision for income taxes for the years ended September 30, 1996, 1995 and 1994 consists of the following:

<TABLE>
<CAPTION>

		FOR THE YEARS ENDED SEPTEMBER 30 1996	1995	1994
<S>		<C>	<C>	<C>
Current provision (benefit)	- Federal	$ --	$ --	$ --
	- State	--	--	--
Total current provision		--	--	--
Deferred provision (benefit):				
Net operating loss generated		(4,895)	(3,193)	(2,639)
Net reversal of non-deductible accruals and reserves		768	213	1,935
Reserve method for allowance for doubtful accounts		83	(146)	(174)
Depreciation		1,467	276	(623)
Goodwill amortization		532	616	--
Deferred benefit not currently recognized		2,045	2,234	1,501
Increase in non-utilization of deferred tax asset due to uncertainty of recovery		3,234	1,304	--
Other		72	16	--
Total deferred provision		3,306	1,320	--
Total federal income tax provision exclusive of discontinued operations		$ 3,306	$ 1,320	$ --

</TABLE>

29

The provision (benefit) for income taxes in the accompanying consolidated statements of operations differs from the amount of tax based on the statutory federal income tax rate as follows:

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED SEPTEMBER 30 1996	1995	1994
<S>	<C>	<C>	<C>
Provision (benefits) for income taxes at statutory rate	$ (9,196)	$ (4,661)	$ (1,400)
Nondeductible expenses	5,794	3,227	331
Deferred benefit not currently recognized	2,045	2,234	1,501
Permanent effect of book/tax adjustments	1,747	--	--
Increase in non-utilization of deferred tax asset due to uncertainty	3,234	1,304	--
State taxes, net of Federal benefit	(614)	(823)	(253)
FSC benefit	--	--	(75)
Reversal of Riddell book gain	--	--	--
Other	296	39	(104)
Total provision for income taxes	$ 3,306	$ 1,320	$ --

</TABLE>

The components of the Company's deferred income tax benefit as of September 30, 1996 and 1995 are as follows:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Reserves for discontinued operations	$ 1,232	$ 1,679
Net operating loss carryforwards - current	--	1,576
Allowance for doubtful accounts and notes	640	723
Inventory reserves	318	499
Non-deductible accruals	1,102	1,400
Valuation allowance - current	(2,792)	(4,345)
Current deferred income tax benefit	500	1,532
Depreciation	(1,115)	352
Net operating loss carryforwards - long-term	14,152	7,681
Capital loss carryback	3,218	3,218
Tax credits	158	--
Goodwill amortization	(1,148)	(616)
Valuation allowance - long-term	(15,265)	(8,433)
Long-term deferred income tax benefit	--	2,202

</TABLE>

$ 500	$ 3,734

</TABLE>

At September 30, 1996, the Company had tax basis net operating losses ("NOLs") of approximately $39,400 available to offset future ordinary taxable income. The utilization of the Company's NOLs will be substantially limited due to the Recapitalization. These carryforwards begin to expire during 2007. The income tax benefit related to these NOLs, as well as to certain reserves recorded by the Company, have been reflected in the deferred income tax asset accounts to the extent they are considered realizable.

A valuation allowance is provided against the deferred tax asset when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company has established a valuation allowance for the portion of the deferred tax asset that is not likely to be realized within approximately the next fiscal year based on Management's best estimate of results of operations for that upcoming period.

NOTE I - REDEEMABLE CONVERTIBLE PREFERRED STOCK

Concurrent with the Recapitalization, the Company issued 400 shares of Redeemable Convertible Preferred Stock to its largest shareholder. The shares have a par value of $.01 per share and were issued for $100 per share. The Preferred Stock has a liquidation preference of $100 per share plus accrued and unpaid dividends. The dividends accrue at 7% per annum. The Preferred Stock (including all unpaid dividends) is convertible into common stock of the Company at a conversion price of $2.125 per share, subject to antidilusion adjustments. The Preferred Stock is subject to mandatory redemption by the Company on September 30, 2006 at the price of $100 per share plus all accrued and unpaid dividends to the redemption date. The holders of the Preferred Stock have voting rights equivalent to the holders of common stock on an "as converted" basis.

NOTE J - STOCKHOLDERS' EQUITY

The Company has 1,000 shares of authorized $.01 par value preferred stock, with none issued or outstanding. The Company has 50,000 shares of authorized $.03 par value Common Stock with 10,486 shares issued and 5,743 shares outstanding at September 30, 1996, (compared to 8,062 and 7,501, respectively, at September 30, 1995).

In October 1995, the Company sold 340 shares of Common Stock to investors in a private placement of equity securities in exchange for proceeds totaling $883, net of issuance costs. Proceeds from the offering were used to make the principal payment due September 30, 1996 on the 7% notes payable.

In March 1996, the Company completed its comprehensive plan to recapitalize the Company, pursuant to which the Company (a) sold (i) 400 shares of Redeemable Convertible Preferred Stock, $.01 par value, to WCAS and certain other investors for an aggregate purchase price of $40,000 and (ii) 607 shares of Common Stock, along with a $10,000 10% Senior Subordinated Note due September 2001, to WCAS Capital Partners II, L.P. ("WCAS CP II") for an aggregate purchase price of $10,000, and (b) repurchased 4,268 shares of the Company's Common Stock, $.03 par value at $2.875 per share pursuant to a tender offer for up to 6,500 shares of Common Stock.

To obtain a waiver of noncompliance with certain covenants as of June 30, 1996 from the bank lender, the Company obtained WCAS' limited guarantee of up to $3 million in revolving indebtedness and, if drawn upon, up to $9 million in acquisition-related indebtedness under the Credit Agreement. In return, the Company granted WCAS, and its affiliates, warrants that, if fully vested, would give WCAS, and its affiliates, the right to buy a number of shares equal to the indebtedness guaranteed divided by the lower of the Common Stock price on the date the guarantees were initially issued or on certain anniversary dates. The warrants vest 20% on issuance, 20% on June 1, 1997, 20% on March 1, 1998 and 100% if at any time the bank calls the guarantees. The guarantees will be released, and unvested warrants will expire, if and when the Company returns to full compliance with the original financial covenants under the Credit Agreement.

In connection with AEG's prior Senior Credit Agreement dated May 1994, and the Third Amendment effective September 30, 1995 which was repaid in full as part of the Recapitalization. The Company issued Warrants to the lenders to acquire 397 shares of common stock at $2.18 per share.

NOTE K - EMPLOYEE STOCK AND SAVINGS PLANS

Employee stock purchase plan. Effective October 1, 1994, the Company

established an employee stock purchase plan for all eligible employees. Under the plan, shares of the Company's Common Stock may be purchased at three-month intervals at 85% of the lower of the fair market value on the first or the last day of each three-month period. Employees may purchase shares having a value not exceeding 15% of their gross compensation during an offering period. At September 30, 1996, 350 shares were reserved for future issuance.

31

Savings plan. The Company has a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer up to 15% of their pretax salary, but not more than statutory limits. The Company contributes a discretionary amount, set by the Board of Directors, for each dollar contributed by a participant, with a maximum of 6% of participant earnings. The Company's matching contribution to the savings plan was $252, $279 and $161 for the years ended September 30, 1996, 1995 and 1994, respectively.

Stock option plan. The Company has a stock option plan for directors, officers, and key employees which provides for incentive and nonqualified stock options. A committee comprised of disinterested directors determines the option price (not less than the fair market value of the stock at the date of grant). The options generally expire ten years from the date of grant and vest over five years. As of September 30, 1996, options for 4,031 shares were issued and 1,377 shares were available for future grants under the plan. Options for 200 shares were issued outside the Stock Option Plan. The new stock option plan was instituted at the time of the Recapitalization. At that time, the Company offered to exchange options issued under prior stock option plans for options under the new plan at the market price per share ($2.125) at the time of the Recapitalization.

<TABLE>
<CAPTION>

	OUTSTANDING OPTIONS	
	SHARES (in thousands)	RANGE OF OPTION PRICES
<S>	<C>	<C>
Outstanding at September 30, 1993	585	$6.40 - 11.75
Granted	487	7.00 - 8.13
Exercised	(5)	7.00 - 7.50
Forfeited	(99)	7.00 - 8.13
Outstanding at September 30, 1994	967	6.40 - 11.75
Granted	1,130	3.38 - 4.50
Forfeited	(953)	7.00 - 8.13
Outstanding at September 30, 1995	1,145	3.38 - 11.75
Granted	4,901	2.13 - 4.19
Exercised	(1)	2.13
Forfeited	(2,013)	3.38 - 11.75
Outstanding at September 30, 1996	4,031	2.13 - 11.75

</TABLE>

NOTE L - FAIR VALUE INFORMATION

The following disclosure of the estimated fair value of financial instruments at September 30, 1996 and 1995 is made in accordance with the requirements of SFAS No. 107 "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

32

The carrying amounts of cash and cash equivalents, short - term investments, trade receivables, and accounts payable are a reasonable estimate of their fair value. The carrying amount of long-term debt approximates fair value because the obligations either bear interest at floating rates, or compare

favorably with fixed rate obligations that would be available to the Company.

The fair value information presented herein is based on pertinent information available to management as of September 30, 1996. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

NOTE M - COMMITMENTS AND CONTINGENCIES

Discontinued operations

The Company is subject to a non-cancelable building lease though 2005. Management is pursuing various alternatives which would terminate this obligation prior to the expiration of the lease and has recorded a reserve which contemplates termination prior to 1999. In estimating the reserve management has considered operating costs, net present value of the remaining lease payments, an early termination payment and sublease rental income. However, additional reserves may be needed in the event management is not able to successfully negotiate an early termination of the lease.

Pursuant to a Tax Indemnity Agreement entered into between the Company and Sport Supply Group, Inc. ("SSG") in connection with the SSG Public Offering, the Company agreed to indemnify SSG against certain consolidated income tax liabilities of the Company incurred prior to the SSG Public Offering. The Company does not believe that amounts paid, if any, pursuant to these agreements will have a material effect on the results of operations and financial condition of the Company.

Class Action Settlement

In connection with the settlement of a class action complaint, the parties reached agreement on the terms of a settlement, which required the Company to contribute $250 in cash and $1,250 in Common Stock priced at the issuance date. The balance of the settlement ($1,500 in cash) would be funded by the Company's insurer. The settlement was approved on September 5, 1995. The Company will issue the settlement stock after proofs of claims have been filed and verified as entitling the holders thereof to a share of the settlement proceeds.

NOTE N - EXPORT SALES AND MAJOR CUSTOMERS

Export sales to customers in foreign countries amounted to approximately $21,192, $28,032 and $15,600 in fiscal 1996, 1995 and 1994, respectively. Revenues from the Company's foreign operations approximated $9,278, $10,109 and $8,100 in 1996, 1995 and 1994, respectively. In fiscal 1996, one customer accounted for approximately 19% of sales. No customer accounted for 10 percent or more of sales in fiscal 1995 and 1994.

NOTE O - TRANSACTIONS WITH RELATED PARTIES

The Company's Chairman and Chief Executive Officer and its former President are owners of EOS Capital, Inc. ("EOS"), a private capital firm previously retained by the Company for consulting and investment banking services. During the first quarter of fiscal 1994, the Company did not pay these individuals salaries as they were not employees of the Company until January 1, 1994. The Company paid EOS $45 for consulting and investment banking services for the first quarter of fiscal 1994. Additionally, the Company paid $21 during the same period for reimbursement of incurred expenses. Effective January 1, 1994, these individuals became employees of the Company.

To obtain a waiver of noncompliance with certain financial covenants under the Credit Agreement, in September 1996, the Company obtained WCAS' limited guarantee of up to $3 million in revolving indebtedness and, if drawn upon, up to $9 million in acquisition-related indebtedness under the Credit Agreement. In return, the Company granted WCAS warrants that, if fully vested, would give WCAS the right to buy a number of shares equal to the indebtedness guaranteed divided by the lower of the Common Stock price on the date the guarantees were initially issued or on certain anniversary dates. The warrants vest 20% on issuance, 20% on June 1, 1997, 20% on March 1, 1998 and 100% if at any time the bank calls the guarantees. The guarantees will be released, and unvested warrants will expire, if and when the Company returns to full compliance with the original financial covenants under the Credit Agreement.

SCHEDULE II

AURORA ELECTRONICS, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
AMOUNTS IN THOUSANDS

<TABLE>
<CAPTION>

	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charges to other accounts	Deductions	Balance at end of perid
<S>	<C>	<C>	<C>	<C>	<C>
FOR THE YEAR ENDED SEPTEMBER 30, 1996					
Allowance for doubtful accounts	$ 1,414	$ 410	$ -	$ 615 (1)	$ 1,209
Reserve for discontinued operations	$ 4,073	$ -	$ -	$ 1,005	$ 3,068
FOR THE YEAR ENDED SEPTEMBER 30, 1995					
Allowance for doubtful accounts	$ 1,046	$ 857	$ -	$ 489 (1)	$ 1,414
Reserve for discontinued operations	$ 5,024	$ -	$ -	$ 951	$ 4,073
FOR THE YEAR ENDED SEPTEMBER 30, 1994					
Allowance for doubtful accounts	$ 788	$ 205	$ 300 (2)	$ 247 (1)	$ 1,046
Reserve for discontinued operations	$ 5,166	$ 2,400	$ -	$ 2,542	$ 5,024

</TABLE>

(1) Uncollectible accounts written off, net of recoveries
(2) Century Acquisition

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information regarding the directors of the Company is set forth under the caption "Election of Directors" contained in the Proxy Statement for the Annual Meeting of Stockholders currently expected to be held March 25, 1997, which is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

Information regarding the Company's compensation of its executive officers is under the caption "Executive Compensation" contained in the Proxy Statement for the Annual Meeting of Stockholders currently expected to be held March 25, 1997, which is incorporated herein by reference except that information in subsections titled "Report of Compensation Committee and the Stock Option Committee on Executive Compensation" and "Performance Graph" of such section are not incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information regarding security ownership of certain beneficial owners and management is under the caption "Security Ownership of Management and Principal Stockholders" contained in the Proxy Statement for the Annual Meeting of Stockholders currently expected to be held March 25, 1997, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information regarding transactions with the Company's executive

officers and directors is under the caption "Transactions with Management and Related Parties" contained in the Proxy Statement for the Annual Meeting of Stockholders currently expected to be held March 25, 1997, which is incorporated herein by reference.

PART IV

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

(a)(1) Financial Statements. See Item 8.

(a)(2) Supplemental Schedules Supporting Financial Statements. See Item 8.

(c) Exhibits. See Index to Exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: December 30, 1996

AURORA ELECTRONICS, INC.

By: /s/John P. Grazer
_____
John P. Grazer, President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on December 30, 1996 by the following persons on behalf of the registrant and in the capacities indicated.

<TABLE>
<CAPTION>

SIGNATURE	TITLE
<S>	<C>
/s/ Jim C. Cowart Jim C. Cowart	Director, Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ John P. Grazer John P. Grazer	President and Chief Financial Officer (Principal Accounting and Financial Officer)
/s/ Harvey B. Cash Harvey B. Cash	Director
/s/ Amin J. Khoury Amin J. Khoury	Director
/s/ David A. Lahar David A. Lahar	Director
/s/ Thomas E. McInerney Thomas E. McInerney	Director
/s/ Richard H. Stowe Richard H. Stowe	Director
/s/ William H Watkins William H. Watkins	Director

</TABLE>

INDEX TO EXHIBITS

<TABLE>

<CAPTION>

Exhibit Number	Description of Exhibits
<S>	<C>
3.1	The Restated Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 to the Company's Transition Report on Form 10-K for the transition period from December 31, 1991 to September 30, 1992).
3.2	Bylaws of the Company, as amended (incorporated by reference from Exhibit 4.2 to the Company's Registration Statement on Form S-8 (Registration No. 33-79426)).
4.1	Indenture between the Company and MBank Dallas, National Association relating to the Company's 7-3/4% Convertible Subordinated Debentures due 2001, including form of Debenture (incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-2 (Registration No. 33-4276)).
4.2	First Supplemental Indenture relating to the Company's 7-3/4% Convertible Subordinated Debentures, dated December 1, 1987, between the Company and MTrust Corp., National Association, appointing MTrust Corp. as successor trustee to MBank Dallas (incorporated by reference from Exhibit 4.2 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993).
4.3	Tripartite Agreement relating to the Company's 7-3/4% Convertible Subordinated Debentures, dated as of January 7, 1990, by and among MTrust Corp., National Association, Ameritrust Texas N.A., and the Company (incorporated by reference from Exhibit 4.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1989).
4.4	Second Supplemental Indenture relating to the Company's 7-3/4% Convertible Subordinated Debentures, dated to be effective as of November 30, 1992, between the Company and Society National Bank (incorporated by reference from Exhibit 4.4 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 33-32377)).
*4.5	Certificate of Designations, Preferences and Rights of Convertible [__] Preferred Stock dated March 1996 relating to 400,000 shares of Preferred Stock.
4.6	Common Stock Purchase Warrant (Paribas), Form of Warrant to Purchase 94,903 Shares of Common Stock of Aurora Electronics, Inc., dated May 12, 1994, issued to each of Banque Paribas and Banque Indosuez (incorporated by reference from Exhibit 4.2 to the Company's Report on Form 8-K dated May 26, 1994).

</TABLE>

<TABLE>
<CAPTION>

Exhibit Number	Description of Exhibits
<S>	<C>
4.7	Common Stock Warrant (Lender) Banque Indosuez, Form of Warrant to Purchase Shares of Common Stock of Aurora Electronics, Inc., dated May 12, 1994, issued to each of Banque Paribas, Banque Indosuez and Union Bank (incorporated by reference from Exhibit 4.3 to the Company's Report on Form 8-K dated May 26, 1994).
*4.8	Aurora Electronics, Inc. Common Stock Purchase Warrant, dated September 30, 1996, issued to Welsh, Carson, Anderson & Stowe VII, L.P.
*4.9	Aurora Electronics, Inc. Common Stock Purchase Warrant, dated September 30, 1996, issued to WCAS Capital Partners II, L.P.
*4.10	Form of Aurora Electronics, Inc. Common Stock Purchase Warrant, issued to Welsh, Carson, Anderson & Stowe VII, L.P.
*4.11	Form of Aurora Electronics, Inc. Common Stock Purchase Warrant,

	issued to WCAS Capital Partners II, L.P.
10.1	Aurora Electronics, Inc. 1993 Stock Option Plan, as amended by Amendment No. 1 dated to be effective as of March 1, 1994 and by Amendment No. 2 dated to be effective as of March 1, 1994 (incorporated by reference from Exhibit 4.3 to the Company's Registration Statement on Form S-8 (Registration No. 33-79426)).
10.2	Aurora Electronics, Inc. 1996 Stock Option Plan (incorporated by reference from Exhibit 10.19 to the Company's Form 10-Q for the quarter ended June 30, 1996).
10.3	Form of Indemnification Agreement entered into between the Company and each of the directors of the Company (incorporated by reference from Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991).
*10.4	Letter Agreement, dated October 22, 1996, between the Company and John P. Grazer relating to employment.

</TABLE>

39

<TABLE>
<CAPTION>

Exhibit Number	Description of Exhibits
<S>	<C>
10.5	Letter Agreement, dated March 1, 1994, between the Company and Jim C. Cowart relating to employment (incorporated by reference from Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1994).
10.5.1	Letter Agreement, dated May 18, 1995, between the Company and Jim C. Cowart relating to employment (incorporated by reference from Exhibit 10.5.1 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1995)
10.8	Standard Multi-Tenant Net Lease, dated November 3, 1992, by and between Sorrento Mesa Properties, Inc. and Micro-C Corporation (now Aurora Electronics Group, Inc.) (incorporated by reference from Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993).

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40

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Exhibit Number	Description of Exhibits
<S>	<C>
10.9	Standard Industrial Lease - Net, dated March 27, 1984, by and between Northgate Investment Company (now David Pick) and Repair Services, Inc. (now Aurora Electronics Group, Inc.) (incorporated by reference from Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993).
10.10	Standard Industrial / Commercial Single Tenant Lease - Net dated November 30, 1994, by and between The Equitable Life Assurance Society of the United States and Aurora Electronics Group, Inc. (incorporated by reference from Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1994).
10.11	Standard Lease Agreement dated October 27, 1992, by and between Crow-Brindell-Mitchell and Aurora Electronics Group, Inc. as Assignee of CCB Computer Brokers, Inc. d/b/a Century Computer Services, Inc. (incorporated by reference from Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1994).
10.12	Lease Agreement Shelby Distribution Center dated November 11, 1994 by and between J. Shea Leatherman, William A. Leatherman, Jr., Irwin L. Zanone and Aurora Electronics Group, Inc. (incorporated by reference from Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended September

	30, 1994).
10.13	Lease dated July 14, 1988, by and between American National Bank and Trust Company of Chicago and BSN Corp. (now Aurora Electronics, Inc.) (incorporated by reference from Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1994).
10.14	Form of Tax Indemnity Agreement by and between the Company and SSG (incorporated by reference from Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991).
10.15	Stock Purchase Agreement, dated as of September 30, 1992, by and among the Company, Robert E. Morris and Norma J. Morris, Trustees of the Robert and Norma Morris Family Trust and The Robert and Norma Morris Charitable Remainder Unitrust (incorporated by reference from Exhibit 2.1 to Form 8-K filed on October 19, 1992).

</TABLE>

41

<TABLE>
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Exhibit Number	Description of Exhibits
<S>	<C>
10.16	Merger Agreement and Plan of Reorganization, dated September 12, 1993, by and between the Company and FRS, Inc. (incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K, dated October 15, 1993).
10.17	Asset Purchase Agreement, dated March 15, 1994 to be effective as of March 1, 1994, as amended, by and among the Company, Aurora Electronics Group, Inc. and CCB Computer Brokers, Inc. and CCM Computers International, Ltd. (incorporated by reference from Exhibit (b)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994).
10.18	Aurora Electronics, Inc. 401-K Plan (incorporated by reference from Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993).
10.19	Securities Purchase Agreement among Aurora Electronics, Inc., Welsh, Carson, Anderson & Stowe VII, L.P., WCAS Capital Partners II, L.P. and the Several Purchasers Named Therein, dated February 21, 1996, incorporated by reference from Exhibit (b)(2) of the Company's Issuer Tender Offer Statement on Schedule 13E-4, which was filed with the Securities and Exchange Commission on February 23, 1996.
10.20	Aurora Electronics Inc. Offer to Purchase for Cash up to 6,500,000 Shares of Its Common Stock at $2.875 Per Share, dated February 23, 1996, incorporated by reference from Exhibit (a)(1) of the Company's Issuer Tender Offer Statement on Schedule 13E-4, which was filed with the Securities and Exchange Commission on February 23, 1996.
10.21	Credit Agreement among Aurora Electronics Group, Inc., as Borrower, the Guarantors Named Therein, the Lenders Named therein and Chemical Bank, N.A., as Agent, dated March 29, 1996 (incorporated by reference from Exhibit 10.21 to the Company's Report on Form 8-K dated March 29, 1996).
10.22	$15,000,000 Tranche A Note between Aurora Electronics Group, Inc., as Maker, and Chemical Bank, N.A., as Lender, dated March 29, 1996 (incorporated by reference from Exhibit 10.22 to the Company's Report on Form 8-K dated March 29, 1996).
10.23	$20,000,000 Tranche B Note between Aurora Electronics Group, Inc., as Maker, and Chemical Bank, N.A., as Lender, dated March 29, 1996 (incorporated by reference from Exhibit 10.23 to the Company's Report on Form 8-K dated March 29, 1996).

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<TABLE>
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Exhibit Number	Description of Exhibits
<S>	<C>
10.24	Pledge Agreement among Aurora Electronics Group, Inc., Aurora Electronics, Inc. and Chemical Bank, N.A., dated March 29, 1996 (incorporated by reference from Exhibit 10.24 to the Company's Report on Form 8-K dated March 29, 1996).
10.25	Security Agreement among Aurora Electronics Group, Inc., Aurora Electronics, Inc. and Chemical Bank, N.A., dated March 29, 1996 (incorporated by reference from Exhibit 10.25 to the Company's Report on Form 8-K dated March 29, 1996).
10.26	Security Agreement and Mortgage -- Patents and Trademarks among Aurora Electronics Group, Inc., Aurora Electronics, Inc. and Chemical Bank, N.A., dated March 29, 1996 (incorporated by reference from Exhibit 10.26 to the Company's Report on Form 8-K dated March 29, 1996).
10.27	Assignment for Security (Patents) among Aurora Electronics Group, Inc., as Assignor, and Chemical Bank, as Assignee, dated March 29, 1996 (incorporated by reference from Exhibit 10.27 to the Company's Report on Form 8-K dated March 29, 1996).
10.28	Assignment for Security (Patents) among Aurora Electronics, Inc., as Assignor, and Chemical Bank, as Assignee, dated March 29, 1996 (incorporated by reference from Exhibit 10.28 to the Company's Report on Form 8-K dated March 29, 1996).
10.29	Assignment for Security (Trademarks) among Aurora Electronics Group, Inc., as Assignor, and Chemical Bank, as Assignee, dated March 29, 1996 (incorporated by reference from Exhibit 10.29 to the Company's Report on Form 8-K dated March 29, 1996).
10.30	Assignment for Security (Trademarks) among Aurora Electronics, Inc., as Assignor, and Chemical Bank, as Assignee, dated March 29, 1996 (incorporated by reference from Exhibit 10.30 to the Company's Report on Form 8-K dated March 29, 1996).
*10.31	Registration Rights Agreement, among Aurora Electronics, Inc., Welsh, Carson, Anderson & Stowe VII, L.P., and WCAS Capital Partners II, L.P., dated March 29, 1996.
*10.32	Aurora Electronics, Inc. 10% Senior Subordinated Note due September 30, 2001, by Aurora Electronics, Inc. as payor to WCAS Capital Partners II, L.P., as payee, dated March 29, 1996.
*10.33	Financial Support Agreement, among Aurora Electronics, Inc., Aurora Electronics Group, Inc., Welsh, Carson, Anderson & Stowe VII, L.P., and WCAS Capital Partners II, L.P., dated as of September 30, 1996.
*10.34	Limited (Overadvance) Guarantee, made by Welsh, Carson, Anderson & Stowe, VII, L.P. and WCAS Capital Partners II, L.P., each a Guarantor, and collectively, the Guarantors, in favor of The Chase Manhattan Bank (formerly known as Chemical Bank), as Agent for the Lenders, dated as of September 30, 1996.
*10.35	Limited (Acquisition) Guarantee, made by Welsh, Carson, Anderson & Stowe, VII, L.P. and WCAS Capital Partners II, L.P., each a Guarantor, and collectively, the Guarantors, in favor of The Chase Manhattan Bank (formerly known as Chemical Bank), as Agent for the Lenders, dated as of September 30, 1996.
*10.36	Form of Note, Aurora Electronics Group, Inc. 10% Senior Subordinated Note due September 30, 2001, by Aurora Electronics Group, Inc. as payor.
*10.37	Amendment No. 1 to Registration Rights Agreement, among Aurora Electronics, Inc. and the parties listed on Schedule I thereto, dated as of September 30, 1996.
*11	Computation of Earnings Per Share

</TABLE>

43
<TABLE>
<CAPTION>

Exhibit Number	Description of Exhibits
<S>	<C>
21.1	Subsidiaries of the Company:

NAME	JURISDICTION OF INCORPORATION
Aurora Electronics Group, Inc.	California
Aurora Electronics Limited	United Kingdom
Micro-C (Barbados) Ltd.	Barbados

*23.1	Consent of Arthur Andersen LLP
*27	Financial Data Schedule

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*Filed herewith.

EXHIBIT 4.5

CERTIFICATE OF DESIGNATIONS, PREFERENCES AND RIGHTS

OF

CONVERTIBLE PREFERRED STOCK

OF

AURORA ELECTRONICS, INC.

(Pursuant to Section 151 of the
Delaware General Corporation Law)

AURORA ELECTRONICS, INC., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies that, pursuant to authority vested in the Board of Directors of the Corporation by Article Fourth of the Restated Certificate of Incorporation, as amended, of the Corporation, the following resolution was adopted as of February 16, 1996 by the Board of Directors of the Corporation pursuant to Section 141 of the Delaware General Corporation Law:

"RESOLVED that, pursuant to authority vested in the Board of Directors of the Corporation by Article Fourth of the Corporation's Restated Certificate of Incorporation, as amended, of the total authorized number of 1,000,000 shares of Preferred Stock, par value $.01 per share, of the Corporation, there shall be designated a series of 400,000 shares which shall be issued in and constitute a single series to be known as "Convertible Preferred Stock" (hereinafter called the "Convertible Preferred Stock"). The shares of Convertible Preferred Stock shall have the voting powers, designations, preferences and other special rights, and qualifications, limitations and restrictions thereof set forth below:

1. Dividends. (a) The holders of shares of Convertible Preferred Stock shall be entitled to receive, out of funds legally available for such purpose, cash dividends at the rate of $7.00 per share per annum, and no more, payable as provided herein or when and as declared by the Board of Directors of the Corporation. Such dividends shall be cumulative and shall accrue from and after the date of issue whether or not declared and whether or not there are any funds of the Corporation legally available for the payment of dividends. Accrued but unpaid

dividends shall not bear interest. The Board of Directors of the Corporation may fix a record date for the determination of holders of Convertible Preferred Stock entitled to receive payment of a dividend declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

(b) As long as any shares of Convertible Preferred Stock shall remain outstanding, in no event shall any dividend be declared or paid upon, nor shall any distribution be made upon, any Junior Capital Stock (as defined herein), other than a dividend or distribution payable solely in shares of common stock of the Corporation, nor shall any shares of Junior Capital Stock be purchased or redeemed by the Corporation, nor shall any moneys be paid to or made available for a sinking fund for the purchase or redemption of shares of any Junior Capital Stock, unless, in each such case, (i) full cumulative dividends on the outstanding shares of Convertible Preferred Stock shall have been declared and paid and (ii) any arrears or defaults in any redemption of shares of Convertible Preferred Stock shall have been cured. The term "Junior Capital Stock" as used herein means any shares of capital stock of the Corporation, including the Corporation's Common Stock, par value $.03 per share (the "Common Stock"), other than shares of the Corporation's capital stock permitted to rank on a parity with or senior to the Convertible Preferred Stock pursuant to Section 6 hereof.

2. Redemption. The shares of Convertible Preferred Stock shall be redeemable as follows:

(a) Mandatory Redemption. On September 30, 2006, subject to the terms of the Credit Agreement dated as of March 29, 1996 (the "Credit Agreement"), among Aurora Electronics Group, Inc., the Corporation and the Guarantors named therein, the Lenders named therein and Chemical Bank, as Agent, the Corporation shall redeem (the "Mandatory Redemption") all of the shares of Convertible Preferred Stock then outstanding, at a redemption price of $100 per share, plus all accrued but unpaid dividends to which the holders of the Convertible Preferred Stock are then entitled pursuant to Section 1 above as of such date.

(b) Optional Redemption. Subject to the terms of the Credit Agreement, upon the occurrence of any of the following (each a "Corporate Disposition"):

(i) the sale, lease or transfer, whether direct or indirect, of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, in one transaction or a series of related transactions, to any "person" or "group" other than the WCAS Group, or

(ii) the acquisition of "beneficial ownership" by any "person" or "group" other than the WCAS Group, of voting stock of the Corporation representing more than 50% of the voting power of all outstanding shares of such voting stock, whether by way of merger or consolidation or otherwise,

then each holder of any share or shares of Convertible Preferred Stock shall have the right, at such holder's option, to require the Corporation to redeem (the "Optional Redemption"), any or all of such holder's shares of Convertible Preferred Stock (any such redemption of less than all of a holder's shares to be in integral multiples of 1,000 shares) on or prior to the effective date of such Corporate Disposition, at a redemption price of $100 plus all accrued but unpaid dividends to which the holders of the Convertible Preferred Stock are then entitled pursuant to Section 1 above as of such date. Such option shall be exercised by written notice to the Corporation given within fifteen days of the date of receipt of the Redemption Notice (as defined herein) to be delivered pursuant to Section 2(e) below.

For purposes of this Certificate of Designations: (i) the terms "person" and "group" shall have the meaning set forth in Section 13(d)(3) of the Exchange Act, whether or not applicable, (ii) the term "beneficial owner" shall have the meaning set forth in Rules 13d-3 and 13d-5 under the Exchange Act, whether or not applicable, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time or upon the occurrence of certain events, (iii) any "person" or "group" will be deemed to beneficially own any voting stock of the Company so long as such person or group beneficially owns, directly or indirectly, in the aggregate a majority of the voting stock of a registered holder of the voting stock of the Company, and (iv) the term "WCAS Group" shall mean Welsh, Carson, Anderson & Stowe VII, L.P., a Delaware limited partnership ("WCAS VII"), WCAS Capital Partners II, L.P., a Delaware limited partnership ("WCAS CP II"), and any general partners thereof.

Any date on which any shares of Convertible Preferred Stock are to be redeemed as herein provided is hereinafter called a "Redemption Date." The price at which any shares of Convertible Preferred Stock are to be redeemed as herein provided is hereinafter called the "Redemption Price."

(c) Notice of Redemption. At least 20 days (and not more than 60 days) prior to any Redemption Date (which in the case of any Optional Redemption shall be prior to the effective date of any such sale, lease or transfer of assets or consolidation, merger or other transaction), written notice thereof (a "Redemption Notice") shall be mailed, by first class or registered

4
mail, postage prepaid, to each holder of record of Convertible Preferred Stock, at his, her or its address last shown on the records of the transfer agent of the Convertible Preferred Stock (or the records of the Corporation, if it serves as its own transfer agent). The Redemption Notice shall set forth (i) the Redemption Date, (ii) the Redemption Price, (iii) in the case of the Mandatory Redemption, the total number of shares to be redeemed from all holders and the number of shares to be redeemed from such holder, and (iv) in the case of an Optional Redemption, a description of the events which will, upon the occurrence thereof, constitute a Corporate Disposition, including a summary description of the terms thereof, and such holder's right to exercise its option to require a redemption under Section 2(b) hereof. In the case of a Mandatory Redemption, the Redemption Notice shall call upon such holder to surrender to the Corporation, in the manner and at the place designated, his or its certificate or certificates representing any shares of Convertible Preferred Stock to be redeemed.

(d) Redeemed or Otherwise Acquired Shares to be Retired. On or prior to a Redemption Date, all holders of shares of Convertible Preferred Stock to be redeemed shall surrender their certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and against such surrender the Redemption Price of such shares shall be paid to the order of the person whose name appears on each such certificate as the owner thereof. Each surrendered certificate shall be canceled. From and after the Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of the shares of redeemed Convertible Preferred Stock as holders of such shares of Convertible Preferred Stock (except the right to receive the Redemption Price without interest against surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation (or its transfer agent, if any) or be deemed to be outstanding for any purpose whatsoever.

(e) Shares to be Redeemed or Purchased. If the funds of the Corporation legally available for redemption of Convertible Preferred Stock on any Redemption Date are insufficient, after redemption of any other shares ranking senior thereto, to redeem the full number of shares of Convertible Preferred Stock to be redeemed on such date, those funds which are legally available shall be used to redeem the maximum possible number of such shares of Convertible Preferred Stock ratably from each holder whose shares are otherwise required to be redeemed. At any time thereafter when additional funds of the Corporation become legally available for the redemption of Convertible Preferred Stock, such funds will be used, at the end of the next succeeding fiscal quarter, to redeem the balance of the shares

5
which the Corporation was theretofore obligated to redeem, ratably on the basis set forth in the preceding sentence.

3. Liquidation, Dissolution or Winding Up. (a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of shares of Convertible Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, before any payment shall be made to the holders of any shares of Junior Capital Stock by reason of their ownership thereof, an amount equal to $100 per share of Convertible Preferred Stock, plus all accrued but unpaid dividends to which the holders of the Convertible Preferred Stock are then entitled pursuant to Section 1 above as of such date, and no more. If upon any such liquidation, dissolution or winding up of the Corporation the remaining assets of the Corporation available for distribution to its stockholders (after making all distributions to which holders of capital stock ranking senior to the Convertible Preferred Stock shall be entitled) shall be insufficient to pay the holders of shares of Convertible Preferred Stock the full amount to which they shall be entitled pursuant to this Section 3(a), the holders of shares of Convertible Preferred Stock, and any other shares ranking on a parity therewith, shall share ratably in any distribution of the remaining assets and funds of the Corporation in proportion to the respective amounts which would otherwise be payable in respect of the shares of Convertible Preferred Stock held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(b) After the payment of all amounts required to be paid pursuant to Section 3(a) to the holders of shares of Convertible Preferred Stock, and any other shares ranking on a parity therewith, upon the dissolution, liquidation or winding up of the Corporation, the holders of shares of Junior Capital Stock then outstanding shall share in any distribution of the remaining assets and funds of the Corporation in the manner provided by law, in the Restated Certificate of Incorporation of the Corporation, as amended, or as provided in any pertinent Certificate of Designations of the Corporation, as the case may be.

(c) No Corporate Disposition shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Section 3 (unless in connection therewith the liquidation of the Corporation is specifically approved).

4. Conversion. The shares of Convertible Preferred Stock shall be convertible as follows:

(a) Right to Convert. Subject to the terms and conditions of this Section 4, the holder of any share or shares of Convertible Preferred Stock shall have the right, at his, her or

6

its option at any time, to convert any such shares of Convertible Preferred Stock (except that upon any liquidation of the Corporation the right of conversion shall terminate as to all shares at the close of business 15 days after notice thereof has been given to the holders of Convertible Preferred Stock as provided in Section 4(h) hereof) into such number of fully paid and nonassessable whole shares of Common Stock as is obtained by (i) multiplying the number of shares of Convertible Preferred Stock so to be converted by $100, (ii) adding the Additional Conversion Amount (as defined in Section 4(c) herein), if any, and (iii) dividing the result by the conversion price of $2.125 or, if there has been an adjustment of the conversion price, by the conversion price as last adjusted and in effect at the date any share or shares of Convertible Preferred Stock are surrendered for conversion (such price, or such price as last adjusted, being referred to herein as the "Conversion Price"). Such right of conversion shall be exercised by the holder thereof by giving written notice that the holder elects to convert a stated number of shares of Convertible Preferred Stock into Common Stock (such number shall either be an integral multiple of 1,000 or the total number of shares held by such holder) and by surrender of a certificate or certificates for the shares so to be converted to the Corporation at its principal office (or such other office or agency of the Corporation as the Corporation may designate by notice in writing to the holder or holders of the Convertible Preferred Stock) at any time during its usual business hours on the date set forth in such notice, together with a statement of the name or names (with address), subject to compliance with applicable laws to the extent such designation shall involve a transfer, in which the certificate or certificates for shares of Common Stock shall be issued.

(b) Issuance of Certificates; Time Conversion Effected. Promptly after the receipt by the Corporation of the written notice referred to in Section 4(a) above and surrender of the certificate or certificates for the share or shares of the Convertible Preferred Stock to be converted, the Corporation shall issue and deliver, or cause to be issued and delivered, to the holder, registered in such name or names as such holder may direct, subject to compliance with applicable laws to the extent such designation shall involve a transfer, a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Convertible Preferred Stock. To the extent permitted by law, such conversion shall be deemed to have been effected and the Conversion Price shall be determined as of the close of business on the date on which such written notice shall have been received by the Corporation and the certificate or certificates for such share or shares shall have been surrendered as aforesaid, and at such time the rights of the holder of such share or shares of Convertible Preferred Stock shall cease, and the person or persons in whose name or names any certificate or

certificates for shares of

Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby.

(c) Fractional Shares; Dividends; Partial Conversion.

(i) No fractional shares shall be issued upon conversion of the Convertible Preferred Stock into Common Stock and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. If any fractional interest in a share of Common Stock would, except for the provisions of this Section 4(c), be deliverable upon any such conversion, the Corporation, in lieu of delivering the fractional share thereof, shall pay to the holder surrendering the Convertible Preferred Stock for conversion an amount in cash equal to the current fair market value of such fractional interest as determined in good faith by the Board of Directors of the Corporation.

(ii) Upon the conversion of any shares of Convertible Preferred Stock, the Corporation will pay the holder thereof, out of funds legally available for such purpose, any accrued but unpaid dividends thereon to the date of such conversion. In the event that the Corporation is for any reason unable to pay some or all of such accrued but unpaid dividends, any amount not so paid shall (for purposes of Section 4(a) hereof) constitute the "Additional Conversion Amount." No other payment or adjustment shall be made upon any conversion on account of the Convertible Preferred Stock so converted or the Common Stock issued upon such conversion.

(iii) In case the number of shares of Convertible Preferred Stock represented by the certificate or certificates surrendered pursuant to Section 4(a) exceeds the number of shares converted, the Corporation shall, upon such conversion, execute and deliver to the holder thereof, at the expense of the Corporation, a new certificate or certificates for the number of shares of Convertible Preferred Stock represented by the certificate or certificates surrendered which are not to be converted.

(d) Adjustment of Price Upon Issuance of Common Shares. Except as provided in Section 4(e) hereof, if and whenever (after the date of effectiveness of this Certificate of Designation and whether or not any shares of Convertible Preferred Stock shall at the time have been issued and be outstanding) the Corporation shall issue or sell, or is, in accordance with

subparagraphs (d)(i) through (d)(vii), deemed to have issued or sold, any shares of its Common Stock without consideration or for a consideration per share less than the Conversion Price in

effect immediately prior to the time of such issue or sale, then, forthwith upon such issue or sale, the Conversion Price shall be adjusted to the price (calculated to the nearest cent) determined by dividing (x) an amount equal to the sum of (A) the number of shares of Common Stock outstanding immediately prior to such issue or sale (including as outstanding all shares of Common Stock issuable upon conversion of outstanding Convertible Preferred Stock) multiplied by the then existing Conversion Price, and (B) the consideration, if any, received by the Corporation upon such issue or sale, by (y) the total number of shares of Common Stock outstanding immediately after such issue or sale (including as outstanding all shares of Common Stock issuable upon conversion of outstanding Convertible Preferred Stock without giving effect to any adjustment in the number of shares so issuable by reason of such issue and sale).

No adjustment of the Conversion Price, however, shall be made in an amount less than $.01 per share, and any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which together with any adjustments so carried forward shall amount to $.01 per share or more.

For purposes of this Section 4(d), the following subparagraphs (i) through (vii) shall also be applicable:

(i) Issuance of Rights or Options. Subject to Section 4(e) hereof, in case at any time the Corporation shall in any manner grant (whether directly or by assumption in a merger or otherwise) any rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or any stock (other than shares of Convertible Preferred Stock) or securities convertible into or exchangeable for Common Stock (such rights or options being herein called "Options" and such convertible or exchangeable stock or securities being herein called "Convertible Securities") whether or not such Options or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such Options or upon conversion or exchange of such Convertible Securities (determined by dividing (A) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of all such

Options, plus, in the case of such Options which relate to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof, by (B) the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or

9

exchange of all such Convertible Securities issuable upon the exercise of such Options) shall be less than the Conversion Price in effect immediately prior to the time of the granting of such Options, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to have been issued for such price per share as of the date of granting of such Options and thereafter shall be deemed to be outstanding. Except as otherwise provided in subparagraph (iii) below, no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities. Subject to Section 4(e) hereof, in case the Corporation shall in any manner issue (whether directly or by assumption in a merger or otherwise) or sell any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (A) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof, by (B) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Con- vertible Securities) shall be less than the Conversion Price in effect immediately prior to the time of such issue or sale, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities shall be deemed to have been issued for such price per share as of the date of the issue or sale of such Convertible Securities and thereafter shall be deemed to be outstanding, provided that (x) except as otherwise provided in subparagraph (iii) below, no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities, and (y) if any

such issue or sale of such Convertible Securities is made upon exercise of any Option to purchase any such Convertible Securities for which adjustments of the Conversion Price have been or are to be made pursuant to other provisions of this Section 4(d), no further adjustment of the Conversion Price shall be made by reason of such issue or sale.

(iii) Change in Option Price or Conversion Rate. Upon the happening of any of the following events, namely, if the

purchase price provided for in any Option referred to in subparagraph (i), the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities referred to in subparagraph (i) or (ii), or the rate at which any Convertible Securities referred to in subparagraph (i) or (ii) are convertible into or exchangeable for Common Stock shall change at any time (in each case other than under or by reason of provisions designed to protect against dilution), the Conversion Price in effect at the time of such event shall forthwith be readjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold; and on the expiration of any such Option or the termination of any such right to convert or exchange such Convertible Securities, the Conversion Price then in effect hereunder shall forth- with be increased to the Conversion Price which would have been in effect at the time of such expiration or termination had such Option or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination, never been issued, and the Common Stock issuable thereunder shall no longer be deemed to be outstanding. If the purchase price provided for in any such Option referred to in subparagraph (i) or the rate at which any Convertible Securities referred to in subparagraph (i) or (ii) are convertible into or exchangeable for Common Stock shall be reduced at any time under or by reason of provisions with respect thereto designed to protect against dilution, then, in case of the delivery of Common Stock upon the exercise of any such Option or upon conversion or exchange of any such Convertible Securities, the Conversion Price then in effect hereunder shall forthwith be adjusted to such respective amount as would have been obtained had such Option or Convertible Securities never been issued as to such Common Stock and had adjustments been made upon the issuance of the shares of Common Stock delivered as aforesaid, but only if as a result of such adjustment the Conversion Price then in effect hereunder is thereby

reduced.

(iv) Stock Dividends. In case the Corporation shall declare a dividend or make any other distribution upon any stock of the Corporation payable in Common Stock, Options or Convertible Securities, any Common Stock, Options or Convertible Securities, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

(v) Subdivision or Combination of Stock. In case the Corporation shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the

Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Corporation shall be combined into a smaller number of shares, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

(vi) Consideration for Stock. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Corporation therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Corporation shall be deemed to be the fair value of such consideration as determined in good faith by the Board of Directors of the Corporation, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. The amount of consideration deemed to be received by the Corporation pursuant to the foregoing provisions of this subparagraph (vi) upon any issuance and/or sale of shares of Common Stock, Options or Convertible Securities, pursuant to an established compensation plan of the Corporation, to directors, officers or employees of the Corporation in connection with their employment shall be increased by the amount of any tax benefit realized by the Corporation as a result of such issuance and/or sale, the amount of such tax benefit being the amount by which the Federal and/or state income or other tax liability of the Corporation shall be reduced by reason of any deduction or credit in respect of such issuance and/or sale. In case any Options shall be issued in

connection with the issue and sale of other securities of the Corporation, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, such Options shall be deemed to have been issued without consideration.

(vii) Record Date. In case the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities, or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such

other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(e) Certain Issues of Stock Excepted. Anything herein to the contrary notwithstanding, the Corporation shall not make any adjustment of the Conversion Price in the case of (i) the issuance of shares of Convertible Preferred Stock pursuant to that certain Securities Purchase Agreement, dated as of February 21, 1996, as amended, among the Corporation, WCAS VII, WCAS CP II and the several persons named on Schedule I thereto; (ii) the issuance of shares of Common Stock upon conversion of Convertible Preferred Stock; (iii) the issuance of up to 4,737,270 shares of Common Stock to employees of the Corporation or its subsidiaries, either directly or pursuant to stock options, pursuant to plans or arrangements approved by the Board of Directors of the Corporation; or (iv) the issuance of shares of Common Stock in respect of any Convertible Securities issued by the Corporation prior to the date of said Securities Purchase Agreement.

(f) Reorganization or Reclassification. If any capital reorganization or reclassification of the capital stock of the Corporation (a "Reorganization") shall be effected in such a way (including, without limitation, by way of consolidation or merger) that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such Reorganization, lawful and adequate provision (in form satisfactory to the holders of a majority of the then outstanding shares of Convertible Preferred Stock) shall be made whereby each holder of a share or shares of Convertible Preferred Stock shall thereafter have the right to receive, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock of the Corporation immediately theretofore receivable upon the conversion of such

share or shares of the Convertible Preferred Stock, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore so receivable had such Reorganization not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of such holder to the end that the provisions hereof (including without limitation provisions for adjustments of the Conversion Price) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights (including an immediate adjustment, by reason of such Reorganization, of the Conversion Price to the value for the Common Stock reflected by the terms of such Reorganization if the value so reflected is less than the Conversion Price in effect immediately prior to such Reorganization). In the event of a merger or consolidation of the Corporation as a result of which a greater or lesser number of shares of common stock (or other equity interests, of

the case may be) of the surviving corporation or business entity are issuable to holders of Common Stock of the Corporation outstanding immediately prior to such merger or consolidation, the Conversion Price in effect immediately prior to such merger or consolidation shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Common Stock of the Corporation. The Corporation will not effect any Corporate Disposition unless prior to the consummation thereof the acquiring corporation or other business entity, or successor corporation or other business entity (if other than the Corporation) resulting from such Corporate Disposition, as the case may be, shall assume by written instrument (in form reasonably satisfactory to the holders of a majority of the shares of Convertible Preferred Stock at the time outstanding) executed and mailed or delivered to each holder of a share or shares of Convertible Preferred Stock at the last address of such holder appearing on the books of the Corporation (or its transfer agent, if any), the obligation to deliver to such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to receive.

(g) Notice of Adjustment. Upon any adjustment of the Conversion Price, then and in each such case the Corporation shall give written notice thereof, by first class mail, postage prepaid, addressed to each holder of shares of Convertible Preferred Stock at the address of such holder as shown on the books of the Corporation (or its transfer agent, if any), which notice shall state the Conversion Price resulting from such adjustment, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

(h) Other Notices. In case at any time:

(i) the Corporation shall declare any dividend upon its Common Stock payable in cash or stock or make any other distribution to the holders of its Common Stock;

(ii) the Corporation shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any Reorganization or Corporate Disposition or the Corporation shall become aware of any event or events that could reasonably be expected to result in a Reorganization or Corporate Disposition; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Corporation;

then, in any one or more of said cases, the Corporation shall give, by first class mail, postage prepaid, addressed to each holder of any shares of Convertible Preferred Stock at the

address of such holder as shown on the books of the Corporation (or its transfer agent, if any), (A) at least 15 days' prior written notice of the date on which the books of the Corporation (or its transfer agent) shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such Reorganization or Corporate Disposition, and (B) in the case of any such Reorganization or Corporate Disposition, at least 15 days' prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause (A) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Common Stock shall be entitled thereto, and such notice in accordance with the foregoing clause (B) shall also specify the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon such Reorganization or Corporate Disposition, as the case may be.

(i) Conversion at Corporation's Option. All outstanding shares of Convertible Preferred Stock shall, at the option of the Corporation, be automatically converted into Common Stock if at any time the Corporation shall effect a firm commitment public offering of Common Stock or Convertible Securities registered pursuant to the Securities Act of 1933, as amended, resulting in proceeds to the Corporation and/or selling stockholders of not

less than $20,000,000, after deduction of underwriting discounts and commissions but before deduction of other expenses of issuance, and in which the offering price to the public (or, in the case of a sale of Convertible Securities, the price per share of Common Stock payable upon conversion thereof) is not less than two times the Conversion Price. Such conversion shall be effected at the time of and subject to the closing of the sale of such shares of Common Stock.

(j) Stock to be Reserved. The Corporation will at all times reserve and keep available out of its authorized but unissued Common Stock, solely for the purpose of issuance upon the conversion of the Convertible Preferred Stock as herein provided, such number of shares of Common Stock as shall then be issuable upon the conversion of all outstanding shares of Convertible Preferred Stock. All shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable and free from all taxes, liens and charges arising out of or by reason of the issue thereof, and, without limiting the generality of the foregoing, the Corporation covenants that it will from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the effective Conversion Price. The Corporation will take all such action within its control as may be necessary on its part to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirements of any national securities

exchange upon which the Common Stock of the Corporation may be listed. The Corporation will not take any action which results in any adjustment of the Conversion Price if after such action the total number of shares of Common Stock issued and outstanding and thereafter issuable upon exercise of all options and conversion of Convertible Securities, including upon conversion of the Convertible Preferred Stock, would exceed the total number of shares of Common Stock then authorized by the Corporation's Restated Certificate of Incorporation.

(k) No Reissuance of Convertible Preferred Stock. Shares of Convertible Preferred Stock that are converted into shares of Common Stock as provided herein shall not be reissued.

(l) Issue Tax. The issuance of certificates for shares of Common Stock upon conversion of the Convertible Preferred Stock shall be made without charge to the holders thereof for any issuance tax in respect thereof, provided that the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Convertible Preferred Stock which is being converted.

(m) Closing of Books. The Corporation will at no time close its transfer books against the transfer of any Convertible Preferred Stock or of any shares of Common Stock issued or issuable upon the conversion of any shares of Convertible Preferred Stock in any manner which interferes with the timely conversion of such Convertible Preferred Stock.

(n) Definition of Common Stock. As used in this Section 4, the term "Common Stock" shall mean and include the Corporation's authorized Common Stock, par value $.03 per share, as constituted on the date of filing of this Certificate of Designation and shall also include any capital stock of any class of the Corporation thereafter authorized that shall not be limited to a fixed sum or percentage of par value in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation; provided, however, that such term, when used to describe the securities receivable upon conversion of shares of the Convertible Preferred Stock of the Corporation, shall include only shares designated as Common Stock of the Corporation on the date of filing of this Certificate of Designations, any shares resulting from any combination or subdivision thereof referred to in subparagraph (v) of Section 4(d), or in case of any reorganization or reclassification of the outstanding shares thereof, the stock, securities or assets provided for in Section 4(f).

5. Voting. Except as otherwise provided by law or in Section 6 below, the holders of Convertible Preferred Stock shall vote together with the holders of Common Stock on all matters to be voted on by the stockholders of the Corporation, and each holder of Convertible Preferred Stock shall be entitled to one vote for each share of Common Stock that would be issuable to such holder upon the conversion of all the shares of Convertible Preferred Stock held by such holder on the record date for the determination of stockholders entitled to vote.

6. Restrictions. So long as any shares of Convertible Preferred Stock are outstanding, without the consent of the holders of a majority of the Convertible Preferred Stock at the time outstanding given in person or by proxy, either in writing or at a special meeting called for that purpose at which the holders of the Convertible Preferred Stock shall vote separately as a class, the Corporation may not (i) effect, validate or permit a Corporate Disposition; (ii) effect or validate the amendment, alteration or repeal of any provision hereof which would amend or repeal the dividend, voting, conversion, redemption or liquidation rights of the Convertible Preferred Stock set forth herein; (iii) effect or validate the amendment, alteration or repeal of any provision of the Restated Certificate of Incor-

poration or the By-laws of the Corporation; or (iv) (A) create or authorize any additional class or series of stock ranking senior to or on a parity with the Convertible Preferred Stock as to dividends or as to rights upon redemption, liquidation, dissolution or winding up, or (B) increase the authorized number of shares of the Convertible Preferred Stock or of any other class or series of capital stock of the Corporation ranking senior to or on a parity with the Convertible Preferred Stock as to dividends or as to rights upon redemption, liquidation, dissolution or winding up, whether any such creation or authorization or increase shall be by means of amendment hereof, amendment of the Restated Certificate of Incorporation of the Corporation, Certificate of Designation or amendment thereof, merger, consolidation or otherwise.

7. Reacquired Shares. Any shares of Convertible Preferred Stock, which are redeemed or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof and the number of authorized shares of Convertible Preferred Stock shall be reduced accordingly.

IN WITNESS WHEREOF, this Certificate of Designations has been executed by the Corporation by its Chairman and Chief Executive Officer this 29th day of March, 1996.

AURORA ELECTRONICS, INC.

By _____
Chairman and Chief
Executive Officer

EXHIBIT 4.8

EXHIBIT B-1(A)

THIS WARRANT HAS BEEN ISSUED IN RELIANCE UPON THE REPRESENTATION OF THE HOLDER THAT IT HAS BEEN ACQUIRED FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TOWARDS THE RESALE OR OTHER DISTRIBUTION THEREOF. NEITHER THIS WARRANT NOR THE SHARES ISSUABLE UPON THE EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

WARRANT TO PURCHASE SHARES
OF AURORA ELECTRONICS, INC.
COMMON STOCK

ISSUED: September 30, 1996
VOID AFTER FIVE (5) YEARS

AURORA ELECTRONICS, INC.

COMMON STOCK
PURCHASE WARRANT

THIS IS TO CERTIFY that, for value received and subject to the terms and conditions hereof, Welsh, Carson, Anderson & Stowe VII, L.P. is entitled to purchase up to the number of shares of the common stock, $.03 par value per share, of Aurora Electronics, Inc., a Delaware corporation, as set forth in Section 2 of this Warrant, at the price per share set forth in Section 2 of this Warrant.

This Warrant is subject to the following additional terms and conditions:

1. DEFINITIONS

a. AEG shall mean Aurora Electronics Group, Inc., a California corporation and wholly-owned subsidiary of Aurora.

b. Agent shall mean The Chase Manhattan Bank (formerly known as Chemical Bank), as agent for the lenders named in the Credit Agreement dated March 29, 1996 between AEG and Agent.

c. Aurora shall mean Aurora Electronics, Inc., a Delaware corporation.

d. Common Stock shall mean the common stock of Aurora, $.03 par value per share, as more specifically set forth in Section 13 hereof.

e. Exercise Period shall mean from September 30, 1996 until September 30, 2001.

2

f. Exercise Price shall mean (i) with respect to the First Warrant Tranche, the average closing price of the Common Stock as reported by the American Stock Exchange for the five trading days preceding the date of this Warrant and (ii) with respect to the Second Warrant Tranche, Third Warrant Tranche or Final Warrant Tranche, the lower of the average closing price of the Common Stock as reported by the American Stock Exchange for the five trading days preceding (x) the date of this Warrant or (y) the applicable Warrant Accrual Date.

g. Fair Market Value shall mean the value of the Common Stock as determined in accordance with Section 5 hereof.

h. First Guarantee shall mean the guarantee issued by WCAS and its affiliate, WCAS Capital Partners II, L.P., to secure the indebtedness of AEG under the Tranche A Credit Facility and the Tranche B Credit Facility, up to a maximum of $3,000,000.

i. Guaranteed Amount shall mean $3,000,000, which is the maximum principal amount of indebtedness under the First Guarantee.

j. Purchase Price shall mean the Exercise Price multiplied by the number of shares of Common Stock subject to this Warrant pursuant to Section 2 hereof.

k. Warrant Accrual Date shall mean (i) the date of this Warrant with respect to the First Warrant Tranche (as hereinafter defined), (ii) June 1, 1997 with respect to the Second Warrant Tranche (as hereinafter defined), (iii) March 1, 1998 with respect to the Third Warrant Tranche (as hereinafter defined), and (iv) the date that the First Guarantee is called with respect to the Final Warrant Tranche (as hereinafter defined).

l. Warrant Shares shall mean the number of shares of Common Stock as determined by the following formula:

[(Guaranteed Amount)/(Exercise Price)] x (WCAS Interest).

m. WCAS shall mean Welsh, Carson, Anderson & Stowe VII, L.P.

n. WCAS Interest shall mean 96.6%, which is the percentage of the Guaranteed Amount that is guaranteed by WCAS.

2. NUMBER OF SHARES SUBJECT TO WARRANT

The number of shares subject to this Warrant will be calculated as

follows:

a. From September 30, 1996 until May 31, 1997, WCAS shall have the right to purchase a number of shares of Common Stock equal to twenty percent (20%) of the Warrant Shares (the "First Warrant Tranche"), exercisable at the Exercise Price.

b. If as of June 1, 1997 the First Guarantee is still outstanding, then from June 1, 1997 until February 28, 1998, WCAS shall have the right to purchase an additional number of shares of Common Stock equal to an additional twenty percent (20%) of the Warrant Shares (or, a total of 40% of the Warrant Shares) (the "Second Warrant Tranche"), exercisable at the Exercise Price.

c. If as of March 1, 1998 the First Guarantee is still outstanding, then from March 1, 1998 until September 30, 2001, WCAS shall have the right to purchase an additional number of shares of Common Stock equal to an additional twenty percent (20%) of the Warrant Shares (or, a total of 60% of the Warrant Shares) (the "Third Warrant Tranche"), exercisable at the Exercise Price.

d. If the WCAS First Guarantee is called at any time by Agent, WCAS shall have the right to purchase an additional number of shares of Common Stock equal to the difference between 100% of the Warrant Shares and the aggregate percentage of Common Stock for which this Warrant is then exercisable pursuant to Section 2(a), Section 2(b) and Section 2)(c) hereof (or, a total of 100% of the Warrant Shares) (the "Final Warrant Tranche"), exercisable at the Exercise Price.

3. METHOD OF EXERCISE

The rights represented by this Warrant may be exercised by the holder hereof, in whole at any time or from time to time in part, but not as to a fractional share of Common Stock, by the surrender of this Warrant (properly endorsed) at the office of Aurora as it may designate by notice in writing to the holder hereof at the address of such holder appearing on the books of Aurora, and by payment as provided below. The holder may make payment in respect of the exercise of this Warrant as follows:

i) Cash Exercise. By payment to Aurora of the Exercise price in cash or by certified or official bank check, for each share being purchased;

ii) Notes Exercise. By surrender to Aurora of any promissory notes or other obligations issued by Aurora, with all such notes or other obligations of Aurora so surrendered being credited against the Exercise Price in an amount equal to the principal amount thereof plus

the amount of any interest thereon to the date of such surrender;

iii) Securities Exercise. By delivery to Aurora of any other securities issued by Aurora, with such securities being credited against the Exercise Price in an amount equal to the fair market value thereof;

iv) Net Issue Exercise. By an election to receive shares the aggregate fair market value of which as of the date of exercise is equal to the fair market value of this Warrant (or the portion thereof being exercised) on such date, in which event Aurora, upon receipt of notice of such election, shall issue to the holder hereof a number of shares of Common stock equal to (A) the number of shares of Common Stock acquirable upon

exercise of all or any portion of this Warrant being exercised, as at such date, multiplied by (B) the balance remaining after deducting (x) the Exercise Price, as in effect on such date, from (y) the Fair Market Value of one share of Common Stock as at such date and dividing the result by (c) such Fair Market Value; or

v) Combined Payment Method. By satisfaction of the Exercise Price for each share being acquired in any combination of the methods described in clauses (i) through (iv) above.

4. DELIVERY OF STOCK CERTIFICATES

Within ten (10) days after the payment of the Purchase Price following the exercise of this Warrant, Aurora shall issue in the name of and deliver to WCAS a certificate or certificates for the number of fully paid and nonassessable shares of Common Stock to which WCAS shall be entitled upon such exercise and payment. WCAS shall for all purposes be deemed to have become holder of record of such shares of Common Stock on the date by which this Warrant was surrendered and payment of the Purchase Price was made, irrespective of the date of delivery of the certificate or certificates representing the Common Stock; provided, that if the date by which such surrender and payment is made is a date when the stock transfer books of Aurora are closed, such person shall be deemed to have become holder of record of such shares of Common Stock at the close of business on the next succeeding date on which the stock transfer books are open.

5. DEFINITION OF FAIR MARKET VALUE

For the purposes of this Warrant, the Fair Market Value of the Common Stock shall be determined as follows: (i) if the Common stock is listed or admitted to trading on one or more national securities exchanges, the average of the last reported sales prices per share regular way or, in case no such

reported sales take place or such day, the average of the last reported bid and asked prices per share regular way, in either case on the principal national securities exchange on which the Common Stock is listed or admitted to trading, for the five trading days immediately preceding the date of the exercise of this Warrant (the "Determination Date"); (ii) if the Common Stock is not listed or admitted to trading on a national securities exchange but is quoted by NASDAQ, the average of the last reported sales prices per share regular way or, in case no reported sale takes place on any such day or the last reported sales prices are not then quoted by NASDAQ, the average of the last reported bid and asked prices per share, for the five trading days immediately preceding the Determination Date as furnished by the National Quotation Bureau Incorporated or any similar successor organization; and (iii) if the Common Stock is not listed or admitted to trading on a national securities exchange or quoted by NASDAQ or any other nationally recognized quotation service, the Fair Market Value shall be the fair value thereof determined jointly by the Board of Directors of Aurora and the holders of

Warrants outstanding representing a majority of the shares of Common Stock acquirable upon exercise of the Warrants; provided, however, that if such parties are unable to reach agreement within a reasonable time, the Fair Market Value shall be determined in good faith by an independent investment banking firm selected jointly by the Board of Directors of Aurora and the holders of Warrants outstanding representing a majority of the shares of Common Stock issuable upon exercise of the Warrants or, if that selection cannot be made within fifteen (15) days, by an independent investment banking firm selected by the American Arbitration Association in accordance with its rules. Anything in this Section 5 to the contrary notwithstanding, the Fair Market Value of this Warrant or any portion thereof as of any Determination Date shall be equal to (A) the Fair Market Value of the shares of Common Stock issuable upon exercise of this Warrant (or such portion thereof) (determined in accordance with the foregoing provisions of this paragraph) minus (B) the aggregate Exercise Price of the Warrant (or such portion thereof).

6. REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE

If any capital reorganization or reclassification of the capital stock of Aurora or any consolidation or merger of Aurora with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby each holder of the Warrants shall thereafter have the right to receive upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore receivable upon the exercise of such Warrants, such shares of stock, securities

or assets (including cash) as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore so receivable had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provisions shall be made with respect to the rights and interests of such holder to the end that the provisions hereof (including without limitation provisions for adjustments of the Exercise Price) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such exercise rights (including an immediate adjustment, by reason of such reorganization or reclassification, of the Exercise Price to the value for the Common Stock reflected by the terms of such reorganization or reclassification if the value so reflected is less than the Exercise Price in effect immediately prior to such reorganization or reclassification). In the event of a merger or consolidation of Aurora as a result of which a greater or lesser number of shares of common stock of the surviving corporation are issuable to holders of Common Stock of Aurora outstanding immediately prior to such merger or consolidation, the Exercise Price in effect immediately prior to such merger or consolidation shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Common Stock of Aurora. Aurora will not effect any such consolidation, merger or any sale of all or substantially all of its assets of properties, unless prior to the consummation thereof the successor corporation (if other than Aurora) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument executed and mailed or delivered to each holder of the Warrants at the last address of such holder appearing on the books of Aurora, the obligation to deliver to such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to receive.

7. ADJUSTMENTS TO EXERCISE PRICE FOR DISTRIBUTIONS, SUBDIVISIONS AND COMBINATIONS

In the event that Aurora, after the date hereof: (a) pays a stock dividend with respect to the Common Stock; (b) subdivides its outstanding shares of Common Stock; (c) combines its outstanding shares of Common Stock into a smaller number of shares of any class of Common Stock or (d) issues shares of its capital stock in a reclassification of the Common Stock, including any such reclassification in connection with a consolidation or merger in which Aurora is the surviving corporation (any one of which actions is herein referred to as an "Adjustment Event"), the Exercise Price shall be adjusted by multiplying such Exercise Price immediately prior to such Adjustment Event by a fraction, the numerator of which shall be the number of shares of Common Stock issued and outstanding immediately prior to such Adjustment Event, and the denominator of which shall be the number of shares of Common Stock issued and outstanding immediately thereafter.

Whenever the Exercise Price is adjusted in accordance with this Section 7, WCAS shall be entitled to purchase at the new Exercise Price the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock purchasable pursuant to the terms of this Warrant immediately prior to such adjustment and dividing the product thereof by the new Exercise Price.

8. ADJUSTMENTS TO EXERCISE PRICE FOR ISSUANCES BELOW MARKET PRICE

If Aurora issues any shares of Common Stock for a consideration per share less than the then Fair Market Value, then upon such issuance the Exercise Price shall be reduced to the price determined by multiplying the Exercise Price in effect immediately prior to the time of such issue or sale by a fraction, the numerator of which shall be the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Fair Market Value of the Common Stock immediately prior to such issue or sale plus (b) the consideration received by Aurora upon such issue or sale, and the denominator of which shall be the product of (x) the total number of shares of Common Stock outstanding immediately after such issue or sale multiplied by (y) the Fair Market Value of the Common Stock immediately prior to such issue or sale.

Whenever the Exercise Price is adjusted in accordance with this Section 8, WCAS shall be entitled to purchase at the new Exercise Price the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock purchasable pursuant to the terms of this Warrant immediately prior to such adjustment and dividing the product thereof by the new Exercise Price.

9. FRACTIONAL SHARES

No fractional shares shall be issued upon the exercise of this Warrant. In lieu of fractional shares, Aurora shall pay WCAS a sum in cash equal to the Fair Market Value of the fractional shares on the date of exercise.

10. STOCK TO BE RESERVED

Aurora will at all times reserve and keep available out of its authorized Common Stock or its treasury shares, solely for the purpose of issue upon the exercise of this Warrant as herein provided, such number of shares of Common Stock as shall then be issuable upon the exercise of this Warrant. Aurora covenants that all shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, and, without limited the generality of the foregoing, Aurora covenants that it will from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the effective Exercise

Price. Aurora will take all such action as may be necessary and within its control to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirements of any national securities exchange upon which the Common Stock of Aurora may be listed. Aurora will not take any action which results in any adjustment of the Exercise price if the total number of shares of Common Stock issued and issuable after such action upon exercise of this Warrant would exceed the total number of shares of Common Stock then authorized by Aurora's Articles of Incorporation. Aurora has not granted and will not grant any right of first refusal with respect to shares issuable upon exercise of this Warrant, and there are no preemptive rights associated with such shares.

11. ISSUE TAX

The issuance of certificates for shares of Common Stock upon exercise of the Warrants shall be made without charge to the holders of such Warrants for any issuance tax in respect thereof provided that Aurora shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of any holder of the Warrants.

12. CLOSING OF BOOKS

Aurora will at no time close its transfer books against the transfer of the shares of Common Stock issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant.

13. DEFINITION OF COMMON STOCK

As used herein the term "Common Stock" shall mean and include the Common Stock, $.03 par value, of Aurora as authorized on the date hereof, and also any capital stock of any class of Aurora hereinafter authorized which shall not be limited to a fixed sum or percentage in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of Aurora; provided, however, that the shares purchasable pursuant to this Warrant shall include only shares designated as Common Stock, $.03 par value, of Aurora on the date hereof, or shares of any class or classes resulting from any reclassification or reclassifications thereof which are

not limited to any such fixed sum or percentage and are not subject to redemption by Aurora and, in case at any time there shall be more than one such resulting class, the shares of each class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassification bears to the total number of shares of all such classes resulting from all such reclassifications.

14. NOTICES OF RECORD DATES

In the event of (i) any taking by Aurora of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution (other than cash dividends out of earned surplus), or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or (ii) any capital reorganization of Aurora, any reclassification or recapitalization of the capital stock of Aurora or any transfer of all or substantially all the assets of Aurora to or consolidation or merger of Aurora with or into any other corporation, or (iii) any voluntary or involuntary dissolution, liquidation or winding-up of Aurora, then, and in each such event, Aurora will give notice to the holder of this Warrant specifying (x) the date on which any such record is to be taken for the purpose of such dividend, distribution or right and stating the amount and character of such dividend, distribution or right, and (y) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock will be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be given at least twenty (20) days and not more than ninety (90) days prior to the date therein specified, and such notice shall state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act of 1933, as amended, or to a favorable vote of stockholders, if either is required.

15. INVESTMENT REPRESENTATION AND LEGEND

The holder, by acceptance of the Warrant, represents and warrants to Aurora that it is acquiring the Warrant and the shares of Common Stock (or other securities) issuable upon the exercise hereof for investment purposes only and not with a view towards the resale or other distribution thereof and agrees that Aurora may affix upon this Warrant the following legend:

> "This Warrant has been issued in reliance upon the representation of the holder that it has been acquired for investment purposes and not with a view towards the resale or other distribution thereof. Neither this Warrant nor the shares issuable upon the exercise of this Warrant have been registered under the Securities Act of 1933, as amended."

The holder, by acceptance of this Warrant, further agrees that Aurora may affix the following legend to certificates for shares of Common Stock issued upon

exercise of this Warrant:

"THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THEY HAVE BEEN REGISTERED UNDER THE ACT OR UNLESS IN THE OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION AN EXEMPTION FROM REGISTRATION IS AVAILABLE."

16. NO SHAREHOLDER RIGHTS

This Warrant shall not entitle WCAS to any voting rights or any other rights as a shareholder of Aurora or to any other rights whatsoever except the rights stated herein; and no dividend or interest shall be payable or shall accrue in respect of this Warrant or the Common Stock issuable upon conversion of this Warrant, until and to the extent that this Warrant shall be exercised. No provision hereof, in the absence of affirmative action by the holder hereof to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Warrant Exercise Price or as a stockholder of Aurora, whether such liability is asserted by Aurora or by creditors of Aurora.

17. CONSTRUCTION

THE VALIDITY AND INTERPRETATION OF THE TERMS AND PROVISIONS OF THIS WARRANT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES OR ANY OTHER PRINCIPLE THAT COULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION. The descriptive headings of the several sections of this Warrant are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions thereof.

18. LOST WARRANT CERTIFICATE

If this Warrant is lost, stolen, mutilated or destroyed, Aurora shall issue a new Warrant of like denomination, tenor and date as this Warrant, subject to Aurora's right to require WCAS to give Aurora a bond or other satisfactory security sufficient to indemnify Aurora against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft, mutilation or destruction of this Warrant or the issuance of such new Warrant.

19. WAIVERS AND AMENDMENTS

This Warrant, or any provision hereof, may be changed, waived,

discharged or terminated only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

20. NOTICES

All notices, requests and other communications required or permitted to be given or delivered hereunder shall be in writing, and shall be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, if to the holder to such holder at the address shown on such holder's Warrant or shares of Common Stock issued upon exercise thereof or at such other address as shall have been furnished to Aurora by notice from such holder. All notices, requests and other communications required or permitted to be given or delivered hereunder shall be in writing, and shall be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed to Aurora at such address as shall have been furnished to the holder by notice from Aurora.

IN WITNESS WHEREOF, Aurora has executed this Warrant as of the date first written above.

AURORA ELECTRONICS, INC.

By: _____
Name: _____
Title: _____

11

ELECTION TO PURCHASE

To: Aurora Electronics, Inc.

The undersigned hereby irrevocably elects to purchase _____ shares of Common Stock issuable upon the exercise of this Warrant, and requests that certificates for such shares shall be issued in the name of and delivered to the address of the undersigned, at the address stated below, and

____ i) makes cash payment herewith in full therefor at the price per share provided by such Warrant;

____ ii) surrenders to Aurora promissory notes or other obligations issued by Aurora, in accordance with Section 3 (ii) of such Warrant, as payment herewith in full therefor at the price per share provided by such Warrant;

____ iii) delivers to Aurora other securities issued by the Company, in accordance with Section 3 (iii) of such Warrant, as payment herewith in full therefor at the price per share provided by such Warrant; and/or

____ iv) elects Net Issue Exercise as provided in Section 3(iv) of such Warrant.

(Check any combination of (i) through (iv) above).

Dated: _____

Name and signature of holder of Warrant:

Welsh, Carson, Anderson & Stowe VII, L.P.

By: _____
Name: _____
Title: _____

EXHIBIT 4.9

EXHIBIT B-1(B)

THIS WARRANT HAS BEEN ISSUED IN RELIANCE UPON THE REPRESENTATION OF THE HOLDER THAT IT HAS BEEN ACQUIRED FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TOWARDS THE RESALE OR OTHER DISTRIBUTION THEREOF. NEITHER THIS WARRANT NOR THE SHARES ISSUABLE UPON THE EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

ISSUED: September 30, 1996
VOID AFTER FIVE (5) YEARS

WARRANT TO PURCHASE SHARES
OF AURORA ELECTRONICS, INC.
COMMON STOCK

AURORA ELECTRONICS, INC.

COMMON STOCK
PURCHASE WARRANT

THIS IS TO CERTIFY that, for value received and subject to the terms and conditions hereof, WCAS Capital Partners II, L.P. is entitled to purchase up to the number of shares of the common stock, $.03 par value per share, of Aurora Electronics, Inc., a Delaware corporation, as set forth in Section 2 of this Warrant, at the price per share set forth in Section 2 of this Warrant.

This Warrant is subject to the following additional terms and conditions:

1. DEFINITIONS

a. AEG shall mean Aurora Electronics Group, Inc., a California corporation and wholly-owned subsidiary of Aurora.

b. Agent shall mean The Chase Manhattan Bank (formerly known as Chemical Bank), as agent for the lenders named in the Credit Agreement dated March 29, 1996 between AEG and Agent.

c. Aurora shall mean Aurora Electronics, Inc., a Delaware corporation.

d. Common Stock shall mean the common stock of Aurora, $.03 par value per share, as more specifically set forth in Section 13 hereof.

e. Exercise Period shall mean from September 30, 1996 until September 30, 2001.

f. Exercise Price shall mean (i) with respect to the First

Warrant Tranche, the average closing price of the Common Stock as reported by the American Stock Exchange for the

five trading days preceding the date of this Warrant and (ii) with respect to the Second Warrant Tranche, Third Warrant Tranche or Final Warrant Tranche, the lower of the average closing price of the Common Stock as reported by the American Stock Exchange for the five trading days preceding (x) the date of this Warrant or (y) the applicable Warrant Accrual Date.

g. Fair Market Value shall mean the value of the Common Stock as determined in accordance with Section 5 hereof.

h. First Guarantee shall mean the guarantee issued by WCAS and its affiliate, Welsh, Carson, Anderson & Stowe VII, L.P., to secure the indebtedness of AEG under the Tranche A Credit Facility and the Tranche B Credit Facility, up to a maximum of $3,000,000.

i. Guaranteed Amount shall mean $3,000,000, which is the maximum principal amount of indebtedness under the First Guarantee.

j. Purchase Price shall mean the Exercise Price multiplied by the number of shares of Common Stock subject to this Warrant pursuant to Section 2 hereof.

k. Warrant Accrual Date shall mean (i) the date of this Warrant with respect to the First Warrant Tranche (as hereinafter defined), (ii) June 1, 1997 with respect to the Second Warrant Tranche (as hereinafter defined), (iii) March 1, 1998 with respect to the Third Warrant Tranche (as hereinafter defined), and (iv) the date that the First Guarantee is called with respect to the Final Warrant Tranche (as hereinafter defined).

l. Warrant Shares shall mean the number of shares of Common Stock as determined by the following formula:

[(Guaranteed Amount)/(Exercise Price)] x (WCAS Interest).

m. WCAS shall mean WCAS Capital Partners II, L.P.

n. WCAS Interest shall mean 3.4%, which is the percentage of the Guaranteed Amount that is guaranteed by WCAS.

2. NUMBER OF SHARES SUBJECT TO WARRANT

The number of shares subject to this Warrant will be calculated as follows:

a. From September 30, 1996 until May 31, 1997, WCAS shall have the right to purchase a number of shares of Common Stock equal to twenty percent (20%) of the Warrant Shares (the "First Warrant Tranche"), exercisable at the Exercise Price.

b. If as of June 1, 1997 the First Guarantee is still outstanding, then from June 1, 1997 until February 28, 1998, WCAS shall have the right to purchase an additional number of shares of Common Stock equal to an additional twenty percent (20%) of the Warrant

Shares (or, a total of 40% of the Warrant Shares) (the "Second Warrant Tranche"), exercisable at the Exercise Price.

c. If as of March 1, 1998 the First Guarantee is still outstanding, then from March 1, 1998 until September 30, 2001, WCAS shall have the right to purchase an additional number of shares of Common Stock equal to an additional twenty percent (20%) of the Warrant Shares (or, a total of 60% of the Warrant Shares) (the "Third Warrant Tranche"), exercisable at the Exercise Price.

d. If the WCAS First Guarantee is called at any time by Agent, WCAS shall have the right to purchase an additional number of shares of Common Stock equal to the difference between 100% of the Warrant Shares and the aggregate percentage of Common Stock for which this Warrant is then exercisable pursuant to Section 2(a), Section 2(b) and Section 2)(c) hereof (or, a total of 100% of the Warrant Shares) (the "Final Warrant Tranche"), exercisable at the Exercise Price.

3. METHOD OF EXERCISE

The rights represented by this Warrant may be exercised by the holder hereof, in whole at any time or from time to time in part, but not as to a fractional share of Common Stock, by the surrender of this Warrant (properly endorsed) at the office of Aurora as it may designate by notice in writing to the holder hereof at the address of such holder appearing on the books of Aurora, and by payment as provided below. The holder may make payment in respect of the exercise of this Warrant as follows:

i) Cash Exercise. By payment to Aurora of the Exercise price in cash or by certified or official bank check, for each share being purchased;

ii) Notes Exercise. By surrender to Aurora of any promissory notes or other obligations issued by Aurora, with all such notes or other obligations of Aurora so surrendered being credited against the Exercise Price in an amount equal to the principal amount thereof plus the amount of any interest thereon to the date of such surrender;

iii) Securities Exercise. By delivery to Aurora of any other securities issued by Aurora, with such securities being credited against the Exercise Price in an amount equal to the fair market value thereof;

iv) Net Issue Exercise. By an election to receive shares the aggregate fair market value of which as of the date of exercise is equal to the fair market value of this Warrant (or the portion thereof being exercised) on such date, in which event Aurora, upon receipt of notice of such election, shall issue to the holder hereof a number of shares of Common stock equal to (A) the number of shares of Common Stock acquirable upon exercise of all or any portion of this Warrant being exercised, as at such date, multiplied by (B) the balance remaining after deducting (x) the Exercise Price, as in effect on such

date, from (y) the Fair Market Value of one share of Common Stock as at such date and dividing the result by (c) such Fair Market Value; or

v) Combined Payment Method. By satisfaction of the Exercise Price for each share being acquired in any combination of the methods described in clauses (i) through (iv) above.

4. DELIVERY OF STOCK CERTIFICATES

Within ten (10) days after the payment of the Purchase Price following the exercise of this Warrant, Aurora shall issue in the name of and deliver to WCAS a certificate or certificates for the number of fully paid and nonassessable shares of Common Stock to which WCAS shall be entitled upon such exercise and payment. WCAS shall for all purposes be deemed to have become holder of record of such shares of Common Stock on the date by which this Warrant was surrendered and payment of the Purchase Price was made, irrespective of the date of delivery of the certificate or certificates representing the Common Stock; provided, that if the date by which such surrender and payment is made is a date when the stock transfer books of Aurora are closed, such person shall be deemed to have become holder of record of such shares of Common Stock at the close of business on the next succeeding date on which the stock transfer books are open.

5. DEFINITION OF FAIR MARKET VALUE

For the purposes of this Warrant, the Fair Market Value of the Common Stock shall be determined as follows: (i) if the Common stock is listed or admitted to trading on one or more national securities exchanges, the average of the last reported sales prices per share regular way or, in case no such reported sales take place or such day, the average of the last reported bid and

asked prices per share regular way, in either case on the principal national securities exchange on which the Common Stock is listed or admitted to trading, for the five trading days immediately preceding the date of the exercise of this Warrant (the "Determination Date"); (ii) if the Common Stock is not listed or admitted to trading on a national securities exchange but is quoted by NASDAQ, the average of the last reported sales prices per share regular way or, in case no reported sale takes place on any such day or the last reported sales prices are not then quoted by NASDAQ, the average of the last reported bid and asked prices per share, for the five trading days immediately preceding the Determination Date as furnished by the National Quotation Bureau Incorporated or any similar successor organization; and (iii) if the Common Stock is not listed or admitted to trading on a national securities exchange or quoted by NASDAQ or any other nationally recognized quotation service, the Fair Market Value shall be the fair value thereof determined jointly by the Board of Directors of Aurora and the holders of Warrants outstanding representing a majority of the shares of Common Stock acquirable upon exercise of the Warrants; provided, however, that if such parties are unable to reach agreement within a reasonable time, the Fair Market Value shall be determined in good faith by an independent investment banking firm selected jointly by the Board of Directors of Aurora and the holders of Warrants outstanding representing a majority of the shares of Common Stock issuable upon exercise of the Warrants or, if that selection cannot be made within fifteen (15) days, by an

independent investment banking firm selected by the American Arbitration Association in accordance with its rules. Anything in this Section 5 to the contrary notwithstanding, the Fair Market Value of this Warrant or any portion thereof as of any Determination Date shall be equal to (A) the Fair Market Value of the shares of Common Stock issuable upon exercise of this Warrant (or such portion thereof) (determined in accordance with the foregoing provisions of this paragraph) minus (B) the aggregate Exercise Price of the Warrant (or such portion thereof).

6. REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE

If any capital reorganization or reclassification of the capital stock of Aurora or any consolidation or merger of Aurora with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby each holder of the Warrants shall thereafter have the right to receive upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore receivable upon the exercise of such Warrants, such shares of stock, securities or assets (including cash) as may be issued or payable with respect to or in

exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore so receivable had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provisions shall be made with respect to the rights and interests of such holder to the end that the provisions hereof (including without limitation provisions for adjustments of the Exercise Price) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such exercise rights (including an immediate adjustment, by reason of such reorganization or reclassification, of the Exercise Price to the value for the Common Stock reflected by the terms of such reorganization or reclassification if the value so reflected is less than the Exercise Price in effect immediately prior to such reorganization or reclassification). In the event of a merger or consolidation of Aurora as a result of which a greater or lesser number of shares of common stock of the surviving corporation are issuable to holders of Common Stock of Aurora outstanding immediately prior to such merger or consolidation, the Exercise Price in effect immediately prior to such merger or consolidation shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Common Stock of Aurora. Aurora will not effect any such consolidation, merger or any sale of all or substantially all of its assets of properties, unless prior to the consummation thereof the successor corporation (if other than Aurora) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument executed and mailed or delivered to each holder of the Warrants at the last address of such holder appearing on the books of Aurora, the obligation to deliver to such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to receive.

7. ADJUSTMENTS TO EXERCISE PRICE FOR DISTRIBUTIONS, SUBDIVISIONS AND COMBINATIONS

In the event that Aurora, after the date hereof: (a) pays a stock dividend with respect to the Common Stock; (b) subdivides its outstanding shares of Common Stock; (c) combines its outstanding shares of Common Stock into a smaller number of shares of any class of Common Stock or (d) issues shares of its capital stock in a reclassification of the Common Stock, including any such reclassification in connection with a consolidation or merger in which Aurora is the surviving corporation (any one of which actions is herein referred to as an "Adjustment Event"), the Exercise Price shall be adjusted by multiplying such Exercise Price immediately prior to such Adjustment Event by a fraction, the numerator of which shall be the number of shares of Common Stock issued and outstanding immediately prior to such Adjustment Event, and the denominator of which shall be the number of shares of Common Stock issued and outstanding immediately thereafter.

Whenever the Exercise Price is adjusted in accordance with this Section 7, WCAS shall be entitled to purchase at the new Exercise Price the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock purchasable pursuant to the terms of this Warrant immediately prior to such adjustment and dividing the product thereof by the new Exercise Price.

8. ADJUSTMENTS TO EXERCISE PRICE FOR ISSUANCES BELOW MARKET PRICE

If Aurora issues any shares of Common Stock for a consideration per share less than the then Fair Market Value, then upon such issuance the Exercise Price shall be reduced to the price determined by multiplying the Exercise Price in effect immediately prior to the time of such issue or sale by a fraction, the numerator of which shall be the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Fair Market Value of the Common Stock immediately prior to such issue or sale plus (b) the consideration received by Aurora upon such issue or sale, and the denominator of which shall be the product of (x) the total number of shares of Common Stock outstanding immediately after such issue or sale multiplied by (y) the Fair Market Value of the Common Stock immediately prior to such issue or sale.

Whenever the Exercise Price is adjusted in accordance with this Section 8, WCAS shall be entitled to purchase at the new Exercise Price the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock purchasable pursuant to the terms of this Warrant immediately prior to such adjustment and dividing the product thereof by the new Exercise Price.

9. FRACTIONAL SHARES

No fractional shares shall be issued upon the exercise of this Warrant. In lieu of fractional shares, Aurora shall pay WCAS a sum in cash equal to the Fair Market Value of the fractional shares on the date of exercise.

10. STOCK TO BE RESERVED

Aurora will at all times reserve and keep available out of its authorized Common Stock or its treasury shares, solely for the purpose of issue upon the exercise of this Warrant as herein provided, such number of shares of Common Stock as shall then be issuable upon the exercise of this Warrant. Aurora covenants that all shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, and, without limited the generality of the foregoing, Aurora covenants that it will from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the effective Exercise

Price. Aurora will take all such action as may be necessary and within its control to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirements of any national securities exchange upon which the Common Stock of Aurora may be listed. Aurora will not take any action which results in any adjustment of the Exercise price if the total number of shares of Common Stock issued and issuable after such action upon exercise of this Warrant would exceed the total number of shares of Common Stock then authorized by Aurora's Articles of Incorporation. Aurora has not granted and will not grant any right of first refusal with respect to shares issuable upon exercise of this Warrant, and there are no preemptive rights associated with such shares.

11. ISSUE TAX

The issuance of certificates for shares of Common Stock upon exercise of the Warrants shall be made without charge to the holders of such Warrants for any issuance tax in respect thereof provided that Aurora shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of any holder of the Warrants.

12. CLOSING OF BOOKS

Aurora will at no time close its transfer books against the transfer of the shares of Common Stock issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant.

13. DEFINITION OF COMMON STOCK

As used herein the term "Common Stock" shall mean and include the Common Stock, $.03 par value, of Aurora as authorized on the date hereof, and also any capital stock of any class of Aurora hereinafter authorized which shall not be limited to a fixed sum or percentage in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of Aurora; provided, however, that the shares purchasable pursuant to this Warrant shall include only shares designated as Common Stock, $.03 par value, of Aurora on the date hereof, or shares of any class or classes resulting from any reclassification or reclassifications thereof which are

not limited to any such fixed sum or percentage and are not subject to redemption by Aurora and, in case at any time there shall be more than one such resulting class, the shares of each class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassification bears to the total number of shares of all such classes resulting from all such reclassifications.

14. NOTICES OF RECORD DATES

In the event of (i) any taking by Aurora of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution (other than cash dividends out of earned surplus), or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or (ii) any capital reorganization of Aurora, any reclassification or recapitalization of the capital stock of Aurora or any transfer of all or substantially all the assets of Aurora to or consolidation or merger of Aurora with or into any other corporation, or (iii) any voluntary or involuntary dissolution, liquidation or winding-up of Aurora, then, and in each such event, Aurora will give notice to the holder of this Warrant specifying (x) the date on which any such record is to be taken for the purpose of such dividend, distribution or right and stating the amount and character of such dividend, distribution or right, and (y) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock will be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be given at least twenty (20) days and not more than ninety (90) days prior to the date therein specified, and such notice shall state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act of 1933, as amended, or to a favorable vote of stockholders, if either is required.

15. INVESTMENT REPRESENTATION AND LEGEND

The holder, by acceptance of the Warrant, represents and warrants to Aurora that it is acquiring the Warrant and the shares of Common Stock (or other securities) issuable upon the exercise hereof for investment purposes only and not with a view towards the resale or other distribution thereof and agrees that Aurora may affix upon this Warrant the following legend:

> "This Warrant has been issued in reliance upon the representation of the holder that it has been acquired for investment purposes and not with a view towards the resale or other distribution thereof. Neither this Warrant nor the shares issuable upon the exercise of this Warrant have been registered under the Securities Act of 1933, as amended."

The holder, by acceptance of this Warrant, further agrees that Aurora may affix the following legend to certificates for shares of Common Stock issued upon exercise of this Warrant:

"THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THEY HAVE BEEN REGISTERED UNDER THE ACT OR UNLESS IN THE OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION AN EXEMPTION FROM REGISTRATION IS AVAILABLE."

16. NO SHAREHOLDER RIGHTS

This Warrant shall not entitle WCAS to any voting rights or any other rights as a shareholder of Aurora or to any other rights whatsoever except the rights stated herein; and no dividend or interest shall be payable or shall accrue in respect of this Warrant or the Common Stock issuable upon conversion of this Warrant, until and to the extent that this Warrant shall be exercised. No provision hereof, in the absence of affirmative action by the holder hereof to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Warrant Exercise Price or as a stockholder of Aurora, whether such liability is asserted by Aurora or by creditors of Aurora.

17. CONSTRUCTION

THE VALIDITY AND INTERPRETATION OF THE TERMS AND PROVISIONS OF THIS WARRANT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES OR ANY OTHER PRINCIPLE THAT COULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION. The descriptive headings of the several sections of this Warrant are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions thereof.

18. LOST WARRANT CERTIFICATE

If this Warrant is lost, stolen, mutilated or destroyed, Aurora shall issue a new Warrant of like denomination, tenor and date as this Warrant, subject to Aurora's right to require WCAS to give Aurora a bond or other satisfactory security sufficient to indemnify Aurora against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft, mutilation or destruction of this Warrant or the issuance of such new Warrant.

19. WAIVERS AND AMENDMENTS

This Warrant, or any provision hereof, may be changed, waived, discharged or terminated only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

20. NOTICES

All notices, requests and other communications required or permitted to be given or delivered hereunder shall be in writing, and shall be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, if to the holder to such holder at the address shown on such holder's Warrant or shares of Common Stock issued upon exercise thereof or at such other address as shall have been furnished to Aurora by notice from such holder. All notices, requests and other communications required or permitted to be given or delivered hereunder shall be in writing, and shall be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed to Aurora at such address as shall have been furnished to the holder by notice from Aurora.

IN WITNESS WHEREOF, Aurora has executed this Warrant as of the date first written above.

AURORA ELECTRONICS, INC.

By: _____
Name: _____
Title: _____

11

ELECTION TO PURCHASE

To: Aurora Electronics, Inc.

The undersigned hereby irrevocably elects to purchase _____ shares of Common Stock issuable upon the exercise of this Warrant, and requests that certificates for such shares shall be issued in the name of and delivered to the address of the undersigned, at the address stated below, and

_____ i) makes cash payment herewith in full therefor at the price per share provided by such Warrant;

_____ ii) surrenders to Aurora promissory notes or other obligations issued by Aurora, in accordance with Section 3 (ii) of such Warrant, as payment herewith in full therefor at the price per share provided by

such Warrant;

_____ iii) delivers to Aurora other securities issued by the Company, in accordance with Section 3 (iii) of such Warrant, as payment herewith in full therefor at the price per share provided by such Warrant; and/or

_____ iv) elects Net Issue Exercise as provided in Section 3(iv) of such Warrant.

(Check any combination of (i) through (iv) above).

Dated: _____

Name and signature of holder of Warrant:

WCAS Capital Partners II, L.P.

By: _____
Name: _____
Title: _____

EXHIBIT 4.10

EXHIBIT B-2(A)

THIS WARRANT HAS BEEN ISSUED IN RELIANCE UPON THE REPRESENTATION OF THE HOLDER THAT IT HAS BEEN ACQUIRED FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TOWARDS THE RESALE OR OTHER DISTRIBUTION THEREOF. NEITHER THIS WARRANT NOR THE SHARES ISSUABLE UPON THE EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

ISSUED: _____
VOID AFTER FIVE (5) YEARS

WARRANT TO PURCHASE SHARES
OF AURORA ELECTRONICS, INC.
COMMON STOCK

AURORA ELECTRONICS, INC.

COMMON STOCK
PURCHASE WARRANT

THIS IS TO CERTIFY that, for value received and subject to the terms and conditions hereof, Welsh, Carson, Anderson & Stowe VII, L.P. is entitled to purchase up to the number of shares of the common stock, $.03 par value per share, of Aurora Electronics, Inc., a Delaware corporation, as set forth in Section 2 of this Warrant, at the price per share set forth in Section 2 of this Warrant.

This Warrant is subject to the following additional terms and conditions:

1. DEFINITIONS

a. AEG shall mean Aurora Electronics Group, Inc., a California corporation and wholly-owned subsidiary of Aurora.

b. Agent shall mean The Chase Manhattan Bank (formerly known as Chemical Bank), as agent for the lenders named in the Credit Agreement dated March 29, 1996 between AEG and Agent.

c. Aurora shall mean Aurora Electronics, Inc., a Delaware corporation.

d. Common Stock shall mean the common stock of Aurora, $.03 par value per share, as more specifically set forth in Section 13 hereof.

e. Exercise Period shall mean from [date of issuance] until [fifth anniversary of date of issuance].

2

f. Exercise Price shall mean (i) with respect to the First Warrant Tranche, the average closing price of the Common Stock as reported by the American Stock Exchange for the five trading days preceding the date of this Warrant and (ii) with respect to the Second Warrant Tranche, Third Warrant Tranche or Final Warrant Tranche, the lower of the average closing price of the Common Stock as reported by the American Stock Exchange for the five trading days preceding (x) the date of this Warrant or (y) the applicable Warrant Accrual Date.

g. Fair Market Value shall mean the value of the Common Stock as determined in accordance with Section 5 hereof.

h. Second Guarantee shall mean the guarantee issued by WCAS and its affiliate, WCAS Capital Partners II, L.P., to secure the indebtedness of AEG under the acquisition credit facility with Agent and certain other banks, up to a maximum of $9,000,000.

i. Guaranteed Amount shall mean $9,000,000, which is the maximum principal amount of indebtedness under the Second Guarantee.

j. Purchase Price shall mean the Exercise Price multiplied by the number of shares of Common Stock subject to this Warrant pursuant to Section 2 hereof.

k. Warrant Accrual Date shall mean (i) the date of this Warrant with respect to the First Warrant Tranche (as hereinafter defined), (ii) [nine months following First Warrant Tranche date] with respect to the Second Warrant Tranche (as hereinafter defined), (iii) [eighteen months following First Warrant Tranche date] with respect to the Third Warrant Tranche (as hereinafter defined), and (iv) the date that the Second Guarantee is called with respect to the Final Warrant Tranche (as hereinafter defined).

l. Warrant Shares shall mean the number of shares of Common Stock as determined by the following formula:

[(Guaranteed Amount)/(Exercise Price)] x (WCAS Interest).

m. WCAS shall mean Welsh, Carson, Anderson & Stowe VII, L.P.

n. WCAS Interest shall mean 96.6%, which is the percentage of the Guaranteed Amount that is guaranteed by WCAS.

2. NUMBER OF SHARES SUBJECT TO WARRANT

The number of shares subject to this Warrant will be calculated as

follows:

a. From [date of issuance] until [nine months following date of issuance], WCAS shall have the right to purchase a number of shares of Common Stock equal to twenty percent (20%) of the Warrant Shares (the "First Warrant Tranche"), exercisable at the Exercise Price.

b. If as of [nine months plus one day following date of issuance] the Second Guarantee is still outstanding, then from [nine months plus one day following date of issuance] until [eighteen months following date of issuance], WCAS shall have the right to purchase an additional number of shares of Common Stock equal to an additional twenty percent (20%) of the Warrant Shares (or, a total of 40% of the Warrant Shares) (the "Second Warrant Tranche"), exercisable at the Exercise Price.

c. If as of [eighteen months plus one day following date of issuance] the Second Guarantee is still outstanding, then from [eighteen months plus one day following date of issuance] until [fifth anniversary date of issuance], WCAS shall have the right to purchase an additional number of shares of Common Stock equal to an additional twenty percent (20%) of the Warrant Shares (or, a total of 60% of the Warrant Shares) (the "Third Warrant Tranche"), exercisable at the Exercise Price.

d. If the WCAS Second Guarantee is called at any time by Agent, WCAS shall have the right to purchase an additional number of shares of Common Stock equal to the difference between 100% of the Warrant Shares and the aggregate percentage of Common Stock for which this Warrant is then exercisable pursuant to Section 2(a), Section 2(b) and Section 2)(c) hereof (or, a total of 100% of the Warrant Shares) (the "Final Warrant Tranche"), exercisable at the Exercise Price.

3. METHOD OF EXERCISE

The rights represented by this Warrant may be exercised by the holder hereof, in whole at any time or from time to time in part, but not as to a fractional share of Common Stock, by the surrender of this Warrant (properly endorsed) at the office of Aurora as it may designate by notice in writing to the holder hereof at the address of such holder appearing on the books of Aurora, and by payment as provided below. The holder may make payment in respect of the exercise of this Warrant as follows:

i) Cash Exercise. By payment to Aurora of the Exercise price in cash or by certified or official bank check, for each share being purchased;

ii) Notes Exercise. By surrender to Aurora of any promissory notes or other obligations issued by Aurora, with all such notes or

other obligations of Aurora so surrendered being credited against the Exercise Price in an amount equal to the principal amount thereof plus the amount of any interest thereon to the date of such surrender;

iii) Securities Exercise. By delivery to Aurora of any other securities issued by Aurora, with such securities being credited against the Exercise Price in an amount equal to the fair market value thereof;

iv) Net Issue Exercise. By an election to receive shares the aggregate fair market value of which as of the date of exercise is equal to the fair market value of this

Warrant (or the portion thereof being exercised) on such date, in which event Aurora, upon receipt of notice of such election, shall issue to the holder hereof a number of shares of Common stock equal to (A) the number of shares of Common Stock acquirable upon exercise of all or any portion of this Warrant being exercised, as at such date, multiplied by (B) the balance remaining after deducting (x) the Exercise Price, as in effect on such date, from (y) the Fair Market Value of one share of Common Stock as at such date and dividing the result by (c) such Fair Market Value; or

v) Combined Payment Method. By satisfaction of the Exercise Price for each share being acquired in any combination of the methods described in clauses (i) through (iv) above.

4. DELIVERY OF STOCK CERTIFICATES

Within ten (10) days after the payment of the Purchase Price following the exercise of this Warrant, Aurora shall issue in the name of and deliver to WCAS a certificate or certificates for the number of fully paid and nonassessable shares of Common Stock to which WCAS shall be entitled upon such exercise and payment. WCAS shall for all purposes be deemed to have become holder of record of such shares of Common Stock on the date by which this Warrant was surrendered and payment of the Purchase Price was made, irrespective of the date of delivery of the certificate or certificates representing the Common Stock; provided, that if the date by which such surrender and payment is made is a date when the stock transfer books of Aurora are closed, such person shall be deemed to have become holder of record of such shares of Common Stock at the close of business on the next succeeding date on which the stock transfer books are open.

5. DEFINITION OF FAIR MARKET VALUE

For the purposes of this Warrant, the Fair Market Value of the Common Stock shall be determined as follows: (i) if the Common stock is listed or

admitted to trading on one or more national securities exchanges, the average of the last reported sales prices per share regular way or, in case no such reported sales take place or such day, the average of the last reported bid and asked prices per share regular way, in either case on the principal national securities exchange on which the Common Stock is listed or admitted to trading, for the five trading days immediately preceding the date of the exercise of this Warrant (the "Determination Date"); (ii) if the Common Stock is not listed or admitted to trading on a national securities exchange but is quoted by NASDAQ, the average of the last reported sales prices per share regular way or, in case no reported sale takes place on any such day or the last reported sales prices are not then quoted by NASDAQ, the average of the last reported bid and asked prices per share, for the five trading days immediately preceding the Determination Date as furnished by the National Quotation Bureau Incorporated or any similar successor organization; and (iii) if the Common Stock is not listed or admitted to trading on a national securities exchange or quoted by NASDAQ or any other nationally recognized quotation service, the Fair Market Value shall be the fair value thereof determined jointly by the Board of Directors of Aurora and the holders of Warrants outstanding representing a majority of the shares of Common Stock acquirable upon exercise of

the Warrants; provided, however, that if such parties are unable to reach agreement within a reasonable time, the Fair Market Value shall be determined in good faith by an independent investment banking firm selected jointly by the Board of Directors of Aurora and the holders of Warrants outstanding representing a majority of the shares of Common Stock issuable upon exercise of the Warrants or, if that selection cannot be made within fifteen (15) days, by an independent investment banking firm selected by the American Arbitration Association in accordance with its rules. Anything in this Section 5 to the contrary notwithstanding, the Fair Market Value of this Warrant or any portion thereof as of any Determination Date shall be equal to (A) the Fair Market Value of the shares of Common Stock issuable upon exercise of this Warrant (or such portion thereof) (determined in accordance with the foregoing provisions of this paragraph) minus (B) the aggregate Exercise Price of the Warrant (or such portion thereof).

6. REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE

If any capital reorganization or reclassification of the capital stock of Aurora or any consolidation or merger of Aurora with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby each holder of the Warrants shall thereafter have the right to receive upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore

receivable upon the exercise of such Warrants, such shares of stock, securities or assets (including cash) as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore so receivable had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provisions shall be made with respect to the rights and interests of such holder to the end that the provisions hereof (including without limitation provisions for adjustments of the Exercise Price) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such exercise rights (including an immediate adjustment, by reason of such reorganization or reclassification, of the Exercise Price to the value for the Common Stock reflected by the terms of such reorganization or reclassification if the value so reflected is less than the Exercise Price in effect immediately prior to such reorganization or reclassification). In the event of a merger or consolidation of Aurora as a result of which a greater or lesser number of shares of common stock of the surviving corporation are issuable to holders of Common Stock of Aurora outstanding immediately prior to such merger or consolidation, the Exercise Price in effect immediately prior to such merger or consolidation shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Common Stock of Aurora. Aurora will not effect any such consolidation, merger or any sale of all or substantially all of its assets of properties, unless prior to the consummation thereof the successor corporation (if other than Aurora) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument executed and mailed or delivered to each holder of the Warrants at the last address of such holder appearing on the books of Aurora, the

obligation to deliver to such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to receive.

7. ADJUSTMENTS TO EXERCISE PRICE FOR DISTRIBUTIONS, SUBDIVISIONS AND COMBINATIONS

In the event that Aurora, after the date hereof: (a) pays a stock dividend with respect to the Common Stock; (b) subdivides its outstanding shares of Common Stock; (c) combines its outstanding shares of Common Stock into a smaller number of shares of any class of Common Stock or (d) issues shares of its capital stock in a reclassification of the Common Stock, including any such reclassification in connection with a consolidation or merger in which Aurora is the surviving corporation (any one of which actions is herein referred to as an "Adjustment Event"), the Exercise Price shall be adjusted by multiplying such Exercise Price immediately prior to such Adjustment Event by a fraction, the numerator of which shall be the number of shares of Common Stock issued and outstanding immediately prior to such Adjustment Event, and the denominator of which shall be the number of shares of Common Stock issued and outstanding

immediately thereafter.

Whenever the Exercise Price is adjusted in accordance with this Section 7, WCAS shall be entitled to purchase at the new Exercise Price the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock purchasable pursuant to the terms of this Warrant immediately prior to such adjustment and dividing the product thereof by the new Exercise Price.

8. ADJUSTMENTS TO EXERCISE PRICE FOR ISSUANCES BELOW MARKET PRICE

If Aurora issues any shares of Common Stock for a consideration per share less than the then Fair Market Value, then upon such issuance the Exercise Price shall be reduced to the price determined by multiplying the Exercise Price in effect immediately prior to the time of such issue or sale by a fraction, the numerator of which shall be the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Fair Market Value of the Common Stock immediately prior to such issue or sale plus (b) the consideration received by Aurora upon such issue or sale, and the denominator of which shall be the product of (x) the total number of shares of Common Stock outstanding immediately after such issue or sale multiplied by (y) the Fair Market Value of the Common Stock immediately prior to such issue or sale.

Whenever the Exercise Price is adjusted in accordance with this Section 8, WCAS shall be entitled to purchase at the new Exercise Price the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock purchasable pursuant to the terms of this Warrant immediately prior to such adjustment and dividing the product thereof by the new Exercise Price.

9. FRACTIONAL SHARES

No fractional shares shall be issued upon the exercise of this Warrant. In lieu of fractional shares, Aurora shall pay WCAS a sum in cash equal to the Fair Market Value of the fractional shares on the date of exercise.

10. STOCK TO BE RESERVED

Aurora will at all times reserve and keep available out of its authorized Common Stock or its treasury shares, solely for the purpose of issue upon the exercise of this Warrant as herein provided, such number of shares of Common Stock as shall then be issuable upon the exercise of this Warrant. Aurora covenants that all shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, and, without limited the generality of the foregoing, Aurora covenants that it will from time to time

take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the effective Exercise Price. Aurora will take all such action as may be necessary and within its control to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirements of any national securities exchange upon which the Common Stock of Aurora may be listed. Aurora will not take any action which results in any adjustment of the Exercise price if the total number of shares of Common Stock issued and issuable after such action upon exercise of this Warrant would exceed the total number of shares of Common Stock then authorized by Aurora's Articles of Incorporation. Aurora has not granted and will not grant any right of first refusal with respect to shares issuable upon exercise of this Warrant, and there are no preemptive rights associated with such shares.

11. ISSUE TAX

The issuance of certificates for shares of Common Stock upon exercise of the Warrants shall be made without charge to the holders of such Warrants for any issuance tax in respect thereof provided that Aurora shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of any holder of the Warrants.

12. CLOSING OF BOOKS

Aurora will at no time close its transfer books against the transfer of the shares of Common Stock issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant.

13. DEFINITION OF COMMON STOCK

As used herein the term "Common Stock" shall mean and include the Common Stock, $.03 par value, of Aurora as authorized on the date hereof, and also any capital stock of any class of Aurora hereinafter authorized which shall not be limited to a fixed sum or

percentage in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of Aurora; provided, however, that the shares purchasable pursuant to this Warrant shall include only shares designated as Common Stock, $.03 par value, of Aurora on the date hereof, or shares of any class or classes resulting from any reclassification or reclassifications thereof which are not limited to any such fixed sum or percentage and are not subject to redemption by Aurora and, in case at any time there shall be more than one such resulting class, the shares of each class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassification bears to the total number of

shares of all such classes resulting from all such reclassifications.

14. NOTICES OF RECORD DATES

In the event of (i) any taking by Aurora of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution (other than cash dividends out of earned surplus), or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or (ii) any capital reorganization of Aurora, any reclassification or recapitalization of the capital stock of Aurora or any transfer of all or substantially all the assets of Aurora to or consolidation or merger of Aurora with or into any other corporation, or (iii) any voluntary or involuntary dissolution, liquidation or winding-up of Aurora, then, and in each such event, Aurora will give notice to the holder of this Warrant specifying (x) the date on which any such record is to be taken for the purpose of such dividend, distribution or right and stating the amount and character of such dividend, distribution or right, and (y) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock will be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be given at least twenty (20) days and not more than ninety (90) days prior to the date therein specified, and such notice shall state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act of 1933, as amended, or to a favorable vote of stockholders, if either is required.

15. INVESTMENT REPRESENTATION AND LEGEND

The holder, by acceptance of the Warrant, represents and warrants to Aurora that it is acquiring the Warrant and the shares of Common Stock (or other securities) issuable upon the exercise hereof for investment purposes only and not with a view towards the resale or other distribution thereof and agrees that Aurora may affix upon this Warrant the following legend:

> "This Warrant has been issued in reliance upon the representation of the holder that it has been acquired for investment purposes and not with a view towards the resale or other distribution thereof. Neither this Warrant nor the

> shares issuable upon the exercise of this Warrant have been registered under the Securities Act of 1933, as amended."

The holder, by acceptance of this Warrant, further agrees that Aurora may affix

the following legend to certificates for shares of Common Stock issued upon exercise of this Warrant:

"THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THEY HAVE BEEN REGISTERED UNDER THE ACT OR UNLESS IN THE OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION AN EXEMPTION FROM REGISTRATION IS AVAILABLE."

16. NO SHAREHOLDER RIGHTS

This Warrant shall not entitle WCAS to any voting rights or any other rights as a shareholder of Aurora or to any other rights whatsoever except the rights stated herein; and no dividend or interest shall be payable or shall accrue in respect of this Warrant or the Common Stock issuable upon conversion of this Warrant, until and to the extent that this Warrant shall be exercised. No provision hereof, in the absence of affirmative action by the holder hereof to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Warrant Exercise Price or as a stockholder of Aurora, whether such liability is asserted by Aurora or by creditors of Aurora.

17. CONSTRUCTION

THE VALIDITY AND INTERPRETATION OF THE TERMS AND PROVISIONS OF THIS WARRANT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES OR ANY OTHER PRINCIPLE THAT COULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION. The descriptive headings of the several sections of this Warrant are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions thereof.

18. LOST WARRANT CERTIFICATE

If this Warrant is lost, stolen, mutilated or destroyed, Aurora shall issue a new Warrant of like denomination, tenor and date as this Warrant, subject to Aurora's right to require WCAS to give Aurora a bond or other satisfactory security sufficient to indemnify Aurora against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft, mutilation or destruction of this Warrant or the issuance of such new Warrant.

19. WAIVERS AND AMENDMENTS

This Warrant, or any provision hereof, may be changed, waived, discharged or terminated only by a statement in writing signed by the party

against which enforcement of the change, waiver, discharge or termination is sought.

20. NOTICES

All notices, requests and other communications required or permitted to be given or delivered hereunder shall be in writing, and shall be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, if to the holder to such holder at the address shown on such holder's Warrant or shares of Common Stock issued upon exercise thereof or at such other address as shall have been furnished to Aurora by notice from such holder. All notices, requests and other communications required or permitted to be given or delivered hereunder shall be in writing, and shall be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed to Aurora at such address as shall have been furnished to the holder by notice from Aurora.

IN WITNESS WHEREOF, Aurora has executed this Warrant as of the date first written above.

AURORA ELECTRONICS, INC.

By: _____
Name: _____
Title: _____

ELECTION TO PURCHASE

To: Aurora Electronics, Inc.

The undersigned hereby irrevocably elects to purchase _____ shares of Common Stock issuable upon the exercise of this Warrant, and requests that certificates for such shares shall be issued in the name of and delivered to the address of the undersigned, at the address stated below, and

____ i) makes cash payment herewith in full therefor at the price per share provided by such Warrant;

____ ii) surrenders to Aurora promissory notes or other obligations issued by Aurora, in accordance with Section 3 (ii) of such Warrant, as payment herewith in full therefor at the price per share provided by such Warrant;

____ iii) delivers to Aurora other securities

issued by the Company, in accordance with Section 3 (iii) of such Warrant, as payment herewith in full therefor at the price per share provided by such Warrant; and/or

____ iv) elects Net Issue Exercise as provided in Section 3(iv) of such Warrant.

(Check any combination of (i) through (iv) above).

Dated: _____

Name and signature of holder of Warrant:

Welsh, Carson, Anderson & Stowe VII, L.P.

By: _____

Name: _____

Title: _____

EXHIBIT 4.11

EXHIBIT B-2(B)

THIS WARRANT HAS BEEN ISSUED IN RELIANCE UPON THE REPRESENTATION OF THE HOLDER THAT IT HAS BEEN ACQUIRED FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TOWARDS THE RESALE OR OTHER DISTRIBUTION THEREOF. NEITHER THIS WARRANT NOR THE SHARES ISSUABLE UPON THE EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

ISSUED: _____
VOID AFTER FIVE (5) YEARS

WARRANT TO PURCHASE SHARES
OF AURORA ELECTRONICS, INC.
COMMON STOCK

AURORA ELECTRONICS, INC.

COMMON STOCK
PURCHASE WARRANT

THIS IS TO CERTIFY that, for value received and subject to the terms and conditions hereof, WCAS Capital Partners II, L.P. is entitled to purchase up to the number of shares of the common stock, $.03 par value per share, of Aurora Electronics, Inc., a Delaware corporation, as set forth in Section 2 of this Warrant, at the price per share set forth in Section 2 of this Warrant.

This Warrant is subject to the following additional terms and conditions:

1. DEFINITIONS

a. AEG shall mean Aurora Electronics Group, Inc., a California corporation and wholly-owned subsidiary of Aurora.

b. Agent shall mean The Chase Manhattan Bank (formerly known as Chemical Bank), as agent for the lenders named in the Credit Agreement dated March 29, 1996 between AEG and Agent.

c. Aurora shall mean Aurora Electronics, Inc., a Delaware corporation.

d. Common Stock shall mean the common stock of Aurora, $.03 par value per share, as more specifically set forth in Section 13 hereof.

e. Exercise Period shall mean from [date of issuance] until [fifth anniversary of date of issuance].

f. Exercise Price shall mean (i) with respect to the First

Warrant Tranche, the average closing price of the Common Stock as reported by the American Stock Exchange for the

five trading days preceding the date of this Warrant and (ii) with respect to the Second Warrant Tranche, Third Warrant Tranche or Final Warrant Tranche, the lower of the average closing price of the Common Stock as reported by the American Stock Exchange for the five trading days preceding (x) the date of this Warrant or (y) the applicable Warrant Accrual Date.

g. Fair Market Value shall mean the value of the Common Stock as determined in accordance with Section 5 hereof.

h. Second Guarantee shall mean the guarantee issued by WCAS and its affiliate, Welsh, Carson, Anderson & Stowe VII, L.P., to secure the indebtedness of AEG under the acquisition credit facility with Agent and certain other banks, up to a maximum of $9,000,000.

i. Guaranteed Amount shall mean $9,000,000, which is the maximum principal amount of indebtedness under the Second Guarantee.

j. Purchase Price shall mean the Exercise Price multiplied by the number of shares of Common Stock subject to this Warrant pursuant to Section 2 hereof.

k. Warrant Accrual Date shall mean (i) the date of this Warrant with respect to the First Warrant Tranche (as hereinafter defined), (ii) [nine months following First Warrant Tranche date] with respect to the Second Warrant Tranche (as hereinafter defined), (iii) [eighteen months following First Warrant Tranche date] with respect to the Third Warrant Tranche (as hereinafter defined), and (iv) the date that the Second Guarantee is called with respect to the Final Warrant Tranche (as hereinafter defined).

l. Warrant Shares shall mean the number of shares of Common Stock as determined by the following formula:

[(Guaranteed Amount)/(Exercise Price)] x (WCAS Interest).

m. WCAS shall mean WCAS Capital Partners II, L.P.

n. WCAS Interest shall mean 3.4%, which is the percentage of the Guaranteed Amount that is guaranteed by WCAS.

2. NUMBER OF SHARES SUBJECT TO WARRANT

The number of shares subject to this Warrant will be calculated as follows:

a. From [date of issuance] until [nine months following date

of issuance], WCAS shall have the right to purchase a number of shares of Common Stock equal to twenty percent (20%) of the Warrant Shares (the "First Warrant Tranche"), exercisable at the Exercise Price.

b. If as of [nine months plus one day following date of issuance] the Second Guarantee is still outstanding, then from [nine months plus one day following date of issuance] until [eighteen months following date of issuance], WCAS shall have the right to purchase an additional number of shares of Common Stock equal to an additional twenty percent (20%) of the Warrant Shares (or, a total of 40% of the Warrant Shares) (the "Second Warrant Tranche"), exercisable at the Exercise Price.

c. If as of [eighteen months plus one day following date of issuance] the Second Guarantee is still outstanding, then from [eighteen months plus one day following date of issuance] until [fifth anniversary date of issuance], WCAS shall have the right to purchase an additional number of shares of Common Stock equal to an additional twenty percent (20%) of the Warrant Shares (or, a total of 60% of the Warrant Shares) (the "Third Warrant Tranche"), exercisable at the Exercise Price.

d. If the WCAS Second Guarantee is called at any time by Agent, WCAS shall have the right to purchase an additional number of shares of Common Stock equal to the difference between 100% of the Warrant Shares and the aggregate percentage of Common Stock for which this Warrant is then exercisable pursuant to Section 2(a), Section 2(b) and Section 2)(c) hereof (or, a total of 100% of the Warrant Shares) (the "Final Warrant Tranche"), exercisable at the Exercise Price.

3. METHOD OF EXERCISE

The rights represented by this Warrant may be exercised by the holder hereof, in whole at any time or from time to time in part, but not as to a fractional share of Common Stock, by the surrender of this Warrant (properly endorsed) at the office of Aurora as it may designate by notice in writing to the holder hereof at the address of such holder appearing on the books of Aurora, and by payment as provided below. The holder may make payment in respect of the exercise of this Warrant as follows:

i) Cash Exercise. By payment to Aurora of the Exercise price in cash or by certified or official bank check, for each share being purchased;

ii) Notes Exercise. By surrender to Aurora of any promissory notes or other obligations issued by Aurora, with all such notes or other obligations of Aurora so surrendered being credited against the Exercise Price in an amount equal to the principal amount thereof plus

the amount of any interest thereon to the date of such surrender;

iii) Securities Exercise. By delivery to Aurora of any other securities issued by Aurora, with such securities being credited against the Exercise Price in an amount equal to the fair market value thereof;

iv) Net Issue Exercise. By an election to receive shares the aggregate fair market value of which as of the date of exercise is equal to the fair market value of this Warrant (or the portion thereof being exercised) on such date, in which event Aurora,

upon receipt of notice of such election, shall issue to the holder hereof a number of shares of Common stock equal to (A) the number of shares of Common Stock acquirable upon exercise of all or any portion of this Warrant being exercised, as at such date, multiplied by (B) the balance remaining after deducting (x) the Exercise Price, as in effect on such date, from (y) the Fair Market Value of one share of Common Stock as at such date and dividing the result by (c) such Fair Market Value; or

v) Combined Payment Method. By satisfaction of the Exercise Price for each share being acquired in any combination of the methods described in clauses (i) through (iv) above.

4. DELIVERY OF STOCK CERTIFICATES

Within ten (10) days after the payment of the Purchase Price following the exercise of this Warrant, Aurora shall issue in the name of and deliver to WCAS a certificate or certificates for the number of fully paid and nonassessable shares of Common Stock to which WCAS shall be entitled upon such exercise and payment. WCAS shall for all purposes be deemed to have become holder of record of such shares of Common Stock on the date by which this Warrant was surrendered and payment of the Purchase Price was made, irrespective of the date of delivery of the certificate or certificates representing the Common Stock; provided, that if the date by which such surrender and payment is made is a date when the stock transfer books of Aurora are closed, such person shall be deemed to have become holder of record of such shares of Common Stock at the close of business on the next succeeding date on which the stock transfer books are open.

5. DEFINITION OF FAIR MARKET VALUE

For the purposes of this Warrant, the Fair Market Value of the Common Stock shall be determined as follows: (i) if the Common stock is listed or admitted to trading on one or more national securities exchanges, the average of the last reported sales prices per share regular way or, in case no such

reported sales take place or such day, the average of the last reported bid and asked prices per share regular way, in either case on the principal national securities exchange on which the Common Stock is listed or admitted to trading, for the five trading days immediately preceding the date of the exercise of this Warrant (the "Determination Date"); (ii) if the Common Stock is not listed or admitted to trading on a national securities exchange but is quoted by NASDAQ, the average of the last reported sales prices per share regular way or, in case no reported sale takes place on any such day or the last reported sales prices are not then quoted by NASDAQ, the average of the last reported bid and asked prices per share, for the five trading days immediately preceding the Determination Date as furnished by the National Quotation Bureau Incorporated or any similar successor organization; and (iii) if the Common Stock is not listed or admitted to trading on a national securities exchange or quoted by NASDAQ or any other nationally recognized quotation service, the Fair Market Value shall be the fair value thereof determined jointly by the Board of Directors of Aurora and the holders of Warrants outstanding representing a majority of the shares of Common Stock acquirable upon exercise of the Warrants; provided, however, that if such parties are unable to reach agreement within a

reasonable time, the Fair Market Value shall be determined in good faith by an independent investment banking firm selected jointly by the Board of Directors of Aurora and the holders of Warrants outstanding representing a majority of the shares of Common Stock issuable upon exercise of the Warrants or, if that selection cannot be made within fifteen (15) days, by an independent investment banking firm selected by the American Arbitration Association in accordance with its rules. Anything in this Section 5 to the contrary notwithstanding, the Fair Market Value of this Warrant or any portion thereof as of any Determination Date shall be equal to (A) the Fair Market Value of the shares of Common Stock issuable upon exercise of this Warrant (or such portion thereof) (determined in accordance with the foregoing provisions of this paragraph) minus (B) the aggregate Exercise Price of the Warrant (or such portion thereof).

6. REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE

If any capital reorganization or reclassification of the capital stock of Aurora or any consolidation or merger of Aurora with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby each holder of the Warrants shall thereafter have the right to receive upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore receivable upon the exercise of such Warrants, such shares of stock, securities or assets (including cash) as may be issued or payable with respect to or in

exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore so receivable had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provisions shall be made with respect to the rights and interests of such holder to the end that the provisions hereof (including without limitation provisions for adjustments of the Exercise Price) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such exercise rights (including an immediate adjustment, by reason of such reorganization or reclassification, of the Exercise Price to the value for the Common Stock reflected by the terms of such reorganization or reclassification if the value so reflected is less than the Exercise Price in effect immediately prior to such reorganization or reclassification). In the event of a merger or consolidation of Aurora as a result of which a greater or lesser number of shares of common stock of the surviving corporation are issuable to holders of Common Stock of Aurora outstanding immediately prior to such merger or consolidation, the Exercise Price in effect immediately prior to such merger or consolidation shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Common Stock of Aurora. Aurora will not effect any such consolidation, merger or any sale of all or substantially all of its assets of properties, unless prior to the consummation thereof the successor corporation (if other than Aurora) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument executed and mailed or delivered to each holder of the Warrants at the last address of such holder appearing on the books of Aurora, the obligation to deliver to such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to receive.

7. ADJUSTMENTS TO EXERCISE PRICE FOR DISTRIBUTIONS, SUBDIVISIONS AND COMBINATIONS

In the event that Aurora, after the date hereof: (a) pays a stock dividend with respect to the Common Stock; (b) subdivides its outstanding shares of Common Stock; (c) combines its outstanding shares of Common Stock into a smaller number of shares of any class of Common Stock or (d) issues shares of its capital stock in a reclassification of the Common Stock, including any such reclassification in connection with a consolidation or merger in which Aurora is the surviving corporation (any one of which actions is herein referred to as an "Adjustment Event"), the Exercise Price shall be adjusted by multiplying such Exercise Price immediately prior to such Adjustment Event by a fraction, the numerator of which shall be the number of shares of Common Stock issued and outstanding immediately prior to such Adjustment Event, and the denominator of which shall be the number of shares of Common Stock issued and outstanding immediately thereafter.

Whenever the Exercise Price is adjusted in accordance with

this Section 7, WCAS shall be entitled to purchase at the new Exercise Price the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock purchasable pursuant to the terms of this Warrant immediately prior to such adjustment and dividing the product thereof by the new Exercise Price.

8. ADJUSTMENTS TO EXERCISE PRICE FOR ISSUANCES BELOW MARKET PRICE

If Aurora issues any shares of Common Stock for a consideration per share less than the then Fair Market Value, then upon such issuance the Exercise Price shall be reduced to the price determined by multiplying the Exercise Price in effect immediately prior to the time of such issue or sale by a fraction, the numerator of which shall be the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Fair Market Value of the Common Stock immediately prior to such issue or sale plus (b) the consideration received by Aurora upon such issue or sale, and the denominator of which shall be the product of (x) the total number of shares of Common Stock outstanding immediately after such issue or sale multiplied by (y) the Fair Market Value of the Common Stock immediately prior to such issue or sale.

Whenever the Exercise Price is adjusted in accordance with this Section 8, WCAS shall be entitled to purchase at the new Exercise Price the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares of Common Stock purchasable pursuant to the terms of this Warrant immediately prior to such adjustment and dividing the product thereof by the new Exercise Price.

9. FRACTIONAL SHARES

No fractional shares shall be issued upon the exercise of this Warrant. In lieu of fractional shares, Aurora shall pay WCAS a sum in cash equal to the Fair Market Value of the fractional shares on the date of exercise.

10. STOCK TO BE RESERVED

Aurora will at all times reserve and keep available out of its authorized Common Stock or its treasury shares, solely for the purpose of issue upon the exercise of this Warrant as herein provided, such number of shares of Common Stock as shall then be issuable upon the exercise of this Warrant. Aurora covenants that all shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, and, without limited the generality of the foregoing, Aurora covenants that it will from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the effective Exercise

Price. Aurora will take all such action as may be necessary and within its control to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirements of any national securities exchange upon which the Common Stock of Aurora may be listed. Aurora will not take any action which results in any adjustment of the Exercise price if the total number of shares of Common Stock issued and issuable after such action upon exercise of this Warrant would exceed the total number of shares of Common Stock then authorized by Aurora's Articles of Incorporation. Aurora has not granted and will not grant any right of first refusal with respect to shares issuable upon exercise of this Warrant, and there are no preemptive rights associated with such shares.

11. ISSUE TAX

The issuance of certificates for shares of Common Stock upon exercise of the Warrants shall be made without charge to the holders of such Warrants for any issuance tax in respect thereof provided that Aurora shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of any holder of the Warrants.

12. CLOSING OF BOOKS

Aurora will at no time close its transfer books against the transfer of the shares of Common Stock issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant.

13. DEFINITION OF COMMON STOCK

As used herein the term "Common Stock" shall mean and include the Common Stock, $.03 par value, of Aurora as authorized on the date hereof, and also any capital stock of any class of Aurora hereinafter authorized which shall not be limited to a fixed sum or

percentage in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of Aurora; provided, however, that the shares purchasable pursuant to this Warrant shall include only shares designated as Common Stock, $.03 par value, of Aurora on the date hereof, or shares of any class or classes resulting from any reclassification or reclassifications thereof which are not limited to any such fixed sum or percentage and are not subject to redemption by Aurora and, in case at any time there shall be more than one such resulting class, the shares of each class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassification bears to the total number of shares of all such classes resulting from all such reclassifications.

14. NOTICES OF RECORD DATES

In the event of (i) any taking by Aurora of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution (other than cash dividends out of earned surplus), or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or (ii) any capital reorganization of Aurora, any reclassification or recapitalization of the capital stock of Aurora or any transfer of all or substantially all the assets of Aurora to or consolidation or merger of Aurora with or into any other corporation, or (iii) any voluntary or involuntary dissolution, liquidation or winding-up of Aurora, then, and in each such event, Aurora will give notice to the holder of this Warrant specifying (x) the date on which any such record is to be taken for the purpose of such dividend, distribution or right and stating the amount and character of such dividend, distribution or right, and (y) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock will be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be given at least twenty (20) days and not more than ninety (90) days prior to the date therein specified, and such notice shall state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act of 1933, as amended, or to a favorable vote of stockholders, if either is required.

15. INVESTMENT REPRESENTATION AND LEGEND

The holder, by acceptance of the Warrant, represents and warrants to Aurora that it is acquiring the Warrant and the shares of Common Stock (or other securities) issuable upon the exercise hereof for investment purposes only and not with a view towards the resale or other distribution thereof and agrees that Aurora may affix upon this Warrant the following legend:

> "This Warrant has been issued in reliance upon the representation of the holder that it has been acquired for investment purposes and not with a view towards the resale or other distribution thereof. Neither this Warrant nor the

> shares issuable upon the exercise of this Warrant have been registered under the Securities Act of 1933, as amended."

The holder, by acceptance of this Warrant, further agrees that Aurora may affix the following legend to certificates for shares of Common Stock issued upon

exercise of this Warrant:

"THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THEY HAVE BEEN REGISTERED UNDER THE ACT OR UNLESS IN THE OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION AN EXEMPTION FROM REGISTRATION IS AVAILABLE."

16. NO SHAREHOLDER RIGHTS

This Warrant shall not entitle WCAS to any voting rights or any other rights as a shareholder of Aurora or to any other rights whatsoever except the rights stated herein; and no dividend or interest shall be payable or shall accrue in respect of this Warrant or the Common Stock issuable upon conversion of this Warrant, until and to the extent that this Warrant shall be exercised. No provision hereof, in the absence of affirmative action by the holder hereof to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Warrant Exercise Price or as a stockholder of Aurora, whether such liability is asserted by Aurora or by creditors of Aurora.

17. CONSTRUCTION

THE VALIDITY AND INTERPRETATION OF THE TERMS AND PROVISIONS OF THIS WARRANT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES OR ANY OTHER PRINCIPLE THAT COULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION. The descriptive headings of the several sections of this Warrant are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions thereof.

18. LOST WARRANT CERTIFICATE

If this Warrant is lost, stolen, mutilated or destroyed, Aurora shall issue a new Warrant of like denomination, tenor and date as this Warrant, subject to Aurora's right to require WCAS to give Aurora a bond or other satisfactory security sufficient to indemnify Aurora against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft, mutilation or destruction of this Warrant or the issuance of such new Warrant.

19. WAIVERS AND AMENDMENTS

This Warrant, or any provision hereof, may be changed, waived, discharged or terminated only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is

sought.

20. NOTICES

All notices, requests and other communications required or permitted to be given or delivered hereunder shall be in writing, and shall be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, if to the holder to such holder at the address shown on such holder's Warrant or shares of Common Stock issued upon exercise thereof or at such other address as shall have been furnished to Aurora by notice from such holder. All notices, requests and other communications required or permitted to be given or delivered hereunder shall be in writing, and shall be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed to Aurora at such address as shall have been furnished to the holder by notice from Aurora.

IN WITNESS WHEREOF, Aurora has executed this Warrant as of the date first written above.

AURORA ELECTRONICS, INC.

By: _____
Name: _____
Title: _____

ELECTION TO PURCHASE

To: Aurora Electronics, Inc.

The undersigned hereby irrevocably elects to purchase _____ shares of Common Stock issuable upon the exercise of this Warrant, and requests that certificates for such shares shall be issued in the name of and delivered to the address of the undersigned, at the address stated below, and

____ i) makes cash payment herewith in full therefor at the price per share provided by such Warrant;

____ ii) surrenders to Aurora promissory notes or other obligations issued by Aurora, in accordance with Section 3 (ii) of such Warrant, as payment herewith in full therefor at the price per share provided by such Warrant;

____ iii) delivers to Aurora other securities issued by the Company, in accordance with Section 3 (iii) of such Warrant, as payment herewith in full therefor at the price per share provided by

such Warrant; and/or

____ iv) elects Net Issue Exercise as provided in Section 3(iv) of such Warrant.

(Check any combination of (i) through (iv) above).

Dated: _____

Name and signature of holder of Warrant:

WCAS Capital Partners II, L.P.

By: _____

Name: _____

Title: _____

EXHIBIT 10.4

October 22,1996

Mr. John P. Grazer
22646 Sacedon
Mission Viejo, CA 92691

Dear John:

This letter covers your position as the President, and Chief Financial Officer of Aurora Electronics, Inc. and Aurora Electronics Group, Inc.

This letter is effective immediately upon signing. You will report to the Chief Executive Officer and the Board of Directors of Aurora. Your duties will be, among other things, to have primary responsibility for the financial and administrative functions in the Company, including without limitation, (a) primary responsibility for the operations of the Company; (b) execution of the Company's strategy and growth of the Company's business; and (c) financial reporting to the SEC, shareholders, lenders, etc. These duties may be expanded or modified from time to time by the CEO and/or Board, and you will carry them out either directly or through other members of the management team as appropriate. You will be expected to devote your full business time and best efforts to the performance of your duties and responsibilities for the Company, and as a corporate officer you will assume the associated fiduciary duties to shareholders.

The terms of your employment include:

BASE SALARY:	$175,000 (annualized rate) subject to adjustment from time to time.
PROMOTION BONUS:	$150,000 one-time bonus upon accepting the position.
PERFORMANCE AND DISCRETIONARY BONUSES:	You will be eligible for a performance and a discretionary bonus, initially targeted at 50% of base salary (annualized rate) to be determined from time to time by the Compensation Committee of the Board of Directors. The Performance Measure for each period of time is determined during the Company's annual planning cycle, and is approved by the Compensation Committee of the Board of Directors. To receive a performance based bonus for a period, you must be employed by the Company at the end of the

period for which the bonus is payable and on the date the bonus is payable (provided that your performance bonus for each period shall be paid on or before the date the Company files its 10-Q for the quarter or 10-K for the year). The FY97 Incentive Plan is currently being finalized.

STOCK OPTIONS: The recapitalization completed on March 29, 1996 includes a substantial change in the stock options for senior executives. As discussed in that plan, you have been awarded 899,669 options to purchase Aurora common stock, including 154,987 Tranche A options, 154,987 Tranche A1 options, 294,847 Tranche B options and 294,847 Tranche C options. Your Tranche A

options were fully be vested upon issuance. Your Tranche A1 options are vesting ratably on the first day of each month for the 24 months beginning July 1997. One-eighth of your Tranche B options vested on September 30, 1996, and will continue vesting each March 31 and September 30 through March 31, 2000, and your Tranche C options will vest either with performance (over years 1-4) or with time (over later years). All Tranche A options and all vested Tranche A1 options that you own on leaving the Company will remain exercisable for 90 days, provided that if your employment is terminated as a result of death, disability or termination by the Company which is not for cause, your Tranche A and vested Tranche A1 Options will remain exercisable for 12 months or the remaining term of the option (whichever is less). All vested Tranche B and Tranche C Options that you own on leaving the Company will remain exercisable for 90 days, provided that if your employment is terminated as a result of death or disability, your Tranche B and C Options will remain exercisable for 12 months or the remaining term of the option (whichever is less).

PUT ON OPTIONS: On December 31, 1999, you have a right to sell to the Company for $2.00 per share all stock options assuming employment as of that date. To exercise this put, you will need to make an irrevocable notice to the Company of you intent to do so between November 1 and 15, 1999.

In the event of termination not for cause prior to December 31, 1999, a one-time right to sell to the Company for $2.00 per share all stock options vested to the date of termination or at the end of the

severance period described below, whichever period is longer.

SEVERANCE: This letter and your response do not constitute a contract of employment for a stated term. As always since you joined Aurora, you have the right to terminate your employment at any time, and Aurora retains a similar right to terminate your employment at will. Termination by the Company may be for (1) cause, or (2) other than for cause. In the event that you are terminated for cause or you terminate voluntarily, your compensation will end on the date of termination. For these purposes, "cause" means termination by the Company of your relationship as employee of the Company: (a) for committing an act of fraud or willful misconduct against the Company; (b) for conviction of, or entry of a plea by the Optionee of nolo contendere to, a felony; (c) for breach of your fiduciary duties to the Company or its Stockholders; or (d) for committing a material act of personal dishonesty or willful misconduct. (For purposes of this agreement, "compensation" includes salary, bonus, insurance and other employee benefits and auto-related benefits.) If you are terminated for any other reason (other than death or disability), your compensation will continue (as salary and benefit continuation, and not as a lump-sum payment)) for 15 months. The Company further agrees that if your duties and compensation are reduced below the levels of those discussed above, you will have a 30 day period during which you may notify the Company that such reduction is a constructive termination which will entitle you to the benefits of this severance paragraph.

CHANGE OF CONTROL: A "Change in Control" shall be defined as (i) the sale, lease or transfer, whether direct or indirect, of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, in one transaction or a series of related transactions, to any "person" or "group" (other than the WCAS Group as defined below), (ii) the liquidation or dissolution of the Company or the adoption of a plan of liquidation or dissolution of the Company, (iii) the acquisition of "beneficial ownership" by any

"person" or "group" (other than the WCAS Group) of voting stock of the Company representing more than 50% of the voting power of all outstanding shares of

such voting stock, whether by way of merger or consolidation or otherwise, or (iv) during any period of two consecutive years, the failure of those individuals who at the beginning of such period constituted the Company's Board of Directors (together with any new directors whose election or appointment by such Board or whose nomination for election or appointment by the shareholders of the Company was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) to constitute a majority of the Company's Board of Directors then in office.

For purposes of this definition, (i) the terms "person" and "group" shall have the meaning set forth in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not applicable, (ii) the term "beneficial owner" shall have the meaning set forth in Rules 13d-3 and 13d-5 under the Exchange Act, whether or not applicable, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time or upon the occurrence of certain events, (iii) any "person" or "group" will be deemed to beneficially own any voting stock of the Company so long as such person or group beneficially owns, directly or indirectly, in the aggregate a majority of the voting stock of a registered holder of the voting stock of the Company, and (iv) the term "WCAS Group" shall mean Welsh, Carson, Anderson & Stowe VII, L.P., WCAS Capital Partners II, L.P. and any general partners thereof.

In the event of a Change in Control of the Company, the following will occur:

Stock Options

If the WCAS Group has Compensation Committee Control (defined below) before the Change in Control, all options held by you shall vest immediately with the approval of the Compensation Committee unless it is the judgment of the Compensation Committee members who are appointees of the WCAS Group that the investment by the WCAS Group in the Company through the date of such Change in Control has been less than successful. "Compensation Committee Control" exists

if (i) the WCAS Group has the ability to elect at least one-half of the members of the board of directors of the Company, (ii) at least one-half of the Compensation Committee members are WCAS Group representatives to the board of directors, or (iii) the WCAS Group owns at least one-half of the voting stock of the Company.

If the WCAS Group does not have Compensation Committee Control before the Change in Control of the Company, all of your outstanding unvested options shall vest.

Failure to Offer Employment

If within 90 days following a Change of Control you are not offered employment from the surviving company under terms and conditions acceptable to you, or you are terminated by the surviving company within those 90 days, you may elect to terminate your employment and shall be entitled, following such termination, (i) to receive the severance benefits described in the last sentence of the "Severance" clause above and (ii) to receive a full payout of all earned but unpaid bonuses and deferred compensation accrued through the date of each such termination. For

purposes of determining your earned but unpaid bonuses and deferred compensation, all vested benefits shall be included. Any unvested benefits shall be treated as vested on a pro rata basis. For example, if you are severed on July 1, xxx9, and you have a bonus plan based on one year's performance beginning January 1, xxx9 and ending January 1, xx10, and the performance measure for the period has been achieved for 102%, one-half of the amount that would have been payable for a full year's performance of 102% will be payable.

NON-COMPETITION AND CONFIDENTIALITY: During the course of your employment by the Company, you will represent the Company and its subsidiaries and develop contacts and relationships on their behalf, including customers, suppliers, potential customers and suppliers, and other employees. To protect the Company's and its subsidiaries' interests in these contacts and relationships, you agree that if you are terminated for cause or you voluntarily resign, for a period of two years after such termination or resignation, without the Company's

prior written approval, you will not, in connection with any business that provides spare parts distribution or electronics recycling services to major personal computer manufacturers and field service organizations, as an employee, consultant, principal or otherwise, (1) conduct or assist others in conducting a business that competes with the Company's or its subsidiaries' businesses of providing the same services for such customers in the United States, Canada, the United Kingdom or the Netherlands, or (2) recruit, hire or assist others in recruiting or hiring any person who is or within the preceding 12 months was an employee of the Company or its subsidiaries.

You agree that the scope of the foregoing agreement is reasonable as to time, area and persons and is necessary to protect the legitimate business interests of the Company and its subsidiaries. You further agree that such agreement will be regarded as divisible and will be operative as to time, area and persons to the extent that it may be so operative, and if any part of such agreement is declared invalid, unenforceable, or void as to time, area or persons, the validity and enforceability of the remainder will not be affected.

You also agree that the trade secrets, plans, strategies, and technology and processes of the Company and its subsidiaries, and information concerning the products, services, production, reconditioning, development, technology, and all technical information, procurement and sales activities and procedures, customer, supplier, or distributor lists, promotion and pricing techniques and credit and financial data concerning customers, suppliers, and distributors of the Company and its subsidiaries are valuable, special, and unique assets of the Company and its subsidiaries (collectively, the "Confidential Information"). In light of the competitive nature of the industry in which the business of the Company and its subsidiaries is conducted, you agree that all your knowledge and information about the Confidential Information will be considered Confidential Information. In recognition of this, you agree that except as specifically authorized in writing by the Company, you will not, in whole or in part, (1) disclose any Confidential Information to any person, other than the Company or its subsidiaries, or (2) make use of any Confidential Information for your own purposes or

for the benefit of any other person, other than the Company or its subsidiaries.

You also acknowledge and agree that all manuals, drawings, blueprints, letters, notes, notebooks, reports, books, procedures, forms, documents, records, or paper or copies thereof pertaining to the operations or business of the Company and its subsidiaries that you have made or received or are known to you in any

way in connection with your employment and any other Confidential Information are and will be the exclusive property of the Company or the relevant subsidiary. You acknowledge that all such papers and records will at all times be subject to the control of the Company or the relevant subsidiary, and you agree to surrender the same upon request of the Company, and will surrender such no later than any termination of your employment with the Company or the relevant subsidiary, whether voluntary or involuntary. The Company and each subsidiary may notify anyone employing you at any time of the provisions of this Agreement.

HEALTH AND LIFE INSURANCE: The Company will pay for its standard health and dental coverage policy for you and your family. You will also receive the same life and disability insurance and employee benefits as the other senior executives of Aurora.

VACATION: You will initially be entitled to approximately 3 weeks vacation per year.

OTHER BENEFITS AND EXPENSES: You will be compensated for expenses incurred in the performance of your duties (e.g. travel and entertainment, car phone, etc.), including an automobile allowance of $600 per month, and you will be eligible for all of the benefits for which other senior executives are eligible.

Payment of all of the above compensation and benefits will, of course, be subject to (1) normal Company policies, and (2) the various laws and regulations applicable to the Company and your employment both at present and as they are changed from time to time. Any post-employment compensation (severance, stock option ownership, etc.) will be payable to your estate in the event of your death. In signing this letter, you represent that you have not relied on any agreements or representations that are not set forth herein, and that any and

all disputes that arise between the parties hereto will be resolved through binding arbitration rather than litigation.

Best personal regards,

/s/ Jim C. Cowart
Jim C. Cowart
Chairman and CEO

Accepted and agreed:

/s/ John P. Grazer
_____
John P. Grazer

_____
Date

EXHIBIT 10.31

EXHIBIT C

REGISTRATION RIGHTS AGREEMENT

March 29, 1996

To the several persons named
in Schedule I hereto

Ladies and Gentlemen:

This will confirm that with respect to the several individuals and entities named as Purchasers in the Securities Purchase Agreement dated as of February 21, 1996 (the "Purchase Agreement"), among Aurora Electronics, Inc., a Delaware corporation (the "Company"), Welsh, Carson, Anderson & Stowe VII, L.P., a Delaware limited partnership ("WCAS VII"), WCAS Capital Partners II, L.P., a Delaware limited partnership ("WCAS CP II"), and the several persons named therein, in consideration of (i) the purchase by WCAS VII and the several persons named in Part A of Schedule I hereto (collectively, "the Preferred Share Purchasers") from the Company of [ ](1) shares (the "Preferred Shares") of Convertible Preferred Stock, $.01 par value ("Convertible Preferred Stock"), of the Company, and (ii) the purchase by WCAS CP II of (x) the Company's 10% Senior Subordinated Note due September 30, 2001, in the principal amount of $10,000,000, and (y) [ ]1 shares (the "Common Shares") of Common Stock, $.03 par value ("Common Stock"), of the Company, all on the terms and subject to the conditions set forth in the Purchase Agreement, and as an inducement to the Purchasers to consummate the transactions contemplated by the Purchase Agreement, the Company hereby covenants and agrees with each of you, and with each subsequent holder of Restricted Stock (as defined herein) as follows:

1. Certain Definitions. As used herein, the following terms shall have the following respective meanings:

"Commission" means the Securities and Exchange Commission, or any other federal agency at the time administering the Securities Act.

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(1) To be determined at Closing.

"Conversion Shares" means the shares of Common Stock issuable upon conversion of any of the Preferred Shares.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Registration Expenses" means the expenses so described in Section 8 hereof.

"Restricted Stock" means the shares of capital stock of the Company, the certificates for which are required to bear the legend set forth in Section 2 hereof.

"Securities Act" means the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Selling Expenses" means the expenses so described in Section 8 hereof.

2. Restrictive Legend. Each certificate representing the Common Shares, each certificate representing the Preferred Shares, each certificate representing the Conversion Shares and each certificate issued upon exchange, adjustment or transfer of any of the foregoing, other than in a public sale or as otherwise permitted by the last paragraph of Section 3 hereof, shall be stamped or otherwise imprinted with a legend substantially in the following form:

"THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THEY HAVE BEEN REGISTERED UNDER THAT ACT OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE."

3. Notice of Proposed Transfer. Prior to any proposed transfer of any Restricted Stock (other than under the circumstances described in Sections 4, 5 or 6 hereof), the holder thereof shall give written notice to the Company of its intention to effect such transfer. Each such notice shall describe the manner of the proposed transfer and, if requested by the Company, shall be accompanied by an opinion of counsel reasonably satisfactory to the Company (it being agreed that Reboul, MacMurray, Hewitt, Maynard & Kristol is and shall be satisfactory) to the effect that the proposed transfer of the Restricted Stock may be effected without registration under the Securities Act,

whereupon the holder of such Restricted Stock shall be entitled to transfer such Restricted Stock in accordance with the terms of its notice. Each certificate for Restricted

Stock transferred as above provided shall bear the legend set forth in Section 2, unless (i) such transfer is in accordance with the provisions of Rule 144 (or any other rule permitting public sale without registration under the Securities Act) or (ii) the opinion of counsel referred to above is to the further effect that the transferee and any subsequent transferee (other than an affiliate of the Company) would be entitled to transfer such securities in a public sale without registration under the Securities Act.

The foregoing restrictions on transferability of Restricted Stock shall terminate as to any particular shares of Restricted Stock when such shares shall have been effectively registered under the Securities Act and sold or otherwise disposed of in accordance with the intended method of disposition by the seller or sellers thereof set forth in the registration statement concerning such shares. Whenever a holder of Restricted Stock is able to demonstrate to the Company (and its counsel) that the provisions of Rule 144(k) of the Securities Act are available to such holder without limitation, such holder of Restricted Stock shall be entitled to receive from the Company, without expense, a new certificate not bearing the restrictive legend set forth in Section 2.

4. Required Registration.

(a) Subject to the provisions of paragraph (e) below, at any time the holders of Restricted Stock constituting at least a majority of the Restricted Stock outstanding at such time may request the Company to register under the Securities Act all or any portion of the Restricted Stock held by such requesting holder or holders for sale in the manner specified in such notice; provided, however, that the only securities which the Company shall be required to register pursuant hereto shall be shares of Common Stock. For the purposes of calculating the number of outstanding shares of Restricted Stock for purposes of this Section 4(a) and Section 13(d), holders of Convertible Preferred Stock shall be treated as the holders of the number of shares of Conversion Stock then issuable upon conversion of such shares.

(b) Promptly following receipt of any notice under this Section 4, the Company shall notify any holders of Restricted Stock from whom notice has not been received, and shall use its best efforts to register under the Securities Act, for public sale in accordance with the method of disposition specified in such notice from such requesting

holders, the number of shares of Restricted Stock specified in such notice (and in any notices received from other such holders of Restricted Stock within 30 days after their receipt of such notice from the Company); provided, however, that if the proposed method of disposition specified by the

requesting holders shall be an underwritten public offering, the number of shares of Restricted Stock to be included in such an offering may be reduced (pro rata among the requesting holders of Restricted Stock based on the number of shares of Restricted Stock so requested to be registered) if and to the extent that the managing underwriter shall be of the opinion that such inclusion would adversely affect the marketing of the Restricted Stock to be sold. If such method of disposition shall be an underwritten public offering, the Company may designate the managing underwriter of such offering, subject to the approval of the selling holders of a majority of the Restricted Stock included in the offering, which approval shall not be unreasonably withheld. Notwithstanding anything to the contrary contained herein, the obligation of the Company under this Section 4 shall be deemed satisfied only when a registration statement covering all shares of Restricted Stock specified in notices received as aforesaid, for sale in accordance with the method of disposition specified by the requesting holder, shall have become effective and, if such method of disposition is a firm commitment underwritten public offering, all such shares shall have been sold pursuant thereto.

(c) In the event that the Board of Directors of the Company determines in good faith that the filing of a registration statement pursuant hereto would be detrimental to the Company, the Board of Directors may defer such filing for a period not to exceed sixty (60) days. The Board of Directors may not effect more than one such deferral during any twelve month period. The Board of Directors agrees to promptly notify all holders of Restricted Stock of any such deferral, and shall provide to such holders a reasonably complete explanation therefor.

(d) The Company shall be entitled to include in any registration statement referred to in this Section 4, for sale in accordance with the method of disposition specified by the requesting holders, shares of Common Stock to be sold by the Company for its own account, except to the extent that, in the opinion of the managing underwriter (if such method of disposition shall be an underwritten public offering), such inclusion would adversely affect the marketing of the Restricted Stock to be sold. Except as provided in this paragraph

(d), the Company will not effect any other registration of its Common Stock, whether for its own account or that of other holders, from the date of receipt of a notice from requesting holders pursuant to this Section 4 until the completion of the period of distribution of the registration contemplated thereby.

(e) Notwithstanding anything to the contrary contained herein, the Company shall be obligated to register

Restricted Stock pursuant to this Section 4 on two occasions only.

5. Form S-3 Registration.

(a) If the Company shall receive from any holder or holders of Restricted Stock a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to Restricted Stock owned by such holder or holders, the reasonably anticipated aggregate price to the public of which would exceed $1,000,000, the Company will:

(i) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other holders of Restricted Stock; and

(ii) as soon as is reasonably practicable, use its best efforts to effect such registration (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualifications under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act and any other government requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such holder's or holders' Restricted Stock as is specified in such request, together with all or such portion of the Restricted Stock of any holder or holders joining in such request as are specified in a written request given within 30 days after receipt of such written notice from the Company; provided, however that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 5 (A) more than once in any 180-day period, or (B) if the Company is not entitled to use Form S-3; and provided, further, that the only securities which the Company shall be required to register pursuant hereto shall be shares of Common Stock. Subject to the foregoing, the Company shall file a registration statement covering the Restricted Stock so requested to be registered as soon as is reasonably practicable

after receipt of the request or requests of the holders of the Restricted Stock.

(b) Notwithstanding anything to the contrary contained herein, the Company shall be obligated to register Restricted Stock pursuant to this Section 5 on two occasions only.

6. Incidental Registration. If the Company at any time (other than pursuant to Section 4 or 5 hereof) proposes to register any of its Common Stock under the Securities Act for sale to the public, whether for its own account or for the account of other security holders or both (except with respect to

registration statements on Form S-4 or Form S-8 or another form not available for registering the Restricted Stock for sale to the public), it will give written notice at such time to all holders of outstanding Restricted Stock of its intention to do so. Upon the written request of any such holder, given within 30 days after receipt of any such notice by the Company, to register any of its Restricted Stock (which request shall state the intended method of disposition thereof), the Company will use its best efforts to cause the Restricted Stock as to which registration shall have been so requested to be included in the securities to be covered by the registration statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the holder (in accordance with its written request) of such Restricted Stock so registered; provided that nothing herein shall prevent the Company from abandoning or delaying such registration at any time; provided, further, that the only securities which the Company shall be required to register shall be shares of Common Stock. In the event that any registration pursuant to this Section 6 shall be, in whole or in part, an underwritten public offering of Common Stock, any request by a holder pursuant to this Section 6 to register Restricted Stock shall specify that either (i) such Restricted Stock is to be included in the underwriting on the same terms and conditions as the shares of Common Stock otherwise being sold through underwriters in connection with such registration or (ii) such Restricted Stock is to be sold in the open market without any underwriting, on terms and conditions comparable to those normally applicable to offerings of common stock in reasonably similar circumstances. The number of shares of Restricted Stock to be included in an underwriting in accordance with clause (i) above may be reduced pro rata among the requesting holders of Restricted Stock based upon the number of shares of Restricted Stock so requested to be registered, if and to the extent that the managing underwriter shall be of the opinion that such inclusion would adversely affect the marketing of the securities to be sold by the Company therein; provided, however, that if any shares are to be included in such underwriting for the account of any person other than the Company, the

shares to be so included shall be subject first to reduction before the shares of Restricted Stock are reduced pro rata.

Notwithstanding anything to the contrary contained in this Section 6, in the event that there is a firm commitment underwritten public offering of securities of the Company pursuant to a registration covering Restricted Stock and a holder of Restricted Stock does not elect to sell his Restricted Stock to the underwriters of the Company's securities in connection with such offering, such holder shall refrain from selling such Restricted Stock so registered pursuant to this Section 6 during the period of distribution of the Company's securities by such underwriters and the period in which the underwriting syndicate participates in the after market; provided, however, that such

holder shall, in any event, be entitled to sell its Restricted Stock commencing on the 90th day after the effective date of such registration statement or, if later, on such date (but in no event later than the 180th day after such effective date) as contractual "lock-up" restrictions imposed by the underwriters shall expire or be released.

7. Registration Procedures. If and whenever the Company is required by the provisions of Section 4, 5 or 6 hereof to use its best efforts to effect the registration of any of the Restricted Stock under the Securities Act, the Company will, as expeditiously as possible:

(a) prepare (and afford counsel for the selling holders reasonable opportunity to review and comment thereon) and file with the Commission a registration statement on the most appropriate form adequate for the purposes thereof with respect to such securities and use its best efforts to cause such registration statement to become and remain effective for the period of the distribution contemplated thereby (to be determined as hereinafter provided);

(b) prepare (and afford counsel for the selling holders reasonable opportunity to review and comment thereon) and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for the period specified in paragraph (a) above and to comply with the provisions of the Securities Act with respect to the disposition of all Restricted Stock covered by such registration statement in accordance with the sellers' intended method of disposition set forth in such registration statement for such period;

(c) furnish to each seller and to each underwriter such number of copies of the registration statement and the prospectus included therein (including each preliminary prospectus) as such persons may reasonably request in order to facilitate the public sale or other disposition of the Restricted Stock covered by such registration statement;

(d) use its best efforts to register or qualify the Restricted Stock covered by such registration statement under the securities or blue sky laws of such jurisdictions as the sellers of Restricted Stock or, in the case of an underwritten public offering, the managing underwriter, shall reasonably request (provided that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph (d), (ii) subject itself to

taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction);

(e) immediately notify each seller under such registration statement and each underwriter, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus contained in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing (following which notification the sellers agree to discontinue sales of their Restricted Stock covered by such registration statement until such misstatement or omission shall have been remedied);

(f) use all reasonable efforts (if the offering is underwritten) to furnish, at the request of any seller, on the date that Restricted Stock is delivered to the underwriters for sale pursuant to such registration: (i) an opinion of counsel representing the Company for the purposes of such registration, addressed to the underwriters and to such seller and dated such date, stating that such registration statement has become effective under the Securities Act and that (A) to the best knowledge of such counsel, no stop order suspending the effectiveness thereof has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the Securities Act, (B) the registration statement, the related prospectus, and each amendment or supplement thereof comply as to form in all material respects with the requirements of the Securities Act and the

applicable rules and regulations of the Commission thereunder (except that such counsel need express no opinion as to financial statements, the notes thereto, and the financial schedules and other financial and statistical data contained therein) and (C) to such other effects as may reasonably be requested by counsel for the underwriters or by such seller or its counsel and which are customary in underwritings of the type being undertaken, and (ii) a letter dated such date from the independent public accountants retained by the Company, addressed to the underwriters, stating that they are independent public accountants within the meaning of the Securities Act and that, in the opinion of such accountants, the financial statements of the Company included in the registration statement or the prospectus, or any amendment or supplement thereof, comply as to form in all material respects with the applicable accounting requirements of the Securities Act, and such letter shall additionally cover such other financial matters (including information as to the period ending no more than five business days prior to the date of such

letter) with respect to the registration in respect of which such letter is being given as such underwriters or seller may reasonably request; and

(g) make available for inspection by each seller, any underwriter participating in any distribution pursuant to such registration statement, and any attorney, accountant or other agent retained by such seller or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement and permit such seller, attorney, accountant or agent to participate in the preparation of such registration statement.

For purposes of paragraphs (a) and (b) above and of Section 4(d) hereof, the period of distribution of Restricted Stock in a firm commitment underwritten public offering shall be deemed to extend until each underwriter has completed the distribution of all securities purchased by it, and the period of distribution of Restricted Stock in any other registration shall be deemed to extend until the earlier of the sale of all Restricted Stock covered thereby or six months after the effective date thereof.

In connection with each registration hereunder, the selling holders of Restricted Stock will furnish to the Company in writing such information with respect to themselves and the proposed distribution by them as

shall be reasonably necessary in order to assure compliance with federal and applicable state securities laws.

In connection with each registration pursuant to Sections 4, 5 and 6 hereof covering an underwritten public offering, the Company agrees to enter into a written agreement with the managing underwriter selected in the manner herein provided in such form and containing such provisions as are customary in the securities business for such an arrangement between major underwriters and companies of the Company's size and investment stature; provided, however, that such agreement shall not contain any such provision applicable to the Company which is inconsistent with the provisions hereof, and provided, further, that the time and place of the closing under said agreement shall be as mutually agreed upon among the Company, such managing underwriter and the selling holders of Restricted Stock.

8. Expenses. All expenses incurred by the Company in complying with Sections 4, 5 and 6 hereof, including without limitation all registration and filing fees, printing expenses, fees and disbursements of counsel and independent public accountants for the Company, fees of the National Association of Securities Dealers, Inc., transfer taxes, fees of transfer agents

and registrars and fees and expenses of one counsel for the sellers of Restricted Stock, but excluding any Selling Expenses, are herein called "Registration Expenses". All underwriting discounts and selling commissions applicable to the sale of Restricted Stock are herein called "Selling Expenses".

The Company will pay all Registration Expenses in connection with each registration statement filed pursuant to Section 4, 5 or 6 hereof. All Selling Expenses in connection with any registration statement filed pursuant to Section 4, 5 or 6 hereof shall be borne by the participating sellers in proportion to the number of shares sold by each, or by such persons other than the Company (except to the extent the Company shall be a seller) as they may agree.

9. Indemnification. In the event of a registration of any of the Restricted Stock under the Securities Act pursuant to Section 4, 5 or 6 hereof, the Company will indemnify and hold harmless each seller of such Restricted Stock thereunder and each underwriter of Restricted Stock thereunder and each other person, if any, who controls such seller or underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such seller or underwriter or controlling person may become subject under the Securities Act or otherwise,

insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such Restricted Stock was registered under the Securities Act pursuant to Section 4, 5 or 6, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each such seller, each such underwriter and each such controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case if and to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by such seller, such underwriter or such controlling person in writing specifically for use in such registration statement or prospectus.

In the event of a registration of any of the Restricted Stock under the Securities Act pursuant to Section 4, 5 or 6 hereof, each seller of such Restricted Stock thereunder, severally and not jointly, will indemnify and hold harmless the Company and each person, if any, who controls the Company within the meaning of the Securities Act, each officer of the Company

who signs the registration statement, each director of the Company, each underwriter and each person who controls any underwriter within the meaning of the Securities Act, against all losses, claims, damages or liabilities, joint or several, to which the Company or such officer, director, underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the registration statement under which such Restricted Stock was registered under the Securities Act pursuant to Section 4, 5 or 6, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such officer, director, underwriter and controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that such seller will be liable hereunder in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement

or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with information pertaining to such seller, as such, furnished in writing to the Company by such seller specifically for use in such registration statement or prospectus; and provided, further, that the liability of each seller hereunder shall be limited to the proceeds (net of underwriting discounts and commissions) received by such seller from the sale of Restricted Stock covered by such registration statement.

Promptly after receipt by an indemnified party hereunder of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party hereunder, notify the indemnifying party in writing thereof, but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party other than under this Section 9. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel satisfactory to such indemnified party, and, after notice from the indemnifying party to such indemnified party of its election so to assume and undertake the defense thereof, the indemnifying party shall not be liable to such indemnified party under this Section 9 for any legal expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; provided, however, that if the defendants in any

such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be reasonable defenses available to it which are different from or additional to those available to the indemnifying party, or if the interests of the indemnified party reasonably may be deemed to conflict with the interests of the indemnifying party, the indemnified party shall have the right to select a separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the expenses and fees of such separate counsel and other expenses related to such participation to be reimbursed by the indemnifying party as incurred.

Notwithstanding the foregoing, any indemnified party shall have the right to retain its own counsel in any such action, but the fees and disbursements of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party shall have failed to retain counsel for the indemnified person as aforesaid or (ii) the indemnifying party and such indemnified party shall have mutually agreed to the retention of such counsel. It is understood that the indemnifying party shall not, in connection with any

action or related actions in the same jurisdiction, be liable for the fees and disbursements of more than one separate firm qualified in such jurisdiction to act as counsel for the indemnified party. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement.

If the indemnification provided for in the first two paragraphs of this Section 9 is unavailable or insufficient to hold harmless an indemnified party under such paragraphs in respect of any losses, claims, damages or liabilities or actions in respect thereof referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or actions in such proportion as appropriate to reflect the relative fault of the Company, on the one hand, and the underwriters and the sellers of such Restricted Stock, on the other, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or actions as well as any other relevant equitable considerations, including the failure to give any notice under the third paragraph of this Section 9. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by the Company, on the one hand, or the underwriters and the sellers of such Restricted Stock, on the other, and to the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and

each of you agree that it would not be just and equitable if contributions pursuant to this paragraph were determined by pro rata allocation (even if all of the sellers of such Restricted Stock were treated as one entity for such purpose) or by any other method of allocation which did not take account of the equitable considerations referred to above in this paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities or action in respect thereof, referred to above in this paragraph, shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this paragraph, the sellers of such Restricted Stock shall not be required to contribute any amount in excess of the amount, if any, by which the total price at which the Common Stock sold by each of them was offered to the public exceeds the amount of any damages which they would have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Securities Act),

shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation.

The indemnification of underwriters provided for in this Section 9 shall be on such other terms and conditions as are at the time customary and reasonably required by such underwriters. In that event, the indemnification of the sellers of Restricted Stock in such underwriting shall at the sellers' request be modified to conform to such terms and conditions.

10. Changes in Common Stock. If, and as often as, there are any changes in the Common Stock by way of stock split, stock dividend, combination or reclassification, or through merger, consolidation, reorganization or recapitalization, or by any other means, appropriate adjustment shall be made in the provisions hereof, as may be required, so that the rights and privileges granted hereby shall continue with respect to the Common Stock as so changed.

11. Representations and Warranties of the Company. The Company represents and warrants to you as follows:

(a) The execution, delivery and performance of this Agreement by the Company have been duly authorized by all requisite corporate action and will not violate any provision of law, any order of any court or other agency of government, the Restated Certificate of Incorporation or By-laws of the Company, or any provision of any indenture, agreement or other instrument to which it or any of its properties or assets is bound, or conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien,

charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Company.

(b) This Agreement has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to considerations of public policy in the case of the indemnification provisions hereof.

12. Rule 144 Reporting. The Company agrees with you as follows:

(a) The Company shall make and keep public information

available, as those terms are understood and defined in Rule 144(c)(1) or (c)(2), whichever is applicable, under the Securities Act, at all times from and after the date it is first required to do so.

(b) The Company shall file with the Commission in a timely manner all reports and other documents as the Commission may prescribe under Section 13(a) or 15(d) of the Exchange Act at all times during which the Company is subject to such reporting requirements of the Exchange Act.

(c) The Company shall furnish to such holder of Restricted Stock forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time from and after the date it first becomes subject to such reporting requirements) and of the Securities Act and the Exchange Act (at any time during which it is subject to such reporting requirements), (ii) a copy of the most recent annual or quarterly report of the Company and (iii) such other reports and documents so filed as a holder may reasonably request to avail itself of any rule or regulation of the Commission allowing a holder of Restricted Stock to sell any such securities without registration.

13. Miscellaneous.

(a) All covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not. Without limiting the generality of the foregoing, the registration rights conferred herein on the holders of Restricted Stock shall inure to the benefit of any and all subsequent holders from time to time of the Restricted Stock for so long as the certificates representing the Restricted Stock shall be required to bear the legend specified in Section 2 hereof.

(b) All notices, requests, consents and other communications hereunder shall be in writing and shall be mailed by first class registered mail, postage prepaid, addressed as follows:

if to the Company, to it at:

Aurora Electronics, Inc.
2030 Main Street
Suite 1120
Irvine, California 92714-7241

Attention: David Lahar, President

with a copy to:

Hughes & Luce L.L.P.
1717 Main Street
Suite 2800
Dallas, Texas 75201
Attention: Alan J. Bogdanow, Esq.
Kenneth G. Hawari, Esq.

if to any holder of Restricted Stock, to such holder at the address as set forth under such holder's name in Annex I to the Purchase Agreement;

if to any subsequent holder of Restricted Stock, to such holder at such address as may have been furnished to the Company in writing by such holder;

or, in any case, at such other address or addresses as shall have been furnished in writing to the Company (in the case of a holder of Restricted Stock) or to the holders of Restricted Stock (in the case of the Company).

(c) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(d) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof. This Agreement may not be modified or amended except in a writing signed by the Company and the holders of not less than a majority of the Restricted Stock then outstanding, provided that no modification or amendment shall deprive any holder of Restricted Stock of any material right under this Agreement without such holder's consent. The Company will not grant any registration rights to any other person without the written consent of the holders of a majority of the Restricted Stock then outstanding if such rights could reasonably be expected to conflict with, or be on a parity with, the rights of holders of Restricted Stock granted under this Agreement.

16

(e) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

17

Please indicate your acceptance of the foregoing by signing and returning the enclosed counterpart of this letter, whereupon this letter (herein sometimes called "this Agreement") shall be a binding agreement between the Company and you.

Very truly yours,

AURORA ELECTRONICS, INC.

By

AGREED TO AND ACCEPTED
as of the date first
above written.

THE PURCHASERS:

WELSH, CARSON, ANDERSON & STOWE VII, L.P.
By WCAS VII Partners, L.P., General Partner

By:

WCAS CAPITAL PARTNERS II, L.P.
By WCAS CP II Partners, General Partner

By:

WCAS INFORMATION PARTNERS, L.P.

By:

THE HARVEY CASH TRUST

By:

Trustee

Jim C. Cowart

CHEMICAL EQUITY ASSOCIATES,
A California Limited Partnership
By Chemical Venture Partners,
General Partner

By:

Bruce K. Anderson

Russell L. Carson

Anthony J. de Nicola

James B. Hoover

Thomas E. McInerney

Robert A. Minicucci

Andrew M. Paul

19

Paul B. Queally

Richard H. Stowe

Laura M. VanBuren

Patrick J. Welsh

EXHIBIT 10.32

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THAT ACT OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

THIS NOTE IS ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") AS DEFINED BY SECTION 1273(a)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE FOLLOWING INFORMATION IS PROVIDED PURSUANT TO THE INFORMATION REPORTING REQUIREMENTS SET FORTH IN TREASURY REGULATION 1.1275-3.

THE ISSUE PRICE OF THIS DEBT INSTRUMENT IS $8,254,268.
THE AMOUNT OF OID ON THIS DEBT INSTRUMENT IS $1,745,732.
THE ISSUE DATE OF THIS DEBT INSTRUMENT IS MARCH 29, 1996
THE PER ANNUM YIELD TO MATURITY OF THIS DEBT INSTRUMENT IS 14.76% COMPOUNDED SEMI-ANNUALLY.

AURORA ELECTRONICS, INC.

10% Senior Subordinated Note
Due September 30, 2001

$10,000,000 March 29, 1996

AURORA ELECTRONICS, INC., a Delaware corporation (hereinafter called the "Company"), for value received, hereby promises to pay to WCAS CAPITAL PARTNERS II, L.P. ("WCAS CP II"), or registered assigns, the principal sum of TEN MILLION DOLLARS ($10,000,000), on September 30, 2001 and to pay interest (computed on the basis of a 360-day year consisting of twelve 30-day months) from the date hereof on the unpaid principal amount hereof at the rate of 10% per annum semi-annually in arrears on September 30 and March 31 of each year (each said day being an "Interest Payment Date"), commencing on September 30, 1996, until the principal amount hereof shall have become due and payable, whether at maturity or by acceleration or otherwise, and thereafter at the rate of 12% per annum on any overdue principal amount and (to the extent permitted by applicable law) on any overdue interest until paid.

All payments of principal and interest on this Note shall be in such coin or currency of the United States of America as at the time of payment shall be legal tender for payment of public and private debts.

On any Interest Payment Date on or after March 29, 2001, the Company shall pay any amount of accrued original issue discount on this Note as shall be necessary to ensure that this Note shall not be considered an

"applicable high yield discount obligation" within the meaning of Section 163(i) of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision. The amount of principal payable on this Note shall be reduced by the amount of any accrued original issue discount that is paid pursuant to this paragraph.

If any payment on this Note is due on a day which is not a Business Day, it shall be due on the next succeeding Business Day. For purposes of this Note, "Business Day" shall mean any day other than a Saturday, Sunday or a legal holiday or day on which banks are authorized or required to be closed in Chicago or New York.

1. The Note. This Note is issued pursuant to and is subject to the terms and provisions of the Securities Purchase Agreement dated as of February 21, 1996 (the "Purchase Agreement"), among the Company, Welsh, Carson, Anderson & Stowe VII, L.P., a Delaware limited partnership ("WCAS VII"), WCAS CP II and the several purchasers named on Schedule I thereto and the terms of this Note include those stated in the Purchase Agreement. As used herein, the term "Note" or "Notes" includes the 10% Senior Subordinated Note due September 30, 2001 of the Company originally so issued and any 10% Senior Subordinated Note or Notes due September 30, 2001 subsequently issued upon exchange or transfer thereof.

2. Transfer, Etc. of Notes. The Company shall keep at its office or agency maintained as provided in paragraph (a) of Section 7 a register in which the Company shall provide for the registration of this Note and for the registration of transfer and exchange of this Note. The holder of this Note may, at its option, and either in person or by its duly authorized attorney, surrender the same for registration of transfer or exchange at the office or agency of the Company maintained as provided in Section 7 and, without expense to such holder (except for taxes or governmental charges imposed in connection therewith), receive in exchange therefor a Note or Notes each in such denomination or denominations (in integral multiples of $100,000) as such holder may request, dated as of the date to which interest has been paid on the Note or Notes so surrendered for transfer or exchange, for the same aggregate principal amount as the then unpaid principal amount of the Note or Notes so surrendered for transfer or exchange, and registered in the name of such person or persons as may be designated by such holder. Every Note presented or surrendered for registration of transfer or exchange shall be duly endorsed, or shall be accompanied by a written instrument of transfer, satisfactory in form to the Company, duly executed by the holder of such Note or its attorney duly authorized in writing. Every Note so made and delivered in exchange for such Note shall in all other

respects be in the same form and have the same terms as such Note. No transfer or exchange of any Note shall be valid (x) unless made in the foregoing manner at such office or agency and (y) unless registered under the Securities Act of 1933, as amended, or any applicable state securities laws or unless an exemption from such registration is available.

3. Loss, Theft, Destruction or Mutilation of Note. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and, in the case of any such loss, theft or destruction, upon receipt of an affidavit of loss and an indemnity reasonably acceptable in form and substance to the Company from the holder thereof, or, in the case of any such mutilation, upon surrender and cancellation of this Note, the Company will make and deliver, in lieu of this Note, a new Note of like tenor and unpaid principal amount and dated as of the date to which interest has been paid on this Note.

4. Persons Deemed Owners; Holders. The Company may deem and treat the person in whose name this Note is registered as the owner and holder of this Note for the purpose of receiving payment of principal of and interest on this Note and for all other purposes whatsoever, whether or not this Note shall be overdue. With respect to any Note at any time outstanding, the term "holder", as used herein, shall be deemed to mean the person in whose name such Note is registered as aforesaid at such time.

5. Prepayments.

(a) Optional Prepayment. Subject to any applicable restrictions contained in the Credit Agreement (as hereinafter defined), upon notice given as provided in Section 5(b), the Company may, at its option, prepay this Note, as a whole at any time or in part from time to time in amounts which shall be integral multiples of $100,000, at the prepayment prices (expressed as percentages of the principal amount so to be prepaid) set forth below with respect to the periods indicated below, in each case, together with any accrued and unpaid interest thereon through the date of such prepayment:

<TABLE>
<CAPTION>

Period	Percentage
<S>	<C>
Prepayment between March 29, 1996 and September 30, 1998	105.0%
Prepayment between October 1, 1998 and September 30, 1999	102.5%
Prepayment after September 30, 1999	100.0%.

</TABLE>

4

(b) Notice of Prepayment. The Company shall give written notice of any prepayment of this Note or any portion hereof pursuant to Section 5(a) not less than 20 nor more than 60 days prior to the date fixed for such prepayment. Such notice of prepayment and all other notices to be given to the holder of this Note shall be given by registered or certified mail to the person in whose name this Note is registered at its address designated on the register maintained by the Company on the date of mailing such notice of prepayment or other notice. Upon notice of prepayment being given as aforesaid, the Company covenants and agrees that it will prepay, on the date therein fixed for prepayment, this Note or the portion hereof, as the case may be, so called for prepayment, at the prepayment price determined in accordance with Section 5(a) hereof. A prepayment of less than all of the outstanding principal amount of this Note shall not relieve the Company of its obligation to make scheduled payments of interest payable in respect of the principal remaining outstanding on the Interest Payment Dates.

(c) Allocation of All Payments. In the event of any partial payment of less than all of the interest then due on the Notes then outstanding or any prepayment, purchase, redemption or retirement of less than all of the outstanding Notes, the Company will allocate the amount of interest so to be paid and the principal amount so to be prepaid, purchased, redeemed or retired to each Note in proportion, as nearly as may be, to the aggregate principal amount of all Notes then outstanding.

(d) Interest After Date Fixed for Prepayment. If this Note or a portion hereof is called for prepayment as herein provided, this Note or such portion shall cease to bear interest on and after the date fixed for such prepayment unless, upon presentation for such purpose, the Company shall fail to pay this Note or such portion, as the case may be, in which event this Note or such portion, as the case may be, and, so far as may be lawful, any overdue installment of interest, shall bear interest on and after the date fixed for such prepayment and until paid at the rate per annum provided herein.

(e) Surrender of Note; Notation Thereon. Upon any prepayment of a portion of the principal amount of this Note, the holder hereof, at its option, may require the Company to execute and deliver at the expense of the Company (other than for transfer taxes, if any), upon surrender of this Note, a new Note registered in the name of such person or persons as may be designated by such holder for the principal amount of this Note then remaining unpaid, dated as of the date to which the interest has been paid on the principal amount of this Note then remaining unpaid, or may present this Note to the Company for notation hereon of the payment of the portion of the principal amount of this Note so prepaid.

5

6. Offer to Repurchase Upon a Change of Control. Subject to any applicable restrictions in the Credit Agreement with respect to paragraph (a) below:

(a) Upon the occurrence of a Change of Control (as hereinafter defined), the holder of this Note shall have the right, at such holder's option, to require the Company to repurchase all or any part of such holder's Note in amounts which shall be in integral multiples of $100,000 pursuant to the offer described below, at a purchase price equal to 101% of the principal amount thereof so to be repurchased, plus accrued and unpaid interest, if any, to the date of purchase (a "Change of Control Payment"). Within 10 Business Days after the Company knows, or reasonably should know, of the occurrence of any Change of Control, the Company shall make an irrevocable, unconditional offer (except that such offer may be conditioned upon the closing of the transaction constituting the Change of Control) (a "Change of Control Offer") to all holders of the Notes to purchase all of the Notes for cash in an amount equal to the Change of Control Payment by sending written notice (the "Change of Control Notice") of such Change of Control Offer to each holder by registered or certified mail to the person in whose name the Note is registered at its address maintained by the Company on the date of the mailing of such notice. The Change of Control Notice shall contain all instructions and materials required by applicable law and shall contain or make available to the holder other information material to such holder's decision to tender this Note pursuant to the Change of Control Offer. The Change of Control Notice, which shall govern the terms of the Change in Control Offer, shall state:

(i) that the Change of Control Offer is being made pursuant to this Section 6, and that all Notes validly tendered will be accepted for payment;

(ii) the Change of Control Payment (including the amount of accrued and unpaid interest) and the purchase date, which will be no later than 30 days from the date such notice is mailed (the "Change of Control Payment Date");

(iii) that any Note not validly tendered will continue to accrue interest;

(iv) that, unless the Company defaults in the payment of the Change of Control Payment, any Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date;

(v) that holders electing to have a Note, or portion thereof, purchased pursuant to a Change of Control Offer will be

required to surrender the Note to the Company at the address specified in the notice not later than the close of

6

business on the Business Day prior to the Change of Control Payment Date;

(vi) that holders will be entitled to withdraw their election if the Company receives, not later than the close of business on the second Business Day prior to the Change of Control Payment Date, a telegram, facsimile transmission or letter setting forth the name of the holder, the principal amount of the Note delivered for purchase and a statement that such holder is withdrawing its election to have such principal amount of Note purchased; and

(vii) that holders whose Notes are being purchased only in part will be issued a new Note equal in principal amount to the unpurchased portion of the Note surrendered, which unpurchased portion must be equal to $100,000 in principal amount or an integral multiple thereof.

On or before the Change of Control Payment Date, the Company shall (i) accept for payment the Notes or portions thereof validly tendered pursuant to the Change of Control Offer prior to the close of business on the Change of Control Payment Date, (ii) promptly mail to the holders of Notes so accepted payment in an amount equal to the Change of Control Payment (including accrued and unpaid interest) for such Notes, and the Company shall promptly mail or deliver to such holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; provided, that each such new Note will be in a principal amount of $100,000 or an integral multiple thereof. Any Notes not so accepted shall be promptly mailed or delivered by the Company to the holder thereof.

(b) In the event of a Change of Control, the Company will promptly, in good faith, (i) seek to obtain any required consent of the holders of any Senior Indebtedness (as defined herein) to permit the Change of Control Offer and the Change of Control Payment contemplated by this Section 6, or (ii) repay some or all of such Senior Indebtedness to the extent necessary (including, if necessary, payment in full of such Senior Indebtedness and payment of any prepayment premiums, fees, expenses or penalties) to permit the Change of Control Offer and the Change of Control Payment contemplated hereby without such consent. Failure to comply with the foregoing shall not relieve the Company from its obligations pursuant to paragraph (a) above.

(c) For purposes of this Note "Change of Control" means

(i) the sale, lease or transfer, whether direct or indirect, of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, in one transaction or a series of related transactions, to any "person" or "group" (other than the WCAS Group), (ii) the liquidation or dissolution of the Company or the adoption of a plan of liquidation or dissolution of the Company,

(iii) the acquisition of "beneficial ownership" by any "person" or "group" (other than the WCAS Group) of voting stock of the Company representing more than 50% of the voting power of all outstanding shares of such voting stock, whether by way of merger or consolidation or otherwise, or (iv) during any period of two consecutive years, the failure of those individuals who at the beginning of such period constituted the Company's Board of Directors (together with any new directors whose election or appointment by such Board or whose nomination for election or appointment by the shareholders of the Company was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) to constitute a majority of the Company's Board of Directors then in office; provided, however, that in no event shall a foreclosure on any collateral pledged by the Company in respect of obligations arising under or in connection with the Credit Agreement constitute a Change of Control.

For purposes of this definition, (i) the terms "person" and "group" shall have the meaning set forth in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not applicable, (ii) the term "beneficial owner" shall have the meaning set forth in Rules 13d-3 and 13d-5 under the Exchange Act, whether or not applicable, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time or upon the occurrence of certain events, (iii) any "person" or "group" will be deemed to beneficially own any voting stock of the Company so long as such person or group beneficially owns, directly or indirectly, in the aggregate a majority of the voting stock of a registered holder of the voting stock of the Company, and (iv) the term "WCAS Group" shall mean WCAS VII, WCAS CP II and any general partners thereof.

7. Covenants Relating to the Note. The Company covenants and agrees that so long as the Note shall be outstanding and, in the case of paragraphs (k) through (n) below, so long as one million dollars ($1,000,000) of aggregate principal amount of the Notes is outstanding:

(a) Maintenance of Office. The Company will maintain an

office or agency in such place in the United States of America as the Company may designate in writing to the registered holder of this Note, where this Note may be presented for registration of transfer and for exchange as herein provided, where notices and demands to or upon the Company in respect of this Note may be served and where this Note may be presented for payment. Until the Company otherwise notifies the holder hereof, said office shall be the principal office of the Company located at 2101 Bush Street, San Francisco, California 94115.

(b) Payment of Taxes. The Company will promptly pay and discharge or cause to be paid and discharged, before the same shall become in default, all material lawful taxes and assessments imposed upon the Company or any of its subsidiaries or upon the income and profits of the Company or any of its subsidiaries, or upon any property, real, personal or mixed, belonging to the Company or any of its subsidiaries, or upon any part thereof by the United States or any State thereof, as well as all material lawful claims for labor, materials and supplies which, if unpaid, would become a lien or charge upon such property or any part thereof; provided, however, that neither the Company nor any of its subsidiaries shall be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as both (x) the Company has established adequate reserves for such tax, assessment, charge, levy or claim and (y)(i) the Company or a subsidiary shall be contesting the validity thereof in good faith by appropriate proceedings or (ii) the Company shall, in its good faith judgment, deem the validity thereof to be questionable and the party to whom such tax, assessment, charge, levy or claim is allegedly owed shall not have made written demand for the payment thereof.

(c) Corporate Existence. The Company will do or cause to be done all things necessary and lawful to preserve and keep in full force and effect (i) its corporate existence and the corporate existence of each of its subsidiaries and (ii) the material rights and franchises of the Company and each of its subsidiaries under the laws of the United States or any state thereof, or, in the case of subsidiaries organized and existing outside the United States, under the laws of the applicable jurisdiction; provided, however, that nothing in this paragraph (c) shall prevent the abandonment or termination of any rights or franchises of the Company, or the liquidation or dissolution of, or a sale, transfer or disposition (whether through merger, consolidation, sale or otherwise) of all or any substantial part of the property and assets of, any subsidiary or the abandonment or termination of the corporate existence, rights and franchises of any subsidiary if such abandonment, termination, liquidation, dissolution, sale, transfer or disposition is, in the good faith business judgment of the Company, in the best interests of the Company and not disadvantageous to the holder of this Note.

(d) Maintenance of Property. The Company will at all times maintain and keep, or cause to be maintained and kept, in good repair, working order and condition (reasonable wear and tear excepted) all significant properties of the Company and its subsidiaries used in the conduct of the Business, and will from time to time make or cause to be made all needful and proper repairs, renewals, replacements, betterments and improvements thereto, so that the Business may be conducted at all times in the ordinary course consistent with past practice.

(e) Insurance. The Company will, and will cause each of its subsidiaries to, (i) keep adequately insured, by financially sound and reputable insurers, all property of a character usually insured by corporations engaged in the same or a similar business similarly situated against loss or damage of the kinds customarily insured against by such corporations and (ii) carry, with financially sound and reputable insurers, such other insurance (including without limitation liability insurance) in such amounts as are available at reasonable expense and to the extent believed advisable in the good faith business judgment of the Company.

(f) Keeping of Books. The Company will at all times keep, and cause each of its subsidiaries to keep, proper books of record and account in which proper entries will be made of its transactions in accordance with generally accepted accounting principles consistently applied.

(g) Transactions with Affiliates. The Company shall not enter into, or permit any of its subsidiaries to enter into, any transaction with any of its or any subsidiary's officers, directors, employees or any person related by blood or marriage to any such person or any entity in which any such person owns any beneficial interest, except for (i) normal employment arrangements, benefit programs and employee incentive option programs on reasonable terms, (ii) any transaction approved by the Board of Directors of the Company in accordance with the provisions of Section 144 of the Delaware General Corporation Law, or otherwise permitted by such Section, (iii) customer transactions in the ordinary course of business and on arm's length terms and (iv) the transactions contemplated by the Purchase Agreement.

(h) Notice of Certain Events. The Company shall, immediately after it becomes aware of the occurrence of (i) any Event of Default (as hereinafter defined) or any event which, upon notice or lapse of time or both, would constitute such an Event of Default, or (ii) any action, suit or proceeding at law or in equity or by or before any governmental instrumentality or agency which, if adversely determined, would materially impair the right of the Company to carry on its business substantially as now

or then conducted, or would have a material adverse effect on the properties, assets, financial condition, prospects, operating results or business of the Company and its subsidiaries taken as a whole, give notice to the holder of this Note, specifying the nature of such event.

(i) Payment of Principal and Interest on the Note. The Company will use its best efforts, subject to the provisions of applicable credit arrangements (including the Credit Agreement), contractual obligations of the Company and/or its subsidiaries and any applicable law restricting the same, to provide funds from its subsidiaries to the Company, by dividend, advance or otherwise, sufficient to permit payment by the Company of the principal of and

interest on this Note in accordance with its terms. Subject to any applicable provisions in the Credit Agreement and documents executed and delivered in connection therewith, the Company will not, and will not permit any subsidiary to, directly or indirectly create or otherwise cause to exist any encumbrance or restriction on the ability of any subsidiary to pay dividends or make any other distributions to the Company or any wholly-owned subsidiary of the Company in respect of its capital stock.

(j) Consolidation, Merger and Sale. The Company will not consolidate or merge with or into, or sell or otherwise dispose of all or substantially all of its property in one or more related transactions to, any other corporation or other entity, unless:

(i) the Company is the surviving corporation or the entity formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale or other disposition shall have been made is a corporation organized or existing under the laws of the United States of any state thereof or the District of Columbia;

(ii) the surviving corporation or other entity (if other than the Company) shall expressly and effectively assume in writing the due and punctual payment of the principal of and interest on this Note, according to its tenor, and the due and punctual performance and observance of all the terms, covenants, agreements and conditions of this Note to be performed or observed by the Company to the same extent as if such surviving corporation had been the original maker of this Note;

(iii) the Company or such other corporation or other entity shall not otherwise be in default in the performance or observance of

any covenant, agreement or condition of this Note or the Purchase Agreement; and

(iv) the holder of this Note shall have received, in connection therewith, an opinion of counsel for the Company (or other counsel satisfactory to the holder), in form and substance satisfactory to the holder, to the effect that any such consolidation, merger, sale or conveyance and any such assumption complies with the provisions of this paragraph (j).

Notwithstanding anything to the contrary herein, in no event shall a foreclosure on any collateral pledged by the Company in respect of obligations arising under or in connection with the Credit Agreement be deemed to constitute a violation of the Company's obligations pursuant to this paragraph (j).

(k) Limitation on Indebtedness and Disqualified Stock. The Company will not, and will not permit any of its subsidiaries to, (i) incur or permit to remain outstanding any indebtedness for money borrowed ("Indebtedness"), except (A) Senior Indebtedness (as defined in Section 13), (B) Indebtedness existing on the date of original issuance of this Note, (C) Indebtedness permitted to be incurred under the Credit Agreement as in effect from time to time after the original issuance of this Note (other than Indebtedness that is subordinate or junior in right of payment (to any extent) to any Senior Indebtedness and senior or pari passu in right of payment (to any extent) to the Notes), or (D) in the event that the Credit Agreement has terminated, Indebtedness permitted to be incurred under any successor credit agreement of the Company with respect to Senior Indebtedness, or if there exists no such credit agreement, such Indebtedness as may be mutually agreed upon by the Company and the holders of a majority of the aggregate principal amount of the Notes then outstanding, or (ii) issue any capital stock ("Disqualified Stock") of the Company or any of its subsidiaries (other than the Convertible Preferred Stock (as hereinafter defined)) which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures, or is mandatorily redeemable, whether pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to December 31, 2001.

(l) Restricted Payments. The Company will not, and will not permit any of its subsidiaries to: (i) declare or pay any dividends on, or make any other distribution or payment on account of, or redeem, retire, purchase or otherwise acquire, directly or indirectly, any shares of any class of stock of the Company, whether now or hereafter outstanding, or make any

other distribution in respect thereof, either directly or indirectly, whether in cash, property or in obligations of the Company or any of its subsidiaries, except for (X) distributions of shares of the same class or of a different class of stock pro rata to all holders of shares of a class of stock, (Y) the payment of cash dividends on account of the Company's Convertible Preferred Stock, $.01 par value (the "Convertible Preferred Stock"), or (Z) dividends, distributions or payments by any subsidiary to the Company or to any wholly-owned subsidiary of the Company, or (ii), except as permitted under the Credit Agreement, make any payments of principal of, or retire, redeem, purchase or otherwise acquire any Indebtedness other than any Senior Indebtedness or the Notes (such declarations, payments, purchases, redemptions, retirements, acquisitions or distributions being herein called "Restricted Payments").

(m) Limitation on Liens. The Company shall not, and shall not permit any of its subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist any lien, pledge , charge, security interest or encumbrance (collectively,

"Liens") on any asset now owned or hereafter acquired, or on any income or profits therefrom or assign or convey any right to receive income therefrom, except for (i) Liens permitted under the Credit Agreement, (ii) liens for current taxes not yet due, (iii) landlord's liens, (iv) purchase money liens and (v) workman's, materialman's, warehouseman's and similar liens arising by law or statute.

(n) Inspection of Property. The Company will permit the holder hereof to visit and inspect any of the properties of the Company and any other subsidiaries and their books and records and to discuss the affairs, finances and accounts of any of such corporations with the principal officers of the Company and such subsidiaries and their independent public accountants, all at such reasonable times and as often as such holders may reasonably request.

8. Modification by Holders; Waiver. The Company may, with the written consent of the holders of not less than a majority in principal amount of the Notes then outstanding, modify the terms and provisions of this Note or the rights of the holders of this Note or the obligations of the Company hereunder, and the observance by the Company of any term or provision of this Note may be waived with the written consent of the holders of not less than a majority in principal amount of the Notes then outstanding; provided, however, that no such modification or waiver shall:

(i) change the maturity of any Note or reduce the

principal amount thereof or reduce the rate or extend the time of payment of interest thereon without the consent of the holder of each Note so affected; or

(ii) give any Note any preference over any other Note, including, without limitation, by amending the allocation provisions of Section 5(c) hereof; or

(iii) reduce the percentage of principal amount outstanding under any Note, the consent of the holder of which is required for any such modification; or

(iv) amend the provisions of Section 13 hereof in any manner adverse to the interests of the holder of this Note,

without the consent of the holder of each Note so affected.

Any such modification or waiver shall apply equally to each holder of the Notes and shall be binding upon them, upon each future holder of any Note and upon the Company, whether or not such Note shall have been marked to indicate such modification or waiver, but any Note issued thereafter shall bear a notation referring to any such modification or waiver. Promptly after obtaining the written consent of the holders as herein provided,

the Company shall transmit a copy of such modification or waiver to the holders of the Notes at the time outstanding.

9. Events of Default. If any one or more of the following events, herein called "Events of Default," shall occur (for any reason whatsoever, and whether such occurrence shall, on the part of the Company or any of its subsidiaries, be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of a court of competent jurisdiction or any order, rule or regulation of any administrative or other governmental authority) and such Event of Default shall be continuing:

(i) default shall be made in the payment of the principal of this Note when and as the same shall become due and payable, whether at maturity or at a date fixed for prepayment or repurchase (including default of any optional prepayment in accordance with the requirements of Section 5 or any Change of Control Payment in accordance with the requirements of Section 6, as the case may be) or by acceleration or otherwise; or

(ii) default shall be made in the payment of any installment of interest on this Note according to its terms when and as the same shall become due and payable; or

(iii) default shall be made in the due observance or performance of any covenant, condition or agreement on the part of the Company contained herein Section 7(j); or

(iv) default shall be made in the due observance or performance of any other covenant, condition or agreement on the part of the Company to be observed or performed pursuant to the terms hereof or of the Purchase Agreement, and such default shall continue for 10 days after written notice thereof, specifying such default and requesting that the same be remedied; or

(v) any representation or warranty made by or on behalf of the Company herein or in the Purchase Agreement shall prove to have been false or incorrect in any material respect on the date on or as of which made; or

(vi) the entry of a decree or order for relief by a court having jurisdiction in the premises in respect of the Company or any of its subsidiaries in any involuntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or other similar laws, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or any of its subsidiaries for any substantial part of any of their property or ordering the winding-up or liquidation of any of their affairs and the

continuance of any such decree or order unstayed and in effect for a period of 30 consecutive days; or

(vii) the commencement by the Company or any of its subsidiaries of a voluntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or other similar laws, or the consent by any of them to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Company or any of its subsidiaries for any substantial part of any of their property, or the making by any of them of any general assignment for the benefit of creditors, or the failure of the Company or of any of its subsidiaries generally to pay its debts as such debts become due, or the taking of corporate action

by the Company or any of its subsidiaries in furtherance of or which might reasonably be expected to result in any of the foregoing; or

(viii) a default or an event of default as defined in any instrument evidencing or under which the Company or any of its subsidiaries has outstanding at the time any Indebtedness in excess of $500,000 in aggregate principal amount shall occur and as a result thereof the maturity of any such Indebtedness shall have been accelerated so that the same shall have become due and payable prior to the date on which the same would otherwise have become due and payable and such acceleration shall not have been rescinded or annulled within 20 days; or

(ix) final judgment (not reimbursed by insurance policies of the Company or any of its subsidiaries) for the payment of money in excess of $500,000 shall be rendered against the Company or any of its subsidiaries and the same shall remain undischarged for a period of 30 days during which execution shall not be effectively stayed;

then the holders of at least 33-1/3% in aggregate principal amount of the Notes at the time outstanding may, at their option, by a notice in writing to the Company declare this Note to be, and this Note shall thereupon be and become immediately due and payable together with interest accrued thereon, without diligence, presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Company to the extent permitted by law.

At any time after any declaration of acceleration has been made as provided in this Section 9, the holders of a majority in principal amount of the Notes then outstanding may, by notice to the Company, rescind such declaration and its consequences, provided, however, that no such rescission shall extend to or affect any subsequent default or Event of Default or impair any right consequent thereon.

Without limiting the foregoing, the Company hereby waives any right to trial by jury in any legal proceeding related in any way to this Note and agrees that any such proceeding may, if the holder so elects, be brought and enforced in the Supreme Court of the State of New York for New York County or the United States District Court for the Southern District of New York and the Company hereby waives any objection to jurisdiction or venue in any such proceeding commenced in such court. The Company further agrees that any process required to be served on it for purposes of any such proceeding may be served on it, with the same effect as personal service on it within the State of New York, by registered mail addressed to it at its office or agency set forth in paragraph (a) of Section 7 for purposes of notices hereunder.

10. Suits for Enforcement. Subject to the provisions of Section 13 of this Note, in case any one or more of the Events of Default specified in Section 9 of this Note shall happen and be continuing (subject to any applicable cure period expressly set forth herein), the holder of this Note may proceed to protect and enforce its rights by suit in equity, action at law and/or by other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Note or in aid of the exercise of any power granted in this Note, or may proceed to enforce the payment of this Note or to enforce any other legal or equitable right of the holder of this Note.

In case of any default under this Note, the Company will pay to the holder hereof reasonable collection costs and reasonable attorneys' fees, to the extent actually incurred.

11. Remedies Cumulative. No remedy herein conferred upon the holder of this Note is intended to be exclusive of any other remedy and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

12. Remedies Not Waived. No course of dealing between the Company and the holder of this Note or any delay on the part of the holder hereof in exercising any rights hereunder shall operate as a waiver of any right of the holder of this Note.

13. Subordination. (a) Anything contained in this Note to the contrary notwithstanding, the indebtedness evidenced by the Notes shall be subordinate and junior, to the extent set forth in the following paragraphs (A), (B), (C) and (D), to all Senior Indebtedness of the Company. "Senior Indebtedness" shall mean the principal of, premium, if any, and interest (including any interest accruing subsequent to the filing of a petition of bankruptcy at the rate provided for in the documentation with respect thereto, whether or not such interest is an allowed claim under applicable law) on, and all reasonable fees, reimbursement and indemnity

obligations, and all other obligations arising in connection with, any indebtedness for borrowed money of the Company, contingent or otherwise, now outstanding or created, incurred, issued, assumed or guaranteed in the future, for which, in the case of any particular indebtedness, the instrument creating or evidencing the same or pursuant to which the same is outstanding expressly provides that such indebtedness shall not be subordinate in right of payment to any other indebtedness of the Company. Without limiting the generality of the

foregoing, Senior Indebtedness shall include all Obligations (under and as defined in the Credit Agreement); notwithstanding the foregoing, Senior Indebtedness shall include only such Obligations until such time as the same are paid in full in cash and all obligations to provide financial accommodations under the Credit Agreement have terminated. For purposes of this Note, "Credit Agreement" shall mean the Credit Agreement, dated as of March 29, 1996 among Aurora Electronics Group, Inc., the Company and other Guarantors named therein, the Lenders named therein and Chemical Bank, as Agent (the "Agent"), together with any agreement entered into in connection with the restatement, renewal, extension, restructuring, refunding or refinancing of the Obligations (under and as defined in such Credit Agreement).

(A) In the event of any insolvency, bankruptcy, liquidation, reorganization or other similar proceedings, or any receivership proceedings in connection therewith, relative to the Company or its creditors or its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy proceedings, then all Senior Indebtedness shall first be paid in full in cash, before any payment, whether on account of principal, interest or otherwise, is made upon the Notes.

(B) In any of the proceedings referred to in paragraph (A) above, any payment or distribution of any kind or character, whether in cash, property, stock or obligations which may be payable or deliverable in respect of the Notes shall be paid or delivered directly to the holders of Senior Indebtedness for application in payment thereof, unless and until all Senior Indebtedness shall have been paid in full in cash.

(C) No payment shall be made, directly or indirectly, on account of the Notes (i) upon maturity of any Senior Indebtedness obligation, by lapse of time, acceleration (unless waived), or otherwise, unless and until all principal thereof and interest thereon and all other obligations in respect thereof shall first be paid in full in cash and all obligations to provide financial accommodations under the Credit Agreement have terminated, or (ii) upon the happening of any default in payment of any principal of, premium, if any, or interest on or any other amounts payable in respect of Senior Indebtedness when the same becomes due and payable whether at

maturity or at a date fixed for prepayment or by declaration or otherwise (a "Senior Payment Default"), unless and until such Senior Payment Default shall have been cured or waived or shall have ceased

to exist.

(D) Upon the happening of an event of default with respect to any Senior Indebtedness permitting (after notice or lapse of time or both) one or more holders of such Senior Indebtedness (or, in the case of the Credit Agreement, the Agent) to declare such Senior Indebtedness due and payable prior to the date on which it is otherwise due and payable (a "Nonmonetary Default"), upon the occurrence of (i) receipt by the holders of the Notes of written notice from the holders of said Senior Indebtedness (or, in the case of the Credit Agreement, the Agent) of a Nonmonetary Default (any such notice, a "Blockage Notice"), or (ii) if such Nonmonetary Default results from the acceleration of the Notes, the date of such acceleration; then (x) the Company will not make, directly or indirectly, to the holder of the Notes any payment of any kind of or on account of all or any part of the Notes; (y) the holders of the Notes will not accept from the Company any payment of any kind of or on account of all or any part of the Notes and (z) the holders of the Notes may not take, demand, receive, sue for, accelerate or commence any remedial proceedings with respect to any amount payable under the Notes, unless and until in each case described in clauses (x), (y) and (z) all such Senior Indebtedness shall have been paid in full in cash; provided, however, that if such Nonmonetary Default shall have occurred and be continuing for a period (a "Blockage Period") commencing on the earlier of the date of receipt of such Blockage Notice or the date of the acceleration of the Notes and ending 179 days thereafter (it being understood that not more than one Blockage Period may be commenced with respect to the Notes during any period of 360 consecutive days), and during such Blockage Period (i) such Nonmonetary Default shall not have been cured or waived, (ii) the holder of such Senior Indebtedness (or, in the case of the Credit Agreement, the Agent) shall not have made a demand for payment and commenced an action, suit or other proceeding against the Company and (iii) none of the events described in subsection (A) above shall have occurred, then (to the extent not otherwise prohibited by subsections (A), (B) or (C) above) the Company may, not less than 10 days after receipt by the holders of such Senior Indebtedness or the Agent, as the case may be, of written notice to such effect from the holders of the Notes, make and the holders of the Notes may accept from the Company all past due and current payments of any kind of or on account of the Notes, and such holder may demand, receive, retain, sue for or otherwise seek enforcement or collection of all amounts payable on account of principal of or interest on the Notes.

(b) Subject to the payment in full in cash of all Senior Indebtedness as aforesaid, the holders of the Notes shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of any kind or character, whether in cash, property, stock or obligations, which may be payable or deliverable to the holders of Senior Indebtedness, until the principal of, and interest on, the Notes shall be paid in full in cash, and, as between the Company, its creditors other than the holders of Senior Indebtedness, and the holders of the Notes, no such payment or distribution made to the holders of Senior Indebtedness by virtue of this Section 13 which otherwise would have been made to the holder of the Notes shall be deemed a payment by the Company on account of the Senior Indebtedness, it being understood that the provisions of this Section 13 are and are intended solely for the purposes of defining the relative rights of the holders of the Notes, on the one hand, and the holder of the Senior Indebtedness, on the other hand. Subject to the rights, if any, under this Section 13 of holders of Senior Indebtedness to receive cash, property, stock or obligations otherwise payable or deliverable to the holders of the Notes, nothing herein shall either impair, as between the Company and the holder of the Notes, the obligation of the Company, which is unconditional and absolute, to pay to the holder thereof the principal thereof and interest thereon in accordance with its terms or prevent (except as otherwise specified therein) the holders of the Notes from exercising all remedies otherwise permitted by applicable law or hereunder upon default hereunder.

(c) If any payment or distribution of any character or any security, whether in cash, securities or other property, shall be received by any holders of the Notes in contravention of any of the terms hereof or before all the Senior Indebtedness obligations have been paid in full in cash and all obligations to provide financial accommodations under the Credit Agreement have terminated, such payment or distribution or security shall be received in trust for the benefit of, and shall be paid over or delivered and transferred to, the holders of the Senior Indebtedness at the time outstanding in accordance with the priorities then existing among such holders for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all such Senior Indebtedness in full in cash. In the event of the failure of any such holder to endorse or assign any such payment, distribution or security, each holder of any Senior Indebtedness is hereby irrevocably authorized to endorse or assign the name.

(d) The rights under these subordination provisions of the holders of any Senior Indebtedness as against any holders of the Notes shall remain in full force and effect without regard to, and shall not be impaired or affected by:

(i) any act or failure to act on the part of the Company; or

19

(ii) any extension or indulgence in respect of any payment or prepayment of any Senior Indebtedness or any part thereof or in respect of any other amount payable to any holder of any Senior Indebtedness; or

(iii) any amendment, modification or waiver of, or addition or supplement to, or deletion from, or compromise, release, consent or other action in respect of, any of the terms of any Senior Indebtedness or any other agreement which may be made relating to any Senior Indebtedness; or

(iv) any exercise or non-exercise by the holder of any Senior Indebtedness of any right, power, privilege or remedy under or in respect of such Senior Indebtedness or these subordination provisions or any waiver of any such right, power, privilege or remedy or of any default in respect of such Senior Indebtedness or these subordination provisions or any receipt by the holder of any Senior Indebtedness of any security, or any failure by such holder to perfect a security interest in, or any release by such holder of, any security for the payment of such Senior Indebtedness; or

(v) any merger or consolidation of the Company or any of its subsidiaries into or with any other person, or any sale, lease or transfer of any or all of the assets of the Company or any of its subsidiaries to any other person; or

(vi) absence of any notice to, or knowledge by, any holder of any claim hereunder of the existence or occurrence of any of the matters or events set forth in the foregoing clauses (i) through (v); or

(vii) any other circumstance.

(e) The holders of the Notes unconditionally waive (i) notice of any of the matters referred to in Section 13(d); (ii) all notices which may be required, whether by statute, rule of law or otherwise, to preserve intact any rights of any holder of any Senior Indebtedness, including, without limitation, any demand, presentment and protest, proof of notice of nonpayment under any Senior Indebtedness or the Credit Agreement, and notice of any failure on the part of the Company to perform and comply with any covenant, agreement, term or condition of any Senior Indebtedness, (iii) any right to the enforcement, assertion or exercise by any holder of any Senior Indebtedness of any right, power, privilege or remedy conferred in such Senior Indebtedness or otherwise, (iv) any requirements of diligence on the part of any holder of any of the Senior Indebtedness, (v) any requirement on the part of any holder of any Senior Indebtedness to mitigate damages resulting from any default under such Senior Indebtedness and (vi) any notice of any sale, transfer or other

disposition of any Senior Indebtedness by any holder thereof.

(f) The obligations of the holder under these subordination provisions shall continue to be effective, or be reinstated, as the case may be, if at any time any payment in respect of any Senior Indebtedness, or any other payment to any holder of any Senior Indebtedness in its capacity as such, is rescinded or must otherwise be restored or returned by the holder of such Senior Indebtedness upon the occurrence of any proceeding referred to in paragraph 13(a)(A) or upon or as a result of the appoint of a receiver, intervenor or conservator of, or trustee or similar officer for, the Company or any substantial part of its property or otherwise, all as though such payment had not been made.

(g) Notwithstanding anything to the contrary herein, the Company shall not at any time offer (and the holder hereof shall not at any time accept) (i) any pledge of collateral or (ii) any guaranty by any parent or subsidiary of the Company, in each case with respect to the obligations of the Company under this Note.

14. Covenants Bind Successors and Assigns. All the covenants, stipulations, promises and agreements in this Note contained by or on behalf of the Company shall bind its successors and assigns, whether so expressed or not.

15. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York.

16. Headings. The headings of the sections and paragraphs of this Note are inserted for convenience only and do not constitute a part of this Note.

17. Third Party Beneficiaries. The provisions of Section 13 are intended to be for the benefit of, and shall be enforceable directly by each holder of, the Senior Indebtedness.

IN WITNESS WHEREOF, Aurora Electronics, Inc. has caused this Note to be signed in its corporate name by one of its officers thereunto duly authorized and to be dated as of the day and year first above written.

AURORA ELECTRONICS, INC.

By: ---------------------------

Jim C. Cowart
Chairman and Chief
Executive Officer

EXHIBIT 10.33

FINANCIAL SUPPORT AGREEMENT

FINANCIAL SUPPORT AGREEMENT, dated as of September 30, 1996, among AURORA ELECTRONICS, INC., a Delaware corporation (the "Company"), AURORA ELECTRONICS GROUP, INC., a California corporation and wholly owned subsidiary of the Company ("AEG"), WELSH, CARSON, ANDERSON & STOWE VII, L.P., a Delaware limited partnership ("WCAS VII"), and WCAS CAPITAL PARTNERS II, L.P., a Delaware limited partnership ("WCAS CP II" and together with WCAS VII being hereinafter collectively referred to as the "Guarantors").

WHEREAS, pursuant to the Credit Agreement, dated as of March 29, 1996 (the "Credit Agreement"), among AEG, the guarantors named therein, the lenders named therein (collectively, the "Lenders"), and The Chase Manhattan Bank (formerly known as Chemical Bank, N.A.) as a Lender and as agent for the Lenders (in such capacity, "Agent"), AEG is indebted to the Lenders;

WHEREAS, the Company is a guarantor of the obligations of AEG to the Lenders pursuant to the Credit Agreement;

WHEREAS, various defaults exist under the Credit Agreement, which defaults give the Lenders the right to accelerate the maturity of AEG's indebtedness thereunder;

WHEREAS, the Lenders are willing to waive such defaults and amend certain provisions of the Credit Agreement in various respects beneficial to the Company in accordance with the Waiver and Amendment Agreement No. 3 dated as of September 30, 1996 (the "Waiver and Amendment Agreement") among AEG, the Company, the Lenders and the Agent, in consideration of the execution and delivery of the Guarantees (as hereinafter defined) by the Guarantors as contemplated by this Agreement;

WHEREAS, the Guarantors are substantial shareholders of the Company and have determined that the amendment and waiver of such provisions of the Credit Agreement by the Lenders will enhance the value of the Guarantors' equity investments in the Company;

WHEREAS, in order to enhance and protect their existing substantial investments in the Company and to facilitate the amendment and waiver of such provisions of the Credit Agreement, the Guarantors are willing to assume additional financial risk in their roles as shareholders by issuing the Guarantees;

WHEREAS, in giving the Guarantees, the Guarantors are making additional contributions to the capital of the Company;

WHEREAS, in recognition of the additional financial risk that each

of the Guarantors is assuming by giving its respective Guarantees (and not as compensation or a payment (x) for any services or (y) otherwise in connection with the carrying on of a trade or business) and for the other consideration set forth herein, the Company is willing to issue Warrants (as hereinafter defined) to each of the Guarantors;

WHEREAS, AEG is willing to issue Notes (as hereinafter defined) to each Guarantor in the event that such Guarantor shall be required to make any payment on its respective Guarantees; and

WHEREAS, the Boards of Directors of the Company and AEG, including a majority of disinterested directors in accordance with Section 144 of the General Corporation Law of the State of Delaware, have determined that the transactions contemplated by this Agreement are in the best interests of the Company and AEG, respectively, and their respective shareholders and creditors;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereby agree as follows:

I.

ISSUANCE OF WARRANTS AND NOTES

SECTION 1.01 Issuance of Warrants. Upon execution and delivery by each of the Guarantors of its respective Guarantees substantially in the form of Exhibits A-1 and A-2 hereto (the "Guarantees") in the respective amounts set forth opposite the name of such Guarantor on Schedule I attached hereto under the heading "Amount of Guarantee" and upon delivery to the Company by the Guarantors of an aggregate $6,000 representing the aggregate purchase price for the Warrants, the Company shall issue and deliver warrants to each Guarantor substantially in the form attached as Exhibits B-1 and B-2 hereto (the "Warrants") to purchase up to the number of shares of Common Stock, $.03 par value ("Common Stock") of the Company set forth in each Warrant, it being understood and agreed that the number of shares of Common Stock into which the Warrants are exercisable shall be allocated among the Guarantors in accordance with each Guarantor's "Fractional Share" as determined in accordance with the Guarantees.

SECTION 1.02 Issuance of Notes. Subject to Article IV hereof, in the event that at any time either Guarantor shall make a payment on its respective Guarantee pursuant to a demand by the Agent, AEG shall concurrently with such Guarantor's payment to the Agent issue and deliver to such Guarantor one or more 10% Senior Subordinated Notes of AEG due 2001 substantially in the

form of Exhibit C hereto (the "Notes"), in an aggregate principal amount equal to the amount paid by such Guarantor to the Agent.

SECTION 1.03 Tax and Accounting Treatment. The Company, AEG and the

Guarantors agree that for federal, state and local income tax purposes, as well as for financial accounting purposes: (i) they will treat the Guarantors as having paid (x) $6,000 for the Warrants and (y) an amount equal to the amount paid by the Guarantors pursuant to Section 1.02 of this Agreement for the Notes; (ii) the issuance of the Warrants and the Notes and the issuance of any shares of Common Stock of the Company upon the exercise of the Warrants (the "Warrant Shares" and collectively with the Warrants and the Notes, the "Securities") is and shall be in the nature of a capital transaction; and (iii) in no event will they treat the issuance of any of the Securities as compensation or a payment (x) for any services or (y) otherwise in connection with the carrying on of a trade or business, and in no event shall the Company claim any tax deduction with respect to such issuance, exercise or conversion.

II.

REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND AEG

The Company and AEG represent and warrant to the Guarantors as follows:

SECTION 2.01 Organization. Each of the Company and AEG is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and the State of California, respectively, and is duly licensed or qualified to do business as a foreign corporation and is in good standing in each of the jurisdictions in which it owns or leases any real property or in which the nature of business transacted by it makes such licensing or qualification necessary except where the failure to be so licensed or qualified would not have a material adverse affect on the business, operations or financial condition of the Company or AEG. Each of the Company and AEG has the corporate power and authority to own and hold its properties and to carry on its business as currently conducted, to execute, deliver and perform this Agreement and to issue, sell and deliver its respective Securities.

SECTION 2.02 Authorization of Agreement, Etc. (a) Each of (i) the execution, delivery and performance by the Company and AEG of this Agreement, the Warrants and the Notes, (ii) the performance by the Company and AEG of their respective obligations hereunder and thereunder, and (iii) the issuance and delivery by the Company of the Warrant Shares upon exercise of the Warrants has been duly authorized by all requisite corporate action and will not violate any provision of law, any order of

any court or other agency of government, the Certificate of Incorporation or By-laws of the Company or AEG, as the case may be, or any provision of any indenture, agreement or other instrument by which the Company, AEG, or any of their subsidiaries or any of their respective properties or assets is bound or affected, or conflict with, result in a breach of or constitute (with due notice

or lapse of time or both) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature upon any of the properties or assets of the Company, AEG, or any of their subsidiaries.

(b) The Warrant Shares have been duly reserved by the Company for issuance upon exercise of the Warrants and, when so issued and delivered, will be duly authorized, validly issued and outstanding, fully paid and nonassessable shares of the Common Stock of the Company. The issuance and delivery of the Warrant Shares upon exercise of the Warrants are not subject to any preemptive rights of stockholders of the Company or any subsidiary of the Company or to any right of first refusal or other similar right in favor of any person.

SECTION 2.03 Validity. This Agreement has been duly executed and delivered by the Company and AEG and constitutes the legal, valid and binding obligation of the Company and AEG, enforceable in accordance with its terms.

SECTION 2.04 Authorized Capital Stock. (a) The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock and 1,000,000 shares of Preferred Stock (of which 400,000 shares have been designated as Convertible Preferred Stock), par value $.01 per share (the "Preferred Stock"), of the Company. As of the date hereof, 10,485,370 shares of Common Stock are validly issued and outstanding, fully paid and nonassessable (of which 4,742,847 shares constitute treasury shares), and 400,000 shares of Preferred Stock are issued and outstanding.

(b) Except as set forth on Schedule 2.04 hereto, (i) no subscription, warrant, option, convertible security or other right (contingent or other) to purchase or acquire any shares of any class of capital stock of the Company is authorized or outstanding, (ii) there is no commitment of the Company to issue any shares, warrants, options or other such rights or to distribute to holders of any class of its capital stock any evidences of indebtedness or assets, and (iii) the Company has no obligation (contingent or other) to purchase, redeem or otherwise acquire any shares of its capital stock or any interest therein or to pay any dividend or make any other distribution in respect thereof.

III.

REPRESENTATIONS AND WARRANTIES OF THE GUARANTORS

The Guarantors represent and warrant to the Company that they are acquiring the Securities for their own respective accounts for purposes of investment and not with a view to or for sale in connection with any distribution thereof. The Guarantors further represent that they understand (i) that the Securities have not been registered under the Securities Act by reason

of their issuance in transactions exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof, (ii) the Securities must be held indefinitely unless a subsequent disposition thereof is registered under the Securities Act or is otherwise exempt from such registration, (iii) the Securities will bear a legend to such effect, and (iv) the Company will make a notation on its transfer books to such effect. The Guarantors further understand that the exemption from registration afforded by Rule 144 under the Securities Act depends on the satisfaction of various conditions and that, if applicable, affords the basis of sales of the Securities in limited amounts under certain conditions. The Guarantors acknowledge that they have had a full opportunity to request from the Company to review, and have received, all information deemed relevant in making a decision to enter into this Agreement and consummate the transactions contemplated hereby. The Guarantors are "Accredited Investors" within the meaning of Rule 501(a) of the Securities Act.

IV.

COVENANTS OF THE COMPANY AND AEG

SECTION 4.01 Convertible Preferred Stock. The Company and AEG covenant and agree that the Notes or any right to payment received by the Guarantors in respect of the loans made under the Credit Agreement and their Guarantees thereof, whether by way of purchase, subrogation or otherwise, and regardless whether and to what extent the same shall be subordinated to other indebtedness to the Lenders or shall have been waived pending certain events, may be applied, both as to principal and accrued and unpaid interest, dollar for dollar, by the Guarantors as the purchase price at the option of the Guarantors for Convertible Preferred Stock of the Company, substantially in the form of the Company's Convertible Preferred Stock, $.01 par value (the "Convertible Preferred Stock"), outstanding on the date hereof. In addition, in the event that the Company or AEG shall be unable to make a payment under the Credit Agreement, the Guarantors shall have the right (but not the obligation) (i) to purchase additional Convertible Preferred Stock and (ii) to require the Company to use the net proceeds of such purchase to make such payment of its or

AEG's obligations under the Credit Agreement. Each share of Convertible Preferred Stock so purchased at $100 per share shall be convertible into a number of shares of Common Stock at a conversion price equal to the lower of Fair Market Value of the Common Stock as of the date hereof or Fair Market Value of the Common Stock as of the date of the issuance of the Notes. The Company and AEG shall use their best efforts to provide the Guarantors with sufficient notice in advance of a payment default under the Credit Agreement to enable the Guarantors to exercise their respective rights under this Article IV.

SECTION 4.02 Further Assurances. Subject to the prior written consent of the Agent on behalf of the Lenders, upon the making of a payment by the Guarantors on any of the Guarantees, AEG agrees to take all reasonable

actions necessary to grant a security interest in its assets to the Guarantors (which security interest will be subordinate to the security interest of the Agent) as collateral security for the payments that are made by the Guarantors with respect to the Guarantees, including without limitation the execution and delivery of a security agreement, financing statements and such other documents as the Guarantors may reasonably request, and the making of all filings to perfect such security interest as may be required under the provisions of the Uniform Commercial Code or other applicable law or regulation in effect in each state and Canadian province in which assets of AEG are located.

V.

CONDITIONS PRECEDENT TO THE OBLIGATIONS OF THE GUARANTORS

The obligations of the Guarantors hereunder are, at the option of the Guarantors, subject to the satisfaction, on or before the date hereof, of the following conditions:

(a) Opinion of Counsel. The Guarantors shall have received from Hughes & Luce L.L.P., counsel for the Company, an opinion dated the date hereof, substantially in the form of Annex I attached hereto.

(b) Amendment of the Registration Rights Agreement. Each party hereto shall have executed and delivered the Amendment No. 1 to the Registration Rights Agreement substantially in the form attached hereto as Exhibit D.

VI.

MISCELLANEOUS

SECTION 6.01 Expenses. Each party hereto will pay its own expenses in connection with the transactions contemplated hereby, whether or not such transactions shall be consummated.

SECTION 6.02 Survival of Agreements. All covenants, agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement and the Warrants and the issuance, sale and delivery of the Notes, if any.

SECTION 6.03 Parties in Interest. All covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not.

SECTION 6.04 Consent of WCAS CP II. WCAS CP II, in its capacity as the holder of the 10% Senior Subordinated Note Due September 30, 2001 of the

Company in the principal amount of $10,000,000, hereby consents to the issuance of the Notes as contemplated by this Agreement.

SECTION 6.05 Notices. All notices, requests, consent and other communications hereunder shall be in writing and shall be mailed by first class registered mail, postage prepaid, or sent by a recognized courier service addressed as follows:

If to the Company to it at:

2030 Main Street
Irvine, California 92714-7241
Attention: President

If to the Guarantors to them at:

320 Park Avenue
Suite 2500
New York, New York 10022
Attention: Richard H. Stowe
Thomas E. McInerney

or, in any such case, at such other address or addresses as shall have been furnished in writing by such party to the other.

SECTION 6.06 Law Governing. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 6.07 Entire Agreement. This Agreement together with the exhibits hereto and the Waiver and Amendment Agreement constitutes the entire Agreement of the parties with respect to the subject matter hereof and may not be modified or amended except in writing.

SECTION 6.08 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one in and the same instrument.

IN WITNESS WHEREOF, the Company and the Guarantors have executed this Agreement as of this 30th day of September, 1996.

AURORA ELECTRONICS, INC.

By/s/ John P. Grazer

_____

Name: John P. Grazer
Title:Chief Financial Officer

AURORA ELECTRONICS GROUP, INC.

By/s/ John P. Grazer

_____

Name: John P. Grazer
Title:Chief Financial Officer

WELSH, CARSON, ANDERSON &
STOWE VII, L.P.
By WCAS VII Partners,
General Partner

By/s/

_____

General Partner

WCAS CAPITAL PARTNERS II, L.P.
By WCAS CP II Partners,
General Partner

By/s/

_____

General Partner

SCHEDULE I

<TABLE>
<CAPTION>

	Amount of Guarantee	
Guarantor	WCAS Guarantee (A-1)	WCAS Acquisition Guarantee (A-2)
---	---	---

<S>	<C>	<C>
Welsh, Carson, Anderson & Stowe VII, L.P.	$2,898,000	$8,694,000
WCAS Capital Partners II, L.P.	$ 102,000	$ 306,000

</TABLE>

SCHEDULE 2.04

None, except as disclosed in any forms, reports and documents required to be filed by the Company with the Securities and Exchange Commission ("SEC"), including (i) the Annual Report of the Company on Form 10-K for the year ended September 30, 1995, and (ii) all other reports, statements and registration statements (including Current Reports on Form 8-K) filed by the Company with the SEC since September 30, 1992, in each case including all amendments and supplements.

EXHIBIT 10.34

EXHIBIT A-1

LIMITED (OVERADVANCE) GUARANTEE

LIMITED (OVERADVANCE) GUARANTEE dated as of September __, 1996 made by WELSH, CARSON, ANDERSON & STOWE VII, L.P. ("WCAS VII") and WCAS CAPITAL PARTNERS II, L.P ("WCAS CP II") (each a "Guarantor", and collectively, the "Guarantors") in favor of THE CHASE MANHATTAN BANK (formerly known as Chemical Bank), a New York banking corporation, as agent (the "Agent") for (i) the lenders (the "Lenders") named in the Credit Agreement dated as of March 29, 1996 among Aurora Electronics Group, Inc. (the "Borrower"), the guarantors named therein, the Agent and the Lenders (as amended, modified, restated or supplemented from time to time in accordance with its terms, the "Credit Agreement"; capitalized terms used herein and not otherwise defined herein shall have the meanings attributed thereto in the Credit Agreement) and (ii) itself as issuer of the Letters of Credit.

The Required Lenders have agreed to amend and waive certain provisions of the Credit Agreement pursuant to, and subject to the terms and conditions of, a Waiver and Amendment Agreement dated the date hereof. The obligation of the Required Lenders to waive certain provisions of the Credit Agreement and to amend certain provisions of the Credit Agreement is conditioned, inter alia, on the execution and delivery by the Guarantors of a guarantee in the form hereof to secure the due and punctual payment by the Borrower of all Overadvance Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise.

Accordingly, each of the Guarantors hereby agrees with the Agent as follows:

SECTION 1. Guarantee of Overadvance Loans. Each Guarantor absolutely, irrevocably and unconditionally guarantees, severally and not jointly, the due and punctual payment, when due, whether at maturity, by acceleration, by notice of prepayment or otherwise, the due and punctual performance of all Overadvance Loans; provided, however, that, notwithstanding the foregoing, the maximum liability of the Guarantors hereunder shall not exceed $3,000,000; provided, further, that, notwithstanding the foregoing, each Guarantor's maximum individual liability hereunder, as at any day of determination, shall not exceed an amount equal to such Guarantor's Fractional Share (as hereinafter defined) of $3,000,000. Each Guarantor further agrees that the Obligations may be amended, extended or renewed, in whole or in part, without notice or further assent from it, and that it will remain bound upon this Guarantee notwithstanding any amendment, extension or renewal of any Obligation; provided, however, that no such amendment, extension or renewal shall be deemed to increase the maximum liability hereunder of the Guarantors to

an amount in excess of $3,000,000. "Fractional Share" shall mean (i) with respect to WCAS VII, 96.6%, and (ii) with respect to WCAS CP II, 3.4%.

Each Guarantor waives, upon the failure of the Borrower to pay any Overadvance Loan when and as the same shall become due (whether at maturity, by acceleration, after notice of prepayment or otherwise), presentation to, demand of payment from, and protest to, the Borrower of any of the Obligations, and also waives notice of acceptance of this Guarantee and notice of protest for nonpayment. The obligations of each Guarantor hereunder shall not be affected by (a) the failure of any Lender or the Agent to assert any claim or demand or to enforce any right or remedy against the Borrower under the provisions of the Notes, the Credit Agreement or any of the Security Documents or otherwise; (b) any extension or renewal of any thereof; (c) any rescission, waiver, amendment or modification of any of the terms or provisions under the Notes, the Credit Agreement, any of the Security Documents, any guarantee or any other agreement; (d) the release of any of the security held by the Agent for the benefit of the Lenders for the Obligations or any of them; (e) the failure of any Lender or the Agent to exercise any right or remedy against any other guarantor of the Obligations; or (f) any bankruptcy, receivership or other insolvency proceeding of the Borrower or any subsidiary thereof (and each Guarantor specifically acknowledges that for purposes of such Guarantor's obligations under this Guarantee interest shall continue to accrue on the Obligations in accordance with the Credit Agreement notwithstanding any cessation of such interest accruals imposed in any such insolvency proceeding for the benefit of the Borrower).

Each Guarantor further agrees that this Guarantee constitutes a guarantee of payment when due and not of collection, and waives any right to require that, upon the failure of the Borrower to pay any Overadvance Loan when and as the same shall become due (whether at maturity, by acceleration, after notice of prepayment or otherwise), any resort be had by the Agent or any Lender to any security held for payment of Obligations which constitute all or a portion of any Overadvance Loan or to any balance of any deposit account of credit on the books of the Agent or any Lender in favor of the Borrower or any other person.

Except as expressly provided herein, the obligations of each Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including, without limitation, any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever by reason of invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Guarantor hereunder shall not be discharged or impaired or otherwise affected by the failure of the Agent or any Lender to assert, upon the failure of the Borrower to pay any Overadvance Loan when and as the same shall become due (whether at maturity, by acceleration, after notice of prepayment or otherwise), any claim or demand or to enforce any remedy under the Notes, the

Credit Agreement, or under any Security Document, any guarantee or any other agreement, by any waiver or modification of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or thing or omission or delay to do any other act or thing

which may or might in any manner or to any extent vary the risk of either Guarantor or would otherwise operate as a discharge of either Guarantor as a matter of law or equity.

Each Guarantor further agrees that, unless this Guarantee shall have been theretofore terminated pursuant to the express provisions hereof, this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Obligation which constitutes all or a portion of any Overadvance Loan is rescinded or must otherwise be restored by the Agent or any Lender upon the bankruptcy or reorganization of the Borrower or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Lender or the Agent may have at law or in equity against the Guarantor by virtue hereof, upon the failure of the Borrower to pay any Obligation which constitutes all or a portion of any Overadvance Loan when and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, the Guarantors, severally and not jointly, hereby each promise to and will, upon receipt of written demand by the Agent, forthwith pay, or cause to be paid, to the Agent for the ratable benefit of the Lenders in cash such Guarantor's Fractional Share of the amount of such unpaid Obligations.

Each Guarantor assumes all responsibility for being and keeping itself informed of the financial condition and assets of Borrower and its subsidiaries, and of all other circumstances bearing upon the risk of nonpayment of the Overadvance Loans and the nature, scope and extent of the risks which each Guarantor assumes hereunder, and agrees that neither the Agent nor any Lender will have any duty to advise either Guarantor of information known to it or any of them regarding such circumstances or risks.

SECTION 2. Representations and Warranties. Each Guarantor represents and warrants to the Agent that:

(a) Organization, Powers, etc. Each Guarantor (i) is a limited partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has the partnership power to execute, deliver and perform this Guarantee and (iii) has made all requisite filings with governmental authorities in all jurisdictions in which the character of its properties or the nature of its business makes such filing necessary.

(b) Authorization of Guarantee, etc. The execution,

delivery and performance by each Guarantor of this Guarantee and all actions contemplated hereby (i) are duly authorized, (ii) will not violate (a) any provision of law, of the rules or regulations thereunder, any order of any court or other agency of government or the partnership agreement of such Guarantor or (b) any provision of any indenture, agreement or other instrument to which such Guarantor is a party, or by which such Guarantor or any of its properties is or may be bound, and (iii) will not be in conflict with, result in a breach

of or constitute (with due notice, lapse of time or both) a default under, any such indenture, agreement or other instrument, or result in the creation or imposition of any lien upon any of the property or assets of the Guarantor, except as contemplated hereby.

(c) Legal, Valid and Binding Obligations, etc. This Guarantee is a legal, valid and binding obligation of each Guarantor, enforceable in accordance with its terms, subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting the enforcement of creditors' rights generally and the exercise of judicial discretion in accordance with general principles of equity.

(d) Status of Guarantee. The obligations of each Guarantor hereunder will, upon demand for payment by the Agent pursuant to Section 1 hereof, constitute direct, unconditional and general obligations of each Guarantor and rank in right of payment pari passu with all indebtedness and liabilities for borrowed money, or other obligations arising out of an extension of credit, of either Guarantor. Neither Guarantor has issued any such indebtedness or incurred any such liability or obligation which is subordinated to any other such indebtedness, liability or obligation but which will not be subordinated to the payment in full of any and all amounts payable hereunder.

(e) Governmental Approvals. No consent, approval, authorization, permit or license of any Federal, state or local regulatory authority is required in connection with the making or performance by the Guarantors of this Guarantee and the transactions contemplated hereby.

SECTION Subrogation. Upon (i) the indefeasible payment in full, in cash, of all Obligations, (ii) the Lenders having no further commitment to make any Loans under the Credit Agreement and (iii) the Agent having no further obligation to issue any Letters of Credit, the Guarantors shall be subrogated to the rights of the Agent and the Lenders to receive payments or distributions of assets of the Borrower applicable to the Obligations until all amounts paid by the Guarantors in respect of this Guarantee shall be paid in full; and, for the purposes of such subrogation, no payment or distributions to the Agent of the Lenders of any cash, property or securities to which the Guarantors would be entitled except for the provisions of this Section 3 shall, as between the Borrower, its creditors (other than the Agent and the Lenders) and the Guarantors, be deemed a payment to or on account of the amounts paid by the

Guarantors hereunder.

SECTION 3. Supporting Documents. In connection with the execution and delivery of this Guarantee, each Guarantor shall deliver or cause to be delivered to the Agent on or prior to the date hereof: (i) the favorable written opinion of counsel for the Guarantors addressed to the Lenders and in form and substance satisfactory to the Agent, (ii) a certificate dated the date hereof of a general partner of its sole general partner as to the incumbency and signatures of the general partner of such sole general partner executing this Guarantee and any certificate or letter delivered pursuant to this Guarantee, (iii) a certification by another general partner of the sole general partner of each of the

Guarantors as to the incumbency and signature of the general partner executing such certificate and (iv) such additional supporting documents as the Agent may reasonably request.

SECTION 4. Notices. All notices, demands, requests, consents or approvals required under this Guarantee shall be in writing and shall conclusively be deemed to have been received and to be effective on the day on which hand delivered to the Agent at 633 Third Avenue, New York, New York, 10017 or to each Guarantor at the address set forth on the signature pages hereof, as the case may be, or on the day which received, if sent by mail to each Guarantor or the Agent, as the case may be, at said address.

SECTION 5. Scope and Survival of Agreement. This Guarantee, together with the related instruments and transactions to which reference is expressly made herein, constitutes the entire agreement of the parties and supersedes all prior written and oral agreements and understandings with respect hereto among the Guarantors, the Borrower and the Agent. All covenants, agreements, representations and warranties made herein and in the certificates or other instruments or documents delivered pursuant hereto shall continue in full force and effect so long as any Obligation which constitutes all or a part of any Overadvance Loan is outstanding and unpaid; provided, however, that the representation and warranty set forth in subparagraph (d) of Section 2 hereof shall be deemed to be repeated on each successive day so long as any Obligation which constitutes all or a part of any Overadvance Loan is outstanding and unpaid. Whenever in this Guarantee reference is made to either Guarantor, the Borrower or the Agent, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of either Guarantor which are contained in this Guarantee shall inure to the benefit of the successors and assigns of the Borrower and each of the Lenders.

SECTION 6. Setoff. In addition to and not in limitation of any rights which the Agent may have under applicable law or otherwise, each Guarantor authorizes the Agent to apply any credit balance of the Agent from the

Guarantor hereunder and, in the name of each Guarantor or the Agent, do all such acts and execute all such documents as may be necessary or expedient for any such purpose.

SECTION 7. Modification of Agreement. No modification, amendment or waiver of any provision of, nor any consent required by, this Guarantee, nor any consent to any departure by either Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Agent and the Guarantors and then such modification, amendment, waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on either Guarantor in any case shall entitle such Guarantor to any other or further notice or demand in the same, similar or other circumstances. The holder of the Notes shall be bound by any modification, waiver or consent authorized by this Section 8, regardless of whether the Notes shall have been marked to indicate such consent.

SECTION 8. Remedies Cumulative, etc. No right, power or remedy herein conferred upon or reserved to the Agent is intended to be exclusive of any right, power or remedy or remedies, and each and every right, power and remedy of the Agent pursuant to this Guarantee or the Notes or now or hereafter existing at law or in equity or by statute or otherwise shall, to the extent permitted by law, be cumulative and concurrent and shall be in addition to every other right, power or remedy pursuant to this Guarantee or the Notes or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by the Agent of any one or more of such rights, powers or remedies shall not preclude the simultaneous or later exercise by the Agent of any or all such other rights, powers or remedies.

SECTION 9. No Waiver, etc. No failure or delay by the Agent to insist upon the strict performance of any term, condition, covenant or agreement of this Guarantee or of the Notes, or to exercise any right, power or remedy hereunder or thereunder or consequent upon a breach hereof or thereof, shall constitute a waiver of any such term, condition, covenant, agreement, right, power or remedy of any such breach, or preclude the Agent from exercising any such right, power or remedy at any later time or times.

SECTION 10. Severability. In case any one or more of the provisions contained in this Guarantee should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby, and the parties hereto agree to negotiate in good faith to replace any such invalid, illegal or unenforceable provision with a new valid, legal and enforceable provision that, to the extent possible, will preserve the financial bargain of this Guarantee or to otherwise amend this Guarantee, including Section 12 hereof, to obtain such effect.

SECTION 11. APPLICABLE LAW. THIS GUARANTEE SHALL BE GOVERNED AND

CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK (OTHER THAN CONFLICT OF LAWS PRINCIPLES THEREOF) AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA.

SECTION 12. Termination. This Guarantee shall terminate upon the earlier to occur of (i) such time as the Agent shall have received financial statements of the Borrower pursuant to Section 6.05(a) of the Credit Agreement that demonstrate to the satisfaction of the Agent that the Loan Parties are in compliance with the provisions of Sections 7.08, 7.09, 7.09A and 7.10 of the Credit Agreement in effect as of the Closing Date or (ii) such time as (x) all Obligations have been indefeasibly paid in full, in cash, (y) the Lenders have no further commitment to make any Loans under the Credit Agreement and (z) the Agent shall have no further obligation to issue any Letters of Credit.

SECTION 13. Collection Expenses. Each Guarantor agrees to pay all reasonable out-of-pocket expenses incurred by the Agent or any of the Lenders in connection with the enforcement or protection of its rights in connection with this

Guarantee, or in connection with any pending or threatened action, proceeding, or investigation relating to the foregoing, including but not limited to the reasonable fees and disbursements of counsel for the Agent and the Lenders.

SECTION 14. Counterparts. This Guarantee may be executed in counterparts, each of which shall constitute an original, but all of which shall together constitute one and the same agreement.

IN WITNESS WHEREOF, each Guarantor has caused this Guarantee to be duly executed, as indicated below, by its general partner, all as of the day and year first above written.

WELSH, CARSON, ANDERSON &
STOWE VII, L.P.

By: WCAS VII PARTNERS, its general partner

By: _____, a
general partner
Name:

Address: 320 Park Avenue
New York, New York 10022
Attention: Richard M. Stowe
Thomas E. McInerney

WCAS CAPITAL PARTNERS II, L.P.

By: WCAS CP II PARTNERS, its general partner

By: _____, a
general partner
Name:

Address: 320 Park Avenue
New York, New York 10022
Attention: Richard M. Stowe
Thomas E. McInerney

ACCEPTED:

THE CHASE MANHATTAN BANK, as Agent

By:_____
Name:
Title:

EXHIBIT 10.35

EXHIBIT A-2

LIMITED (ACQUISITION) GUARANTEE

LIMITED (ACQUISITION) GUARANTEE dated as of _____ __, ____ made by WELSH, CARSON, ANDERSON & STOWE VII, L.P. ("WCAS VII") and WCAS CAPITAL PARTNERS II, L.P. ("WCAS CP II") (each a "Guarantor", and collectively, the "Guarantors") in favor of THE CHASE MANHATTAN BANK (formerly known as Chemical Bank), a New York banking corporation, as agent (the "Agent") for (i) the lenders (the "Lenders") named in the Credit Agreement dated as of March 29, 1996 among Aurora Electronics Group, Inc. (the "Borrower"), the guarantors named therein, the Agent and the Lenders (as amended, modified, restated or supplemented from time to time in accordance with its terms, the "Credit Agreement"; capitalized terms used herein and not otherwise defined herein shall have the meanings attributed thereto in the Credit Agreement) and (ii) itself as issuer of the Letters of Credit.

The Lenders have consented to the acquisiton by the Borrower of [name of French corporation engaged in the same business as the Borrower, which corporation has been identified to the Agent and the Lenders prior to the execution and delivery of the WCAS Overadvance Guarantee]. The obligation of the Required Lenders to consent to such acquisition is conditioned, inter alia, on the execution and delivery by the Guarantors of a guarantee in the form hereof to secure the due and punctual payment by the Borrower of the French Acquisition Loan, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise.

Accordingly, each of the Guarantors hereby agrees with the Agent as follows:

SECTION 1. Guarantee of French Acquisition Loan. Each Guarantor absolutely, irrevocably and unconditionally guarantees, severally and not jointly, the due and punctual payment, when due, whether at maturity, by acceleration, by notice of prepayment or otherwise, the due and punctual performance of the French Acquisition Loan; provided, however, that, notwithstanding the foregoing, the maximum liability of the Guarantors hereunder shall not exceed $9,000,000; provided, further, that, notwithstanding the foregoing, each Guarantor's maximum individual liability hereunder, as at any day of determination, shall not exceed an amount equal to such Guarantor's Fractional Share (as hereinafter defined) of $9,000,000. Each Guarantor further agrees that the Obligations may be amended, extended or renewed, in whole or in part, without notice or further assent from it, and that it will remain bound upon this Guarantee notwithstanding any amendment, extension or renewal of any Obligation; provided, however, that no such amendment, extension or renewal shall be deemed to increase the maximum liability hereunder of the Guarantors to

an amount in excess of $9,000,000. "Fractional Share" shall mean (i) with respect to WCAS VII, 96.6%, and (ii) with respect to WCAS CP II, 3.4%.

Each Guarantor waives, upon the failure of the Borrower to pay the French Acquisition Loan when and as the same shall become due (whether at maturity, by acceleration, after notice of prepayment or otherwise), presentation to, demand of payment from, and protest to, the Borrower of any of the Obligations, and also waives notice of acceptance of this Guarantee and notice of protest for nonpayment. The obligations of each Guarantor hereunder shall not be affected by (a) the failure of any Lender or the Agent to assert any claim or demand or to enforce any right or remedy against the Borrower under the provisions of the Notes, the Credit Agreement or any of the Security Documents or otherwise; (b) any extension or renewal of any thereof; (c) any rescission, waiver, amendment or modification of any of the terms or provisions under the Notes, the Credit Agreement, any of the Security Documents, any guarantee or any other agreement; (d) the release of any of the security held by the Agent for the benefit of the Lenders for the Obligations or any of them; (e) the failure of any Lender or the Agent to exercise any right or remedy against any other guarantor of the Obligations; or (f) any bankruptcy, receivership or other insolvency proceeding of the Borrower or any subsidiary thereof (and each Guarantor specifically acknowledges that for purposes of such Guarantor's obligations under this Guarantee interest shall continue to accrue on the Obligations in accordance with the Credit Agreement notwithstanding any cessation of such interest accruals imposed in any such insolvency proceeding for the benefit of the Borrower).

Each Guarantor further agrees that this Guarantee constitutes a guarantee of payment when due and not of collection, and waives any right to require that, upon the failure of the Borrower to pay the French Acquisition Loan when and as the same shall become due (whether at maturity, by acceleration, after notice of prepayment or otherwise), any resort be had by the Agent or any Lender to any security held for payment of Obligations which constitute all or a portion of the French Acquisition Loan or to any balance of any deposit account of credit on the books of the Agent or any Lender in favor of the Borrower or any other person.

Except as expressly provided herein, the obligations of each Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including, without limitation, any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever by reason of invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Guarantor hereunder shall not be discharged or impaired or otherwise affected by the failure of the Agent or any Lender to assert, upon the failure of the Borrower to pay the French Acquisition Loan when and as the same shall become due (whether at maturity, by acceleration, after notice of prepayment or otherwise), any claim or demand or to enforce any remedy under the Notes, the Credit Agreement, or under any Security Document, any guarantee or any other agreement, by any waiver or modification of any thereof, by any

default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or thing or omission or delay to do any other act or

thing which may or might in any manner or to any extent vary the risk of either Guarantor or would otherwise operate as a discharge of either Guarantor as a matter of law or equity.

Each Guarantor further agrees that, unless this Guarantee shall have been theretofore terminated pursuant to the express provisions hereof, this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Obligation which constitutes all or a portion of the French Acquisition Loan is rescinded or must otherwise be restored by the Agent or any Lender upon the bankruptcy or reorganization of the Borrower or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Lender or the Agent may have at law or in equity against the Guarantor by virtue hereof, upon the failure of the Borrower to pay any Obligation which constitutes all or a portion of the French Acquisition Loan when and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, the Guarantors, severally and not jointly, hereby each promise to and will, upon receipt of written demand by the Agent, forthwith pay, or cause to be paid, to the Agent for the ratable benefit of the Lenders in cash such Guarantor's Fractional Share of the amount of such unpaid Obligations.

Each Guarantor assumes all responsibility for being and keeping itself informed of the financial condition and assets of Borrower and its subsidiaries, and of all other circumstances bearing upon the risk of nonpayment of the French Acquisition Loan and the nature, scope and extent of the risks which each Guarantor assumes hereunder, and agrees that neither the Agent nor any Lender will have any duty to advise either Guarantor of information known to it or any of them regarding such circumstances or risks.

SECTION 2. Representations and Warranties. Each Guarantor represents and warrants to the Agent that:

(a) Organization, Powers, etc. Each Guarantor (i) is a limited partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has the partnership power to execute, deliver and perform this Guarantee and (iii) has made all requisite filings with governmental authorities in all jurisdictions in which the character of its properties or the nature of its business makes such filing necessary.

(b) Authorization of Guarantee, etc. The execution,

delivery and performance by each Guarantor of this Guarantee and all actions contemplated hereby (i) are duly authorized, (ii) will not violate (a) any provision of law, of the rules or regulations thereunder, any order of any court or other agency of government or the partnership agreement of such Guarantor or (b) any provision of any indenture, agreement or other instrument to which such Guarantor is a party, or by which such Guarantor or any of its properties is or may be bound, and (iii) will not be in conflict with, result in a breach

of or constitute (with due notice, lapse of time or both) a default under, any such indenture, agreement or other instrument, or result in the creation or imposition of any lien upon any of the property or assets of the Guarantor, except as contemplated hereby.

(c) Legal, Valid and Binding Obligations, etc. This Guarantee is a legal, valid and binding obligation of each Guarantor, enforceable in accordance with its terms, subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting the enforcement of creditors' rights generally and the exercise of judicial discretion in accordance with general principles of equity.

(d) Status of Guarantee. The obligations of each Guarantor hereunder will, upon demand for payment by the Agent pursuant to Section 1 hereof, constitute direct, unconditional and general obligations of each Guarantor and rank in right of payment pari passu with all indebtedness and liabilities for borrowed money, or other obligations arising out of an extension of credit, of either Guarantor. Neither Guarantor has issued any such indebtedness or incurred any such liability or obligation which is subordinated to any other such indebtedness, liability or obligation but which will not be subordinated to the payment in full of any and all amounts payable hereunder.

(e) Governmental Approvals. No consent, approval, authorization, permit or license of any Federal, state or local regulatory authority is required in connection with the making or performance by the Guarantors of this Guarantee and the transactions contemplated hereby.

SECTION Subrogation. Upon (i) the indefeasible payment in full, in cash, of all Obligations, (ii) the Lenders having no further commitment to make any Loans under the Credit Agreement and (iii) the Agent having no further obligation to issue any Letters of Credit, the Guarantors shall be subrogated to the rights of the Agent and the Lenders to receive payments or distributions of assets of the Borrower applicable to the Obligations until all amounts paid by the Guarantors in respect of this Guarantee shall be paid in full; and, for the purposes of such subrogation, no payment or distributions to the Agent of the Lenders of any cash, property or securities to which the Guarantors would be entitled except for the provisions of this Section 3 shall, as between the Borrower, its creditors (other than the Agent and the Lenders) and the

Guarantors, be deemed a payment to or on account of the amounts paid by the Guarantors hereunder.

SECTION 3. Supporting Documents. In connection with the execution and delivery of this Guarantee, each Guarantor shall deliver or cause to be delivered to the Agent on or prior to the date hereof: (i) the favorable written opinion of counsel for the Guarantors addressed to the Lenders and in form and substance satisfactory to the Agent, (ii) a certificate dated the date hereof of a general partner of its sole general partner as to the incumbency and signatures of the general partner of such sole general partner executing this Guarantee and any certificate or letter delivered pursuant to this Guarantee, (iii) a certification by another general partner of the sole general partner of each of the

Guarantors as to the incumbency and signature of the general partner executing such certificate and (iv) such additional supporting documents as the Agent may reasonably request.

SECTION 4. Notices. All notices, demands, requests, consents or approvals required under this Guarantee shall be in writing and shall conclusively be deemed to have been received and to be effective on the day on which hand delivered to the Agent at 633 Third Avenue, New York, New York, 10017 or to each Guarantor at the address set forth on the signature pages hereof, as the case may be, or on the day which received, if sent by mail to each Guarantor or the Agent, as the case may be, at said address.

SECTION 5. Scope and Survival of Agreement. This Guarantee, together with the related instruments and transactions to which reference is expressly made herein, constitutes the entire agreement of the parties and supersedes all prior written and oral agreements and understandings with respect hereto among the Guarantors, the Borrower and the Agent. All covenants, agreements, representations and warranties made herein and in the certificates or other instruments or documents delivered pursuant hereto shall continue in full force and effect so long as any Obligation which constitutes all or a part of the French Acquisition Loan is outstanding and unpaid; provided, however, that the representation and warranty set forth in subparagraph (d) of Section 2 hereof shall be deemed to be repeated on each successive day so long as any Obligation which constitutes all or a part of the French Acquisition Loan is outstanding and unpaid. Whenever in this Guarantee reference is made to either Guarantor, the Borrower or the Agent, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of either Guarantor which are contained in this Guarantee shall inure to the benefit of the successors and assigns of the Borrower and each of the Lenders.

SECTION 6. Setoff. In addition to and not in limitation of any rights which the Agent may have under applicable law or otherwise, each

Guarantor authorizes the Agent to apply any credit balance of the Agent from the Guarantor hereunder and, in the name of each Guarantor or the Agent, do all such acts and execute all such documents as may be necessary or expedient for any such purpose.

SECTION 7. Modification of Agreement. No modification, amendment or waiver of any provision of, nor any consent required by, this Guarantee, nor any consent to any departure by either Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Agent and the Guarantors and then such modification, amendment, waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on either Guarantor in any case shall entitle such Guarantor to any other or further notice or demand in the same, similar or other circumstances. The holder of the Notes shall be bound by any modification, waiver or consent authorized by this Section 8, regardless of whether the Notes shall have been marked to indicate such consent.

SECTION 8. Remedies Cumulative, etc. No right, power or remedy herein conferred upon or reserved to the Agent is intended to be exclusive of any right, power or remedy or remedies, and each and every right, power and remedy of the Agent pursuant to this Guarantee or the Notes or now or hereafter existing at law or in equity or by statute or otherwise shall, to the extent permitted by law, be cumulative and concurrent and shall be in addition to every other right, power or remedy pursuant to this Guarantee or the Notes or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by the Agent of any one or more of such rights, powers or remedies shall not preclude the simultaneous or later exercise by the Agent of any or all such other rights, powers or remedies.

SECTION 9. No Waiver, etc. No failure or delay by the Agent to insist upon the strict performance of any term, condition, covenant or agreement of this Guarantee or of the Notes, or to exercise any right, power or remedy hereunder or thereunder or consequent upon a breach hereof or thereof, shall constitute a waiver of any such term, condition, covenant, agreement, right, power or remedy of any such breach, or preclude the Agent from exercising any such right, power or remedy at any later time or times.

SECTION 10. Severability. In case any one or more of the provisions contained in this Guarantee should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby, and the parties hereto agree to negotiate in good faith to replace any such invalid, illegal or unenforceable provision with a new valid, legal and enforceable provision that, to the extent possible, will preserve the financial bargain of this Guarantee or to otherwise amend this Guarantee, including Section 12 hereof, to obtain such effect.

SECTION 11. APPLICABLE LAW. THIS GUARANTEE SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK (OTHER THAN CONFLICT OF LAWS PRINCIPLES THEREOF) AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA.

SECTION 12. Termination. This Guarantee shall terminate upon the earlier to occur of (i) such time as the Agent shall have received financial statements of the Borrower pursuant to Section 6.05(a) of the Credit Agreement that demonstrate to the satisfaction of the Agent that the Loan Parties are in compliance with the provisions of Sections 7.08, 7.09, 7.09A and 7.10 of the Credit Agreement in effect as of the Closing Date or (ii) such time as (x) all Obligations have been indefeasibly paid in full, in cash, (y) the Lenders have no further commitment to make any Loans under the Credit Agreement and (z) the Agent shall have no further obligation to issue any Letters of Credit.

SECTION 13. Collection Expenses. Each Guarantor agrees to pay all reasonable out-of-pocket expenses incurred by the Agent or any of the Lenders in connection with the enforcement or protection of its rights in connection with this

Guarantee, or in connection with any pending or threatened action, proceeding, or investigation relating to the foregoing, including but not limited to the reasonable fees and disbursements of counsel for the Agent and the Lenders.

SECTION 14. Counterparts. This Guarantee may be executed in counterparts, each of which shall constitute an original, but all of which shall together constitute one and the same agreement.

IN WITNESS WHEREOF, each Guarantor has caused this Guarantee to be duly executed, as indicated below, by its general partner, all as of the day and year first above written.

WELSH, CARSON, ANDERSON &
STOWE VII, L.P.

By: WCAS VII PARTNERS, its general partner

By: _____, a
general partner
Name:

Address: 320 Park Avenue
New York, New York 10022
Attention: Richard M. Stowe
Thomas E. McInerney

WCAS CAPITAL PARTNERS II, L.P.

By: WCAS CP II PARTNERS, its general partner

By: _____, a
general partner
Name:

Address: 320 Park Avenue
New York, New York 10022
Attention: Richard M. Stowe
Thomas E. McInerney

ACCEPTED:

THE CHASE MANHATTAN BANK, as Agent

By:_____
Name:
Title:

EXHIBIT 10.36

Exhibit C

FORM OF NOTE

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THAT ACT OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

AURORA ELECTRONICS GROUP, INC.

10% Senior Subordinated Note
Due September 30, 2001

$, 199

AURORA ELECTRONICS GROUP, INC., a California corporation (hereinafter called the "Company"), for value received, hereby promises to pay to (" "), or registered assigns, the principal sum of DOLLARS ($), on September 30, 2001 and, subject to the provisions of Section 13 hereof, to pay interest (computed on the basis of a 360-day year consisting of twelve 30-day months) from the date hereof on the unpaid principal amount hereof at the rate of 10% per annum semi-annually in arrears on September 30 and March 31 of each year (each said day being an "Interest Payment Date"), commencing on , 199 , until the principal amount hereof shall have become due and payable, whether at maturity or by acceleration or otherwise, and thereafter at the rate of 12% per annum on any overdue principal amount and (to the extent permitted by applicable law) on any overdue interest until paid.

All payments of principal and interest on this Note shall be in such coin or currency of the United States of America as at the time of payment shall be legal tender for payment of public and private debts.

If any payment on this Note is due on a day which is not a Business Day, it shall be due on the next succeeding Business Day. For purposes of this Note, "Business Day" shall mean any day other than a Saturday, Sunday or a legal holiday or day on which banks are authorized or required to be closed in Chicago or New York.

1. The Note. This Note is one of the Notes in the aggregate principal amount of up to $12,000,000 issued pursuant to and subject to the terms and provisions of the Financial Support Agreement dated as of September

20, 1996 (the "Financial Support Agreement"), among Aurora Electronics, Inc., a Delaware corporation ("Aurora"), the Company, Welsh, Carson, Anderson & Stowe VII, L.P., a Delaware limited partnership ("WCAS VII"), and WCAS Capital Partners II, L.P., a Delaware limited partnership ("WCAS CP II") and the terms of this Note include those stated in the Financial Support Agreement. As used herein, the term "Note" or "Notes" includes the 10% Senior Subordinated Note due Septem- ber 30, 2001 of the Company originally so issued pursuant to the Financial Support Agreement and any 10% Senior Subordinated Note or Notes due September 30, 2001 subsequently issued upon exchange or transfer thereof.

2. Transfer, Etc. of Notes. The Company shall keep at its office or agency maintained as provided in paragraph (a) of Section 7 a register in which the Company shall provide for the registration of this Note and for the registration of transfer and exchange of this Note. The holder of this Note may, at its option, and either in person or by its duly authorized attorney, surrender the same for registration of transfer or exchange at the office or agency of the Company maintained as provided in Section 7 and, without expense to such holder (except for taxes or governmental charges imposed in connection therewith), receive in exchange therefor a Note or Notes each in such denomination or denominations (in integral multiples of $10,000) as such holder may request, dated as of the date to which interest has been paid on the Note or Notes so surrendered for transfer or exchange, for the same aggregate principal amount as the then unpaid principal amount of the Note or Notes so surrendered for transfer or exchange, and registered in the name of such person or persons as may be designated by such holder. Every Note presented or surrendered for registration of transfer or exchange shall be duly endorsed, or shall be accompanied by a written instrument of transfer, satisfactory in form to the Company, duly executed by the holder of such Note or its attorney duly authorized in writing. Every Note so made and delivered in exchange for such Note shall in all other respects be in the same form and have the same terms as such Note. No transfer or exchange of any Note shall be valid (x) unless made in the foregoing manner at such office or agency and (y) unless registered under the Securities Act of 1933, as amended, or any applicable state securities laws or unless an exemption from such registration is available.

3. Loss, Theft, Destruction or Mutilation of Note. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and, in the case of any such loss, theft or destruction, upon receipt of an affidavit of loss and an indemnity reasonably acceptable in form

and substance to the Company from the holder thereof, or, in the case of any such mutilation, upon surrender and cancellation of this Note, the Company will make and deliver, in lieu of this Note, a new Note of like tenor and unpaid principal amount and dated as of the date to which interest has been paid on this Note.

4. Persons Deemed Owners; Holders. The Company may deem and

treat the person in whose name this Note is registered as the owner and holder of this Note for the purpose of receiving payment of principal of and interest on this Note and for all other purposes whatsoever, whether or not this Note shall be overdue. With respect to any Note at any time outstanding, the term "holder", as used herein, shall be deemed to mean the person in whose name such Note is registered as aforesaid at such time.

5. Prepayments.

(a) Optional Prepayment. Subject to any applicable restrictions contained in the Credit Agreement (as hereinafter defined), upon notice given as provided in Section 5(b), the Company may, at its option, prepay this Note without penalty, as a whole at any time or in part from time to time in amounts which shall be integral multiples of $10,000.

(b) Notice of Prepayment. The Company shall give written notice of any prepayment of this Note or any portion hereof pursuant to Section 5(a) not less than 20 nor more than 60 days prior to the date fixed for such prepayment. Such notice of prepayment and all other notices to be given to the holder of this Note shall be given by registered or certified mail to the person in whose name this Note is registered at its address designated on the register maintained by the Company on the date of mailing such notice of prepayment or other notice. Subject to any applicable restrictions contained in the Credit Agreement (as hereinafter defined), upon notice of prepayment being given as aforesaid, the Company covenants and agrees that it will prepay, on the date therein fixed for prepayment, this Note or the portion hereof, as the case may be, so called for prepayment, at the prepayment price determined in accordance with Section 5(a) hereof. A prepayment of less than all of the outstanding principal amount of this Note shall not relieve the Company of its obligation to make scheduled payments of interest payable in respect of the principal remaining outstanding on the Interest Payment Dates.

(c) Allocation of All Payments. In the event of any partial payment of less than all of the interest then due on the Notes then outstanding or any prepayment, purchase, redemption or retirement of less than all of the outstanding Notes, the Company will allocate the amount of interest so to be paid and the principal amount so to be prepaid, purchased, redeemed or retired

to each Note in proportion, as nearly as may be, to the aggregate principal amount of all Notes then outstanding.

(d) Interest After Date Fixed for Prepayment. If this Note or a portion hereof is called for prepayment as herein provided, this Note or such portion shall cease to bear interest on and after the date fixed for such prepayment unless, upon presentation for such purpose, the Company shall fail to pay this Note or such portion, as the case may be, in which event this Note or such portion, as the case may be, and, so far as may be lawful, any overdue

installment of interest, shall bear interest on and after the date fixed for such prepayment and until paid at the rate per annum provided herein.

(e) Surrender of Note; Notation Thereon. Upon any prepayment of a portion of the principal amount of this Note, the holder hereof, at its option, may require the Company to execute and deliver at the expense of the Company (other than for transfer taxes, if any), upon surrender of this Note, a new Note registered in the name of such person or persons as may be designated by such holder for the principal amount of this Note then remaining unpaid, dated as of the date to which the interest has been paid on the principal amount of this Note then remaining unpaid, or may present this Note to the Company for notation hereon of the payment of the portion of the principal amount of this Note so prepaid.

6. Offer to Repurchase Upon a Change of Control. Subject to any applicable restrictions in the Credit Agreement with respect to the Company's ability to redeem, repurchase or otherwise make payments or prepayments under or in respect of this Note:

(a) Upon the occurrence of a Change of Control (as hereinafter defined), the holder of this Note shall have the right, at such holder's option, to require the Company to repurchase all or any part of such holder's Note in amounts which shall be in integral multiples of $10,000 pursuant to the offer described below, at a purchase price equal to 100% of the principal amount thereof so to be repurchased, plus accrued and unpaid interest, if any, to the date of purchase (a "Change of Control Payment"). Within 10 Business Days after the Company knows, or reasonably should know, of the occurrence of any Change of Control, the Company shall make an irrevocable, unconditional offer (except that such offer may be conditioned upon the closing of the transaction constituting the Change of Control) (a "Change of Control Offer") to all holders of the Notes to purchase all of the Notes for cash in an amount equal to the Change of Control Payment by sending written notice (the "Change of Control Notice") of such Change of Control Offer to each holder by registered or certified mail to the person in whose name the Note is registered at its address maintained by the Company on the date

of the mailing of such notice. The Change of Control Notice shall contain all instructions and materials required by applicable law and shall contain or make available to the holder other information material to such holder's decision to tender this Note pursuant to the Change of Control Offer. The Change of Control Notice, which shall govern the terms of the Change in Control Offer, shall state:

(i) that the Change of Control Offer is being made pursuant to this Section 6, and that all Notes validly tendered will be accepted for payment;

(ii) the Change of Control Payment (including the amount of accrued and unpaid interest) and the purchase date, which will be no later than 30 days from the date such notice is mailed (the "Change of Control Payment Date");

(iii) that any Note not validly tendered will continue to accrue interest;

(iv) that, unless the Company defaults in the payment of the Change of Control Payment, any Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date;

(v) that holders electing to have a Note, or portion thereof, purchased pursuant to a Change of Control Offer will be required to surrender the Note to the Company at the address specified in the notice not later than the close of business on the Business Day prior to the Change of Control Payment Date;

(vi) that holders will be entitled to withdraw their election if the Company receives, not later than the close of business on the second Business Day prior to the Change of Control Payment Date, a telegram, facsimile transmission or letter setting forth the name of the holder, the principal amount of the Note delivered for purchase and a statement that such holder is withdrawing its election to have such principal amount of Note purchased; and

(vii) that holders whose Notes are being purchased only in part will be issued a new Note equal in principal amount to the unpurchased portion of the Note surrendered, which unpurchased portion must be equal to $1,000 in principal amount or a multiple thereof.

On or before the Change of Control Payment Date, the Company shall (i) accept for payment the Notes or portions thereof validly tendered pursuant to the Change of Control Offer prior to the close of business on the Change of Control Payment Date, (ii) promptly mail to the holders of Notes so accepted

payment in an amount equal to the Change of Control Payment (including accrued and unpaid interest) for such Notes, and the Company shall promptly mail or deliver to such holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; provided, that each such new Note will be in a principal amount of $10,000 or an integral multiple thereof. Any Notes not so accepted shall be promptly mailed or delivered by the Company to the holder thereof.

(b) In the event of a Change of Control, the Company will promptly, in good faith, (i) seek to obtain any required consent of the holders

of any Senior Indebtedness (as defined herein) to permit the Change of Control Offer and the Change of Control Payment contemplated by this Section 6, or (ii) repay some or all of such Senior Indebtedness to the extent necessary (including, if necessary, payment in full of such Senior Indebtedness and payment of any prepayment premiums, fees, expenses or penalties) to permit the Change of Control Offer and the Change of Control Payment contemplated hereby without such consent. Failure to comply with the foregoing shall not relieve the Company from its obligations pursuant to paragraph (a) above.

(c) For purposes of this Note "Change of Control" means (i) the sale, lease or transfer, whether direct or indirect, of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, in one transaction or a series of related transactions, to any "person" or "group" (other than the WCAS Group, as hereinafter defined), (ii) the liquidation or dissolution of the Company or the adoption of a plan of liquidation or dissolution of the Company, (iii) the acquisition of "beneficial ownership" by any "person" or "group" (other than the WCAS Group) of voting stock of Aurora or the Company representing more than 50% of the voting power of all outstanding shares of such voting stock, whether by way of merger or consolidation or otherwise, or (iv) during any period of two consecutive years, the failure of those individuals who at the beginning of such period constituted Aurora's or the Company's Board of Directors (together with any new directors whose election or appointment by such Board or whose nomination for election or appointment by the shareholders of Aurora or the Company, as the case may be, was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) to constitute a majority of Aurora's or the Company's, as the case may be, Board of Directors then in office; provided, however, that in no event shall a foreclosure on any collateral pledged by the Company in respect of obligations arising under or in connection with the Credit Agreement constitute a Change of Control.

For purposes of this definition, (i) the terms "person" and "group" shall have the meaning set forth in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not applicable, (ii) the term "beneficial owner" shall have the meaning set forth in Rules 13d-3 and 13d-5 under the Exchange Act, whether or not applicable, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time or upon the occurrence of certain events, (iii) any "person" or "group" will be deemed to beneficially own any voting stock of Aurora or the Company so long as such person or group beneficially owns, directly or indirectly, in the aggregate a majority of the voting stock of a registered holder of the voting stock of Aurora or the Company, and (iv) the term "WCAS Group" shall mean WCAS VII, WCAS CP II and any general partners thereof.

7. Covenants Relating to the Note. The Company covenants and agrees that so long as the Note shall be outstanding and, in the case of paragraphs (k) through (n) below, so long as one million dollars ($1,000,000) of aggregate principal amount of the Notes is outstanding:

(a) Maintenance of Office. The Company will maintain an office or agency in such place in the United States of America as the Company may designate in writing to the registered holder of this Note, where this Note may be presented for registration of transfer and for exchange as herein provided, where notices and demands to or upon the Company in respect of this Note may be served and where this Note may be presented for payment. Until the Company otherwise notifies the holder hereof, said office shall be the principal office of the Company located at 2030 Main Street, Irvine, California 92714-7241.

(b) Payment of Taxes. The Company will promptly pay and discharge or cause to be paid and discharged, before the same shall become in default, all material lawful taxes and assessments imposed upon the Company or any of its subsidiaries or upon the income and profits of the Company or any of its subsidiaries, or upon any property, real, personal or mixed, belonging to the Company or any of its subsidiaries, or upon any part thereof by the United States or any State thereof, as well as all material lawful claims for labor, materials and supplies which, if unpaid, would become a lien or charge upon such property or any part thereof; provided, however, that neither the Company nor any of its subsidiaries shall be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as both (x) the Company has established adequate reserves for such tax, assessment, charge, levy or claim and (y)(i) the Company or a subsidiary shall be contesting the validity thereof in good faith by appropriate proceedings or (ii) the Company shall, in its good faith judgment, deem the

validity thereof to be questionable and the party to whom such tax, assessment, charge, levy or claim is allegedly owed shall not have made written demand for the payment thereof.

(c) Corporate Existence. The Company will do or cause to be done all things necessary and lawful to preserve and keep in full force and effect (i) its corporate existence and the corporate existence of each of its subsidiaries and (ii) the material rights and franchises of the Company and each of its subsidiaries under the laws of the United States or any state thereof, or, in the case of subsidiaries organized and existing outside the United States, under the laws of the applicable jurisdiction; provided, however, that nothing in this paragraph (c) shall prevent the abandonment or termination of any rights or franchises of the Company, or the liquidation or dissolution of, or a sale, transfer or disposition (whether through merger, consolidation, sale or otherwise) of all or any substantial part of the property and assets of, any subsidiary or the abandonment or termination of the corporate existence, rights and franchises of any subsidiary if such abandonment, termination, liquidation,

dissolution, sale, transfer or disposition is, in the good faith business judgment of the Company, in the best interests of the Company and not disadvantageous to the holder of this Note.

(d) Maintenance of Property. The Company will at all times maintain and keep, or cause to be maintained and kept, in good repair, working order and condition (reasonable wear and tear excepted) all significant properties of the Company and its subsidiaries used in the conduct of the Business, and will from time to time make or cause to be made all needful and proper repairs, renewals, replacements, betterments and improvements thereto, so that the Business may be conducted at all times in the ordinary course consistent with past practice.

(e) Insurance. The Company will, and will cause each of its subsidiaries to, (i) keep adequately insured, by financially sound and reputable insurers, all property of a character usually insured by corporations engaged in the same or a similar business similarly situated against loss or damage of the kinds customarily insured against by such corporations and (ii) carry, with financially sound and reputable insurers, such other insurance (including without limitation liability insurance) in such amounts as are available at reasonable expense and to the extent believed advisable in the good faith business judgment of the Company.

(f) Keeping of Books. The Company will at all times keep, and cause each of its subsidiaries to keep, proper books of record and account in which proper entries will be made of its transactions in accordance with generally accepted accounting principles consistently applied.

(g) Transactions with Affiliates. The Company shall not enter into, or permit any of its subsidiaries to enter into, any transaction with any of its or any subsidiary's officers, directors, employees or any person related by blood or marriage to any such person or any entity in which any such person owns any beneficial interest, except for (i) normal employment arrangements, benefit programs and employee incentive option programs on reasonable terms, (ii) any transaction approved by the Board of Directors of the Company in accordance with the provisions of Section 310 of the General Corporation Law of the State of California, or otherwise permitted by such Section , (iii) customer transactions in the ordinary course of business and on arm's length terms and (iv) the transactions contemplated by the Financial Support Agreement.

(h) Notice of Certain Events. The Company shall, immediately after it becomes aware of the occurrence of (i) any Event of Default (as hereinafter defined) or any event which, upon notice or lapse of time or both, would constitute such an Event of Default, or (ii) any action, suit or proceeding at law or in equity or by or before any governmental instrumentality or agency which, if adversely determined, would materially impair the right of the Company to carry on its business substantially as now or then conducted, or

would have a material adverse effect on the properties, assets, financial condition, prospects, operating results or business of the Company and its subsidiaries taken as a whole, give notice to the holder of this Note, specifying the nature of such event.

(i) Payment of Principal and Interest on the Note. The Company will use its best efforts, subject to the provisions of applicable credit arrangements (including the Credit Agreement), contractual obligations of the Company and/or its subsidiaries and any applicable law restricting the same, to provide funds from its subsidiaries to the Company, by dividend, advance or otherwise, sufficient to permit payment by the Company of the principal of and interest on this Note in accordance with its terms. Subject to any applicable provisions in the Credit Agreement and documents executed and delivered in connection therewith, the Company will not, and will not permit any subsidiary to, directly or indirectly create or otherwise cause to exist any encumbrance or restriction on the ability of any subsidiary to pay dividends or make any other distributions to the Company or any wholly-owned subsidiary of the Company in respect of its capital stock.

(j) Consolidation, Merger and Sale. The Company will not consolidate or merge with or into, or sell or otherwise dispose of all or substantially all of its property in one or more related transactions to, any other corporation or other entity, unless:

(i) the Company is the surviving corporation or the entity formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale or other disposition shall have been made is a corporation organized or existing under the laws of the United States of any state thereof or the District of Columbia;

(ii) the surviving corporation or other entity (if other than the Company) shall expressly and effectively assume in writing the due and punctual payment of the principal of and interest on this Note, according to its tenor, and the due and punctual performance and observance of all the terms, covenants, agreements and conditions of this Note to be performed or observed by the Company to the same extent as if such surviving corporation had been the original maker of this Note;

(iii) the Company or such other corporation or other entity shall not otherwise be in default in the performance or observance of any covenant, agreement or condition of this Note or the Financial Support Agreement; and

(iv) the holder of this Note shall have received, in connection therewith, an opinion of counsel for the Company (or other counsel satisfactory to the holder), in form and substance satisfactory to the

holder, to the effect that any such consolidation, merger, sale or conveyance and any such assumption complies with the provisions of this paragraph (j).

Notwithstanding anything to the contrary herein, in no event shall a foreclosure on any collateral pledged by the Company in respect of obligations arising under or in connection with the Credit Agreement be deemed to constitute a violation of the Company's obligations pursuant to this paragraph (j).

(k) Limitation on Indebtedness and Disqualified Stock. The Company will not, and will not permit any of its subsidiaries to, (i) incur or permit to remain outstanding any indebtedness for money borrowed ("Indebtedness"), except (A) Senior Indebtedness (as defined in Section 13), (B) Indebtedness existing on the date of original issuance of this Note, (C) Indebtedness permitted to be incurred under the Credit Agreement as in effect from time to time after the original issuance of this Note (other than Indebtedness that is subordinate or junior in right of payment (to any extent) to any Senior Indebtedness and senior or pari passu in right of payment (to any extent) to the Notes), or (D) in the event that the Credit Agreement has terminated, Indebtedness permitted to be incurred under any successor credit agreement of the Company with respect to Senior Indebtedness, or if there exists no such credit agreement, such Indebtedness as may be mutually agreed upon by the Company and the holders of a

majority of the aggregate principal amount of the Notes then outstanding, or (ii) issue any capital stock ("Disqualified Stock") of the Company or any of its subsidiaries (other than the Convertible Preferred Stock (as hereinafter defined)) which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures, or is mandatorily redeemable, whether pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to December 31, 2001.

(l) Restricted Payments. The Company will not, and will not permit any of its subsidiaries to: (i) declare or pay any dividends on, or make any other distribution or payment on account of, or redeem, retire, purchase or otherwise acquire, directly or indirectly, any shares of any class of stock of the Company, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash, property or in obligations of the Company or any of its subsidiaries, except for (W) distributions permitted by the Credit Agreement, (X) distributions of shares of the same class or of a different class of stock pro rata to all holders of shares of a class of stock, (Y) the payment of cash dividends to Aurora for the purpose of enabling Aurora to pay (I) dividends on account of Aurora's Convertible Preferred Stock, $.01 par value (the "Convertible Preferred Stock") or (II) interest on account of Aurora's 10% Senior Subordinated Notes due 2001 in the principal amount of $10,000,000 (the "Aurora Subordinated Notes"), or (Z)

dividends, distributions or payments by any subsidiary to the Company or to any wholly-owned subsidiary of the Company, or (ii), except as permitted under the Credit Agreement, make any payments of principal of, or retire, redeem, purchase or otherwise acquire any Indebtedness other than any Senior Indebtedness or the Notes (such declarations, payments, purchases, redemptions, retirements, acquisitions or distributions being herein called "Restricted Payments").

(m) Limitation on Liens. The Company shall not, and shall not permit any of its subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist any lien, pledge , charge, security interest or encumbrance (collectively, "Liens") on any asset now owned or hereafter acquired, or on any income or profits therefrom or assign or convey any right to receive income therefrom, except for (i) Liens permitted under the Credit Agreement, (ii) liens for current taxes not yet due, (iii) landlord's liens, (iv) purchase money liens and (v) workman's, materialman's, warehouseman's and similar liens arising by law or statute.

(n) Inspection of Property. The Company will permit the holder hereof to visit and inspect any of the properties of the Company and any other subsidiaries and their books and

records and to discuss the affairs, finances and accounts of any of such corporations with the principal officers of the Company and such subsidiaries and their independent public accountants, all at such reasonable times and as often as such holders may reasonably request.

8. Modification by Holders; Waiver. The Company may, with the written consent of the holders of not less than a majority in principal amount of the Notes then outstanding, modify the terms and provisions of this Note or the rights of the holders of this Note or the obligations of the Company hereunder, and the observance by the Company of any term or provision of this Note may be waived with the written consent of the holders of not less than a majority in principal amount of the Notes then outstanding; provided, however, that no such modification or waiver shall:

(i) change the maturity of any Note or reduce the principal amount thereof or reduce the rate or extend the time of payment of interest thereon without the consent of the holder of each Note so affected; or

(ii) give any Note any preference over any other Note, including, without limitation, by amending the allocation provisions of Section 5(c) hereof; or

(iii) reduce the percentage of principal amount outstanding under any Note, the consent of the holder of which is required for any such modification; or

(iv) amend the provisions of Section 13 hereof in any manner adverse to the interests of the holder of this Note,

without the consent of the holder of each Note so affected.

Any such modification or waiver shall apply equally to each holder of the Notes and shall be binding upon them, upon each future holder of any Note and upon the Company, whether or not such Note shall have been marked to indicate such modification or waiver, but any Note issued thereafter shall bear a notation referring to any such modification or waiver. Promptly after obtaining the written consent of the holders as herein provided, the Company shall transmit a copy of such modification or waiver to the holders of the Notes at the time outstanding.

9. Events of Default. If any one or more of the following events, herein called "Events of Default," shall occur (for any reason whatsoever, and whether such occurrence shall, on the part of the Company or any of its subsidiaries, be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of a court of competent jurisdiction or any order, rule or

regulation of any administrative or other governmental authority) and such Event of Default shall be continuing:

(i) default shall be made in the payment of the principal of this Note when and as the same shall become due and payable, whether at maturity or at a date fixed for prepayment or repurchase (including default of any optional prepayment in accordance with the requirements of Section 5 or any Change of Control Payment in accordance with the requirements of Section 6, as the case may be) or by acceleration or otherwise; or

(ii) default shall be made in the payment of any installment of interest on this Note according to its terms when and as the same shall become due and payable; or

(iii) default shall be made in the due observance or performance of any covenant, condition or agreement on the part of the Company contained in Section 7(j) hereof; or

(iv) default shall be made in the due observance or performance of any other covenant, condition or agreement on the part of the Company to be observed or performed pursuant to the terms hereof or of the Financial Support Agreement, and such default shall continue for 10 days after written notice thereof, specifying such default and requesting that the same be remedied; or

(v) any representation or warranty made by or on behalf of the Company herein or in the Financial Support Agreement shall prove to have been false or incorrect in any material respect on the date on or as of which made; or

(vi) the entry of a decree or order for relief by a court having jurisdiction in the premises in respect of Aurora, the Company or any of its subsidiaries in any involuntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or other similar laws, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of Aurora, the Company or any of its subsidiaries for any substantial part of any of their property or ordering the winding-up or liquidation of any of their affairs and the continuance of any such decree or order unstayed and in effect for a period of 30 consecutive days; or

(vii) the commencement by Aurora, the Company or any of its subsidiaries of a voluntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or other similar laws, or the consent by any of them to the

appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of Aurora, the Company or any of its subsidiaries for any substantial part of any of their property, or the making by any of them of any general assignment for the benefit of creditors, or the failure of Aurora, the Company or of any of its subsidiaries generally to pay its debts as such debts become due, or the taking of corporate action by Aurora, the Company or any of its subsidiaries in furtherance of or which might reasonably be expected to result in any of the foregoing; or

(viii) a default or an event of default as defined in any instrument evidencing or under which Aurora, the Company or any of its subsidiaries has outstanding at the time any Indebtedness in excess of $500,000 in aggregate principal amount shall occur and as a result thereof the maturity of any such Indebtedness shall have been accelerated so that the same shall have become due and payable prior to the date on which the same would otherwise have become due and payable and such acceleration shall not have been rescinded or annulled within 20 days; or

(ix) final judgment (not reimbursed by insurance policies of

Aurora, the Company or any of its subsidiaries) for the payment of money in excess of $500,000 shall be rendered against Aurora, the Company or any of its subsidiaries and the same shall remain undischarged for a period of 30 days during which execution shall not be effectively stayed;

then, subject to any applicable restrictions contained in Section 13 hereof, the holders of at least 33-1/3% in aggregate principal amount of the Notes at the time outstanding may, at their option, by a notice in writing to the Company declare this Note to be, and this Note shall thereupon be and become immediately due and payable together with interest accrued thereon, without diligence, presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Company to the extent permitted by law.

At any time after any declaration of acceleration has been made as provided in this Section 9, the holders of a majority in principal amount of the Notes then outstanding may, by notice to the Company, rescind such declaration and its consequences, provided, however, that no such rescission shall extend to or affect any subsequent default or Event of Default or impair any right consequent thereon.

Without limiting the foregoing, the Company hereby waives any right to trial by jury in any legal proceeding related in any way to this Note and agrees that any such proceeding may, if the holder so elects, be brought and enforced in the Supreme

Court of the State of New York for New York County or the United States District Court for the Southern District of New York and the Company hereby waives any objection to jurisdiction or venue in any such proceeding commenced in such court. The Company further agrees that any process required to be served on it for purposes of any such proceeding may be served on it, with the same effect as personal service on it within the State of New York, by registered mail addressed to it at its office or agency set forth in paragraph (a) of Section 7 for purposes of notices hereunder.

10. Suits for Enforcement. Subject to the provisions of Section 13 of this Note, in case any one or more of the Events of Default specified in Section 9 of this Note shall happen and be continuing (subject to any applicable cure period expressly set forth herein), the holder of this Note may proceed to protect and enforce its rights by suit in equity, action at law and/or by other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Note or in aid of the exercise of any power granted in this Note, or may proceed to enforce the payment of this Note or to enforce any other legal or equitable right of the holder of this Note.

In case of any default under this Note, the Company will pay

to the holder hereof reasonable collection costs and reasonable attorneys' fees, to the extent actually incurred.

11. Remedies Cumulative. No remedy herein conferred upon the holder of this Note is intended to be exclusive of any other remedy and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

12. Remedies Not Waived. No course of dealing between the Company and the holder of this Note or any delay on the part of the holder hereof in exercising any rights hereunder shall operate as a waiver of any right of the holder of this Note.

13. Subordination. (a) Anything contained in this Note to the contrary notwithstanding, the indebtedness evidenced by the Notes shall be subordinate and junior, to the extent set forth in the following paragraphs (A), (B) and (C), to all Senior Indebtedness of the Company. "Senior Indebtedness" shall mean the principal of, premium, if any, and interest (including any interest accruing subsequent to the filing of a petition of bankruptcy at the rate provided for in the documentation with respect thereto, whether or not such interest is an allowed claim under applicable law) on, and all reasonable fees, reimbursement and indemnity obligations, and all other obligations arising in connection with, any indebtedness for borrowed money of the Company, contingent or otherwise, now outstanding or created,

incurred, issued, assumed or guaranteed in the future, for which, in the case of any particular indebtedness, the instrument creating or evidencing the same or pursuant to which the same is outstanding expressly provides that such indebtedness shall not be subordinate in right of payment to any other indebtedness of the Company. Without limiting the generality of the foregoing, Senior Indebtedness shall include all Obligations (under and as defined in the Credit Agreement); notwithstanding the foregoing, Senior Indebtedness shall include only such Obligations until such time as the same are paid in full in cash and all obligations to provide financial accommodations under the Credit Agreement have terminated. For purposes of this Note, "Credit Agreement" shall mean the Credit Agreement, dated as of March 29, 1996 among the Company, Aurora and other Guarantors named therein, the Lenders named therein and The Chase Manhattan Bank (formerly known as Chemical Bank), as Agent (the "Agent"), together with any agreement entered into in connection with the restatement, renewal, extension, restructuring, refunding or refinancing of the Obligations (under and as defined in such Credit Agreement).

(A) In the event of any insolvency, bankruptcy, liquidation, reorganization or other similar proceedings, or any receivership proceedings in connection therewith, relative to the Company or its creditors or its property, and in the event of any proceedings for

voluntary liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy proceedings, then all Senior Indebtedness shall first be paid in full in cash, before any payment, whether on account of principal, interest or otherwise, is made upon the Notes.

(B) In any of the proceedings referred to in paragraph (A) above, any payment or distribution of any kind or character, whether in cash, property, stock or obligations which may be payable or deliverable in respect of the Notes shall be paid or delivered directly to the holders of Senior Indebtedness for application in payment thereof, unless and until all Senior Indebtedness shall have been paid in full in cash.

(C) Unless and until all Senior Indebtedness and all other Obligations in respect thereof shall first be paid in full in cash and all obligations to provide financial accommodations under the Credit Agreement have terminated, (i) no payment shall be made, directly or indirectly, on account of the Notes, (ii) no holder of the Notes may accept or receive (in cash, property, stock or obligations or by setoff, exercise of contractual or statutory rights or otherwise) from the Company or any other source any payment of any kind of or on account of the Notes and (iii) no holder of the Notes may take, demand, sue for, accelerate or commence any

remedial proceedings with respect to any amount payable on account of the Notes or any Event of Default or other default under any provision of this Note.

(b) Subject to the payment in full in cash of all Senior Indebtedness as aforesaid, the holders of the Notes shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of any kind or character, whether in cash, property, stock or obligations, which may be payable or deliverable to the holders of Senior Indebtedness, until the principal of, and interest on, the Notes shall be paid in full in cash, and, as between the Company, its creditors other than the holders of Senior Indebtedness, and the holders of the Notes, no such payment or distribution made to the holders of Senior Indebtedness by virtue of this Section 13 which otherwise would have been made to the holder of the Notes shall be deemed a payment by the Company on account of the Senior Indebtedness, it being understood that the provisions of this Section 13 are and are intended solely for the purposes of defining the relative rights of the holders of the Notes, on the one hand, and the holder of the Senior Indebtedness, on the other hand. Subject to the rights, if any, under this Section 13 of holders of Senior Indebtedness to receive cash, property, stock or obligations otherwise payable or deliverable to the holders of the Notes, nothing herein shall either impair, as between the Company and the holder of the Notes, the obligation of the

Company, which is unconditional and absolute, to pay to the holder thereof the principal thereof and interest thereon in accordance with its terms or prevent (except as otherwise specified therein) the holders of the Notes from exercising all remedies otherwise permitted by applicable law or hereunder upon default hereunder.

(c) If any payment or distribution of any character or any security, whether in cash, securities or other property, shall be received by any holders of the Notes in contravention of any of the terms hereof or before all the Senior Indebtedness obligations have been paid in full in cash and all obligations to provide financial accommodations under the Credit Agreement have terminated, such payment or distribution or security shall be received in trust for the benefit of, and shall be paid over or delivered and transferred to, the holders of the Senior Indebtedness at the time outstanding in accordance with the priorities then existing among such holders for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all such Senior Indebtedness in full in cash. In the event of the failure of any such holder to endorse or assign any such payment, distribution or security, each holder of any Senior Indebtedness is hereby irrevocably authorized to endorse or assign the name.

(d) The rights under these subordination provisions of the holders of any Senior Indebtedness as against any holders of

the Notes shall remain in full force and effect without regard to, and shall not be impaired or affected by:

(i) any act or failure to act on the part of the Company; or

(ii) any extension or indulgence in respect of any payment or prepayment of any Senior Indebtedness or any part thereof or in respect of any other amount payable to any holder of any Senior Indebtedness; or

(iii) any amendment, modification or waiver of, or addition or supplement to, or deletion from, or compromise, release, consent or other action in respect of, any of the terms of any Senior Indebtedness or any other agreement which may be made relating to any Senior Indebtedness; or

(iv) any exercise or non-exercise by the holder of any Senior Indebtedness of any right, power, privilege or remedy under or in respect of such Senior Indebtedness or these subordination provisions or any waiver of any such right, power, privilege or remedy or of any default in respect of such Senior Indebtedness or these subordination provisions or any receipt by the holder of any Senior Indebtedness of any security, or any failure by such holder to perfect a security

interest in, or any release by such holder of, any security for the payment of such Senior Indebtedness; or

(v) any merger or consolidation of the Company or any of its subsidiaries into or with any other person, or any sale, lease or transfer of any or all of the assets of the Company or any of its subsidiaries to any other person; or

(vi) absence of any notice to, or knowledge by, any holder of any claim hereunder of the existence or occurrence of any of the matters or events set forth in the foregoing clauses (i) through (v); or

(vii) any other circumstance.

(e) The holders of the Notes unconditionally waive (i) notice of any of the matters referred to in Section 13(d); (ii) all notices which may be required, whether by statute, rule of law or otherwise, to preserve intact any rights of any holder of any Senior Indebtedness, including, without limitation, any demand, presentment and protest, proof of notice of nonpayment under any Senior Indebtedness or the Credit Agreement, and notice of any failure on the part of the Company to perform and comply with any covenant, agreement, term or condition of any Senior Indebtedness, (iii) any right to the enforcement, assertion or exercise by any holder of any Senior Indebtedness of any right, power, privilege or remedy conferred in such Senior Indebtedness

or otherwise, (iv) any requirements of diligence on the part of any holder of any of the Senior Indebtedness, (v) any requirement on the part of any holder of any Senior Indebtedness to mitigate damages resulting from any default under such Senior Indebtedness and (vi) any notice of any sale, transfer or other disposition of any Senior Indebtedness by any holder thereof.

(f) The obligations of the holder under these subordination provisions shall continue to be effective, or be reinstated, as the case may be, if at any time any payment in respect of any Senior Indebtedness, or any other payment to any holder of any Senior Indebtedness in its capacity as such, is rescinded or must otherwise be restored or returned by the holder of such Senior Indebtedness upon the occurrence of any proceeding referred to in paragraph 13(a)(A) or upon or as a result of the appoint of a receiver, intervenor or conservator of, or trustee or similar officer for, the Company or any substantial part of its property or otherwise, all as though such payment had not been made.

14. Covenants Bind Successors and Assigns. All the covenants, stipulations, promises and agreements in this Note contained by or on behalf of the Company shall bind its successors and assigns, whether so expressed or not.

15. Governing Law. This Note shall be governed by and

construed in accordance with the laws of the State of New York.

16. Headings. The headings of the sections and paragraphs of this Note are inserted for convenience only and do not constitute a part of this Note.

17. Third Party Beneficiaries. The provisions of Section 13 are intended to be for the benefit of, and shall be enforceable directly by each holder of, the Senior Indebtedness.

18. Assignment and Amendment. Unless and until all Senior Indebtedness and all other Obligations in respect thereof shall first be paid in full in cash and all obligations to provide financial accommodations under the Credit Agreement have terminated, (i) the holder of this Note shall not assign this Note (other than to any member of the WCAS Group) without the prior written consent of the Agent and the Lenders, and (ii) this Note shall not be amended or otherwise modified without the prior written consent of the Agent and the Lenders.

IN WITNESS WHEREOF, Aurora Electronics Group, Inc. has caused this Note to be signed in its corporate name by one of its officers thereunto duly authorized and to be dated as of the day and year first above written.

AURORA ELECTRONICS GROUP, INC.

By:_____

EXHIBIT 10.37

Exhibit D

AMENDMENT NO. 1 TO REGISTRATION RIGHTS AGREEMENT

AMENDMENT NO. 1 dated as of September 30, 1996 to the REGISTRATION RIGHTS AGREEMENT, dated March 29, 1996 among AURORA ELECTRONICS, INC., a Delaware corporation (the "Company"), and the parties listed on Schedule I thereto (collectively, the "Purchasers").

WHEREAS, the Company and two of the Purchasers, Welsh, Carson, Anderson & Stowe VII, L.P. ("WCAS VII") and WCAS Capital Partners II, L.P. ("WCAS CP II"), have entered into a Financial Support Agreement dated as of the date hereof (the "Financial Support Agreement"), pursuant to which, upon the terms and subject to the conditions contained therein, the Company has agreed to issue and deliver to WCAS VII and WCAS CP II warrants to purchase up to the aggregate number of shares of Common Stock, $.03 par value, of the Company (the "Warrants") calculated in the manner set forth therein;

WHEREAS, in consideration of the additional investment being made by WCAS VII and WCAS CP II and in order to induce them to consummate the transactions contemplated by the Financial Support Agreement, the Company and the Purchasers desire to amend the terms of the Registration Rights Agreement to provide WCAS VII and WCAS CP II with registration rights with respect to the Common Stock issuable upon exercise of the Warrants; and

WHEREAS the Purchasers signatory hereto are the holders of not less than a majority of the Restricted Stock (as defined in the Registration Rights Agreement) currently outstanding, as required by Section 13(d) of the Registration Rights Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and for certain other good and valuable consideration the sufficiency and receipt of which is hereby acknowledged, the parties hereby agree as follows:

SECTION 1. Amendment to Introductory Paragraph. The introductory paragraph of the Registration Rights Agreement is hereby amended and restated in its entirety to read as follows:

"This will confirm that (1) with respect to the several individuals and entities named as Purchasers in the Securities Purchase Agreement dated as of February 21, 1996, as amended (the "Purchase Agreement"), among Aurora Electron-

ics, Inc., a Delaware corporation (the "Company"), Welsh, Carson, Anderson & Stowe VII, L.P., a Delaware limited partnership ("WCAS VII"), WCAS Capital Partners II, L.P., a Delaware limited partnership ("WCAS CP II"), and the several persons named therein, in consideration of (i) the purchase by WCAS VII and the several persons (other than WCAS CP II) named in Schedule I hereto (collectively, "the Preferred Share Purchasers") from the Company of 400,000 shares (the "Preferred Shares") of Convertible Preferred Stock, $.01 par value ("Convertible Preferred Stock"), of the Company, and (ii) the purchase by WCAS CP II of (x) the Company's 10% Senior Subordinated Note due September 30, 2001, in the principal amount of $10,000,000, and (y) 607,211 shares (the "Common Shares") of Common Stock, $.03 par value ("Common Stock"), of the Company, all on the terms and subject to the conditions set forth in the Purchase Agreement, and as an inducement to the Purchasers to consummate the transactions contemplated by the Purchase Agreement, and (2) with respect to each of WCAS VII and WCAS CP II, in consideration of the additional financial risk that each of them is assuming by virtue of the issuance of the "Guarantees" (as defined in the Financial Support Agreement dated as of the date hereof among the Company, Aurora Electronics Group, Inc., WCAS VII and WCAS CP II (the "Financial Support Agreement"), and as an inducement to WCAS VII and WCAS CP II to consummate the transactions contemplated by the Financial Support Agreement, the Company hereby covenants and agrees with each of you, and with each subsequent holder of Restricted Stock (as defined herein) as follows:"

SECTION 2. Amendment to Section 2. Section 2 is hereby amended and restated to read in its entirety as follows:

"Each certificate representing the Common Shares, each certificate representing the Preferred Shares, each certificate representing the Conversion Shares, each certificate representing shares of Common Stock issued upon exercise of the warrants issued pursuant to the Financial Support Agreement (the "Warrants") and each certificate issued upon exchange, adjustment or transfer of any of the foregoing, other than in a public sale or as otherwise permitted by the last paragraph of Section 3 hereof, shall be stamped or otherwise imprinted with a legend substantially in the following form:

"THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THEY HAVE BEEN REGISTERED UNDER THAT ACT OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE."

SECTION 3. Amendment to Section 4(a). The following proviso shall be added to the end of the first sentence of Section 4(a):

"; and provided, further, however, that, in any underwritten public

offering contemplated by Section 4, 5 or 6 hereof, the holders of Warrants shall be entitled to sell such Warrants to the underwriters for exercise and the sale of the shares of Common Stock issued upon such exercise."

SECTION 4. Miscellaneous.

(a) The Registration Rights Agreement, as amended by this Amendment, is hereby in all respects confirmed.

(b) This Amendment shall be governed by and construed in accordance with the laws of the State of New York, without regard to its conflicts of law rules.

(c) This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 to Registration Rights Agreement as of the date first above written.

AURORA ELECTRONICS, INC.

By_____

THE PURCHASERS:

WELSH, CARSON, ANDERSON & STOWE VII, L.P.
By WCAS VII Partners, L.P., General Partner

By:_____

WCAS CAPITAL PARTNERS II, L.P.
By WCAS CP II Partners, General Partner

By:_____

WCAS INFORMATION PARTNERS, L.P.

By:_____

THE HARVEY CASH TRUST

By:_____

Trustee

_____
Jim C. Cowart

5

CHEMICAL EQUITY ASSOCIATES,
A California Limited Partnership
By Chemical Venture Partners,
General Partner

By:_____

_____
Bruce K. Anderson

_____
Russell L. Carson

_____
Anthony J. de Nicola

_____
James B. Hoover

_____
Thomas E. McInerney

_____
Robert A. Minicucci

_____
Andrew M. Paul

_____
Paul B. Queally

_____
Richard H. Stowe

6

_____
Laura M. VanBuren

_____
Patrick J. Welsh

1

AURORA ELECTRICONS, INC. AND SUBSIDIARIES EXHIBIT 11
COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

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	Year ended September 30, 1996		Year ended September 30, 1995	
	Primary	Fully Diluted	Primary	Fully Diluted
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Net income (loss)	$ (31,753)	$ (31,753)	$ (15,030)	$ (15,030)
ADJUSTED NUMBER OF COMMON SHARES				
Weighted average shares outstanding	6,629	6,629	7,445	7,445
Incremental shares for exercise of stock options and warrants and common stock issuable	530	530	934	934
Weighted average shares issuable upon conversion of Debenture due 2001 and Promissory Notes due 1997	-	-	-	-
Adjusted number of common shares	7,159	7,159	8,379	8,379
Net earnings (loss) per common shares	$ (4.44)	$ (4.44)	$ (1.79)	$ (1.79)

</TABLE>

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 File No. 33-62102, Form S-8 File No. 33-62104, Form S-8 File No. 33-79426 and Form S-3 File No. 33-73758.

Orange County, California
December 30, 1996

ARTHUR ANDERSEN LLP

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