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COMMODORE INTERNATIONAL LIMITED

1993 ANNUAL REPORT

Commodore

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To Our Shareholders:

The fiscal year ended 30 June 1993 was a great disappointment for Commodore. Worldwide economies, especially in Europe, weakened and the computer industry was in unprecedented turmoil. The precipitous decline in PC prices resulted in significantly lower selling prices for Commodore's proprietary Amiga products. The Company also experienced a major decline in revenues from the Commodore 64, a product sold for over a decade.

Overall Commodore's net sales decreased 35% in fiscal 1993 to $591 million. Amiga revenues declined 40%, while PC revenues increased nominally. During the year the Company launched its new generation of Amiga computers, the A1200 for the consumer market and the A4000 for the professional market. Subsequent to the introduction of the new Amiga products, the sale of PCs was discontinued due to poor profitability. In September 1993, the new Amiga CD^{32} was launched in Europe. This 32 bit CD-ROM product is based on the superior video and graphics technology embodied in high-end Amiga workstations and offers superior multimedia price/performance for a game console. The Amiga CD^{32} has been widely acclaimed in Europe and we hope to make it a leading competitor in the video game market.

The industry-wide liquidation of low-end PCs resulted in a severe squeeze on margins. As a result of the new realities in the computer industry, Commodore reevaluated its business strategy to focus solely on Amiga products. Inventories and other assets related to older products were written down and a major consolidation of manufacturing and sales operations took place. Worldwide employees were reduced by over 50% and operating expenses were reduced by almost two thirds. The foregoing restructuring actions contributed significantly to the net loss for the year of $356 million. However, these restructuring actions are expected to position Commodore for improved financial performance going forward.

With the deteriorating financial condition and the deficit in net worth of $53 million as of 30 June 1993, the Company was in default under various credit agreements. The Company is in the process of attempting to negotiate a financial restructuring of all credit with banks, institutional lenders and suppliers. However, there can be no assurance that a successful debt restructuring will be achieved.

This has been a very difficult period for our shareholders and all the loyal supporters of our Company. We are most grateful for the understanding and support that we have received. With our lower cost structure we shall strive hard to regain profitability and complete a successful financial restructuring.

Irving Gould
Chairman of the Board
and Chief Executive Officer

Mehdi R. Ali
President

17 December 1993

This review should be read in conjunction with the consolidated financial statements and related notes beginning on page 6 of this annual report.

Basis of Presentation

As a result of the significant loss of $356 million for fiscal 1993 the Company had deficit equity of $53 million and deficit working capital of $107 million as of 30 June 1993. The Company's financial position and operating results raise substantial doubts about the Company's ability to continue as a going concern. As of 30 June 1993 the Company was in default on various credit agreements. See Footnote 1 for further information.

Sales

Commodore's net sales decreased 35% in fiscal 1993 to $591 million compared with $911 million in fiscal 1992 and $1,047 in fiscal 1991. The decline in fiscal 1993 and the later half of fiscal 1992 was due to economic softness throughout all major markets, especially Europe, and intense competitive pricing pressure.

The Amiga product line accounted for almost three fourths of the total sales decline for the year. Approximately half of the Amiga sales decline was attributable to unit volume and the other half was attributable to pricing declines. Unit sales of Amiga computers were slightly over 800,000 units in fiscal 1993 compared with 1 million units in fiscal 1992. Unit sales of Amiga computers declined 20% in fiscal 1993 compared with increases of 17% in fiscal 1992 and 38% in fiscal 1991. Revenues of the Amiga product line decreased by 40% in fiscal 1993 compared with a decline of 1% in fiscal 1992 and an increase of 23% in fiscal 1991. The decrease in fiscal 1992 was due to a significant decrease in sales of peripherals, such as monitors, and pricing reductions. The Amiga product line accounted for 59% of net sales in fiscal 1993 compared with 63% in fiscal 1992 and 56% in fiscal 1991.

MS-DOS PC compatible products accounted for 37% of net sales in fiscal 1993 compared with 24% in fiscal 1992 and 28% in fiscal 1991. Unit sales increased 17% in fiscal 1993, but revenues increased only nominally due to competitive pricing pressure. In fiscal 1992 unit sales and revenues declined 23% due to a discontinuation of low-end PCs. In fiscal 1991 unit sales declined 3% but revenues increased 14% due to a shift to high-end products. Due to low profitability the Company decided to discontinue the sale of MS-DOS PCs and licensed the brand name for PC sales in Europe to another supplier.

C64 products accounted for only 4% of net sales in fiscal 1993 compared with 13% in fiscal 1992 and 16% in fiscal 1991. In fiscal 1993 C64 unit sales declined to less than 200,000 units compared with 650,000 units in fiscal 1992 and over 800,000 units in fiscal 1991. Revenues from C64 products decreased over 80% in fiscal 1993 and 34% in fiscal 1992 and increased 4% in fiscal 1991.

Geographically, European markets accounted for 84% of net sales in fiscal 1993 compared with 88% in 1992 and 84% in 1991. North American sales accounted for 10% of sales in fiscal 1993 compared with 8% in 1992 and 11% in 1991. Australia/Asia sales accounted for 6% of sales in fiscal 1993 compared with 4% in 1992 and 5% in 1991.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Commodore International Limited and Subsidiaries

The US dollar fluctuated in relation to European currencies during fiscal 1993 with a mixed impact on reported sales. The effect of currency movements increased reported sales during the first quarter of fiscal 1993 but decreased reported sales during the last three quarters. The dollar value of sales for fiscal 1993 would have been approximately $14 million higher if prior year exchange rates had been in effect. In fiscal 1992 the effect of currency movements decreased reported sales during the first two quarters and increased reported sales during the fourth quarter, with only a nominal impact on sales for the third quarter. The dollar value of sales for fiscal 1992 would have been approximately $25 million higher if prior year exchange rates had been in effect. In fiscal 1991, the effect of currency movements increased reported sales during the first three quarters but decreased reported sales during the fourth quarter. The dollar value of sales for fiscal 1991 would have been approximately $94 million lower if prior year exchange rates had been in effect.

Since a substantial portion of the Company's sales are denominated in European currencies, reported U.S. dollar sales will continue to be affected by the strengthening or weakening of U.S. dollar versus European currencies. The sales in the second quarter of each year reflect the seasonal impact of Christmas.

Profitability

Gross margin was a loss of $132 million in fiscal 1993 compared with a profit of $246 million, or 27% of net sales in fiscal 1992 and $333 million, or 32% of net sales in fiscal 1991. The loss in fiscal 1993 was attributable to the sales decline and to writedowns of inventory, fixed assets and other assets, and significant pricing and promotional allowances resulting from severe competitive pricing pressure. The decrease in gross margin in fiscal 1992 was due primarily to lower prices for MS-DOS PC compatibles and unfavorable effects of foreign currency exchange rate fluctuations. In fiscal 1991 the gross margin was impacted by favorable effects of foreign currency exchange rate fluctuations.

In fiscal 1993 operating expenses included $50 million of restructuring and other unusual charges, including severance and costs for early cancellation of leases. Excluding these charges operating expenses in fiscal 1993 were $152 million or 26% of net sales compared with $215 million or 24% of net sales in fiscal 1992 and $259 million or 25% of net sales in fiscal 1991. In fiscal 1992, operating expenses were tightly controlled and declined 17% compared with a sales decline of 13%. In fiscal 1991, operating expenses were also tightly controlled and increased only 3% compared with a sales increase of 18%. Selling and marketing expenses decreased 39% to $84 million in fiscal 1993 due to a reduction in advertising and other selling expenses, compared with $137 million in 1992 and $174 million in 1991. General and administrative expenses decreased 7% to $49 million in fiscal 1993, compared with $52 million in 1992 and $54 million in 1991. Research and development expenses decreased 24% to $19 million in fiscal 1993 compared with $26 million in 1992 and $31 million in 1991.

Net interest expense was $18 million in fiscal 1993 compared with $15 million in 1992 and 1991. Other expense was $4 million in fiscal 1993 and $6 million in 1991. In fiscal 1992 other income was $9 million and included $14 million in net gains from the sale of certain properties and investments reduced by other expenses of $5 million.

In fiscal 1993 the net loss for the year of $356 million, or $10.78 per share, included $237 million for asset writedowns, restructuring costs and special pricing and promotional allowances. In fiscal 1992 net income of $28 million, or $0.82 per share, included an income tax benefit of $2 million. In fiscal 1991 pre-tax income was $52 million and the income tax benefit was $5 million due to the reduction of certain income tax accruals no longer needed to meet certain tax contingencies. In fiscal 1991 income before extraordinary item was $57 million or $1.73 per share and there was an extraordinary charge of $9 million, or $0.28 per share, for the court settlement of litigation. Net income for fiscal 1991 was $48 million or $1.45 per share.

Liquidity and Capital Resources

In fiscal 1993 the Company's cash and cash equivalents decreased by $56 million to $10 million as of 30 June 1993 compared with an increase of $1 million in fiscal 1992. The major activities were as follows (in millions):

	Fiscal 1993	Fiscal 1992
Operating Activities	$ (16)	$ 32
Investing Activities	(26)	(12)
Financing Activities	(12)	(19)

Despite the net loss of $356 million in fiscal 1993, the cash used for operations was only $16 million due primarily to decreases of over $120 million each for accounts receivable and inventories and non-cash charges of over $50 million for depreciation and amortization and writedown of long-term assets. In fiscal 1992 net income of $28 million accounted for the major portion of the cash provided from operations of $32 million.

In fiscal 1993 capital expenditures accounted for $20 million of the total $26 million cash used for investing activities. The major additions included a new building in Germany which was under construction in 1992, additional manufacturing equipment and tooling for new products. In fiscal 1992 capital expenditures were $25 million but there was significant cash received from property dispositions resulting in cash used for investing activities of $12 million.

In fiscal 1993 long-term debt payments were $32 million, including $25 million to two institutional lenders. In fiscal 1992 long-term debt payments were $93 million, including $66 million of seven-year Deutsche Mark debentures which had matured and $25 million to two institutional lenders. In fiscal 1993 net new borrowings were $20 million (including $17 million from a company controlled by the chairman of Commodore) resulting in net cash used for financing activities of $12 million. In fiscal 1992 new borrowings, primarily short-term bank borrowings, offset a significant amount of the repayments resulting in net cash used for financing activities of $19 million.

As of 30 June 1993 short-term debt included $50 million from various banks in 18 countries and $7.5 million from a company controlled by the chairman of Commodore. The bank loans are not collateralized and as of 30 June 1993 there were no unused short-term lines of credit available.

As of 30 June 1993 the Company was in default under the provisions of certain long-term collateralized and other obligations totaling $51.7 million. For financial statement purposes these amounts have been classified as current debt.

As of 30 June 1993 the Company had total current assets of $194 million with total current debt of $114 million, and accounts payable and accrued liabilities of $187 million, resulting in a deficit working capital of $107 million. As a result of the deficit the Company has found it necessary to delay payments to creditors. A successful debt restructuring is critical to the Company's ability to continue as a going concern. The Company is attempting to negotiate appropriate credit terms with suppliers who have restricted the Company's credit and intends to work out a restructuring plan with its creditors, including those which have instituted legal action against the Company, to allow the Company to continue normal operations. However, there can be no assurance that a successful debt restructuring will be achieved.

FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA

Commodore International Limited and Subsidiaries
(in Thousands of Dollars, Except Per Share Amounts)

Year Ended 30 June	1993	1992	1991	1990	1989
Net Sales	$ **590,800**	$ 911,000	$ 1,047,200	$ 887,300	$ 939,700
Gross profit (loss) *(1)*	**(132,100)**	246,300	332,700	259,000	290,300
Operating expenses *(2)*	**202,500**	215,000	259,300	252,200	211,000
Interest expense, net	**17,800**	14,700	15,400	12,800	13,300
Other (income) expense, net *(3)*	**3,600**	(8,800)	5,400	2,500	5,400
	223,900	220,900	280,100	267,500	229,700
Income (loss) before income taxes and extraordinary item	**(356,000)**	25,400	52,600	(8,500)	60,600
Income tax provision (benefit)	**500**	(2,200)	(4,800)	(10,000)	10,500
Income (loss) before extraordinary item	**(356,500)**	27,600	57,400	1,500	50,100
Extraordinary item *(4), (5)*	—	—	(9,200)	—	1,200
Net Income (Loss)	$ **(356,500)**	$ 27,600	$ 48,200	$ 1,500	$ 51,300
Per share data:					
Income before extraordinary item	$ **(10.78)**	$ 0.82	$ 1.73	$ 0.05	$ 1.55
Extraordinary item *(4), (5)*	**—**	—	(0.28)	—	0.04
Net Income (Loss)	$ **(10.78)**	$ 0.82	$ 1.45	$ 0.05	$ 1.59
Weighted average shares	**33,073**	33,593	33,163	32,388	32,354
Financial position—30 June					
Current assets	$ **193,600**	$ 539,000	$ 521,000	$ 557,000	$ 547,900
Current liabilities	**300,800**	260,400	264,900	238,900	228,900
Working capital (deficit)	**(107,200)**	278,600	256,100	318,100	319,000
Total assets	**265,800**	647,100	626,400	649,200	630,300
Long-term debt	**18,100**	60,300	71,000	156,500	158,800
Total debt	**132,100**	157,600	166,200	195,400	195,400
Shareholders' equity (deficit)	**(53,200)**	325,000	289,700	252,900	240,300

(1) Includes foreign currency transaction gains and losses related to inventory and revenue hedging transactions. See Note 2 to consolidated financial statements.
(2) Fiscal 1993 includes $50.1 million for restructuring and unusual charges.
(3) Fiscal 1992 includes net gains from the sale of certain properties.
(4) Fiscal 1989, tax benefit of net operating loss carryforwards.
(5) Fiscal 1991, court settlement of certain litigation. See Note 10 to consolidated financial statements.

Consolidated Statements of Operations

Commodore International Limited and Subsidiaries
(in Thousands of Dollars, Except Per Share Amounts)

Year Ended 30 June	1993	1992	1991
Net Sales	$ **590,800**	$ 911,000	$ 1,047,200
Cost of sales	**722,900**	664,700	714,500
Gross profit (loss)	**(132,100)**	246,300	332,700
Selling and marketing	**84,100**	136,900	174,300
General and administrative	**48,800**	52,400	53,600
Research and development	**19,500**	25,700	31,400
Restructuring and unusual charges	**50,100**	—	—
Total operating expenses	**202,500**	215,000	259,300
Operating income (loss)	**(334,600)**	31,300	73,400
Interest expense, net of interest income of $1,000, $3,100 and $4,800, respectively	**17,800**	14,700	15,400
Other (income) expense, net	**3,600**	(8,800)	5,400
Income (loss) before income taxes and extraordinary item	**(356,000)**	25,400	52,600
Income tax (benefit)	**500**	(2,200)	(4,800)
Income (loss) before extraordinary item	**(356,500)**	27,600	57,400
Extraordinary item	—	—	(9,200)
Net Income (loss)	$ **(356,500)**	$ 27,600	$ 48,200
Per share data:			
Income before extraordinary item	$ **(10.78)**	$ 0.82	$ 1.73
Extraordinary item	—	—	(0.28)
Net income (loss)	$ **(10.78)**	$ 0.82	$ 1.45

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Commodore International Limited and Subsidiaries
(in Thousands of Dollars)

	30 June 1993	30 June 1992
Assets		
Current Assets:		
Cash and cash equivalents	$ **9,900**	$ 65,500
Accounts receivable, net of allowances for doubtful accounts of $18,500 and $19,800, respectively	**92,600**	258,400
Inventories	**79,700**	204,400
Other current assets	**11,400**	10,700
Total current assets	**193,600**	539,000
Property and equipment, at cost	**142,900**	183,600
Accumulated depreciation and amortization	**(74,400)**	(93,500)
Net property and equipment	**68,500**	90,100
Other assets	**3,700**	18,000
Total Assets	$ **265,800**	$ 647,100
Liabilities and Shareholders' Equity (Deficit)		
Current Liabilities:		
Short-term debt	$ **57,600**	$ 67,800
Current portion of long-term debt	**56,400**	29,500
Accounts payable	**113,900**	120,200
Accrued liabilities	**49,700**	42,900
Accrued restructuring costs	**23,200**	—
Total current liabilities	**300,800**	260,400
Long-term debt	**18,100**	60,300
Deferred income taxes and other	**100**	1,400
Commitments and contingencies		
Shareholders' Equity (Deficit):		
Capital stock, $.01 par value		
Authorized 90,000,000 shares		
Issued 33,854,611 and 33,807,079 shares, respectively	**300**	300
Contributed surplus	**47,000**	46,700
Retained earnings (accumulated deficit)	**(63,600)**	292,900
Cumulative translation adjustment	**(35,300)**	(9,400)
Unearned compensation	—	(3,900)
Treasury stock — 770,097 and 769,847 shares, respectively, at cost	**(1,600)**	(1,600)
Total shareholders' equity (deficit)	**(53,200)**	325,000
Total Liabilities and Shareholders' Equity (Deficit)	$ **265,800**	$ 647,100

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity (Deficit)

Commodore International Limited and Subsidiaries
(in Thousands of Dollars)

	Capital Stock	Contributed Surplus	Retained Earnings (Deficit)	Cumulative Translation Adjustment	Unearned Compensation	Treasury Stock	Total
Balance, 30 June 1990	$300	$40,500	$221,600	$(1,900)	$(6,500)	$(1,100)	$252,900
Net income	—	—	48,200	—	—	—	48,200
Foreign currency translation adjustments for year	—	—	—	(10,600)	—	—	(10,600)
Repurchase of warrants	—	—	(4,500)	—	—	—	(4,500)
Issuance of shares to an officer as compensation	—	2,100	—	—	(2,100)	—	0
Amortization of unearned compensation	—	—	—	—	2,400	—	2,400
Exercise of employee stock options	—	1,600	—	—	—	—	1,600
Purchase of treasury stock	—	—	—	—	—	(300)	(300)
Balance, 30 June 1991	300	44,200	265,300	(12,500)	(6,200)	(1,400)	289,700
Net income	—	—	27,600	—	—	—	27,600
Foreign currency translation adjustments for year	—	—	—	3,100	—	—	3,100
Amortization of unearned compensation	—	—	—	—	2,300	—	2,300
Exercise of employee stock options	—	2,500	—	—	—	—	2,500
Purchase of treasury stock	—	—	—	—	—	(200)	(200)
Balance, 30 June 1992	300	46,700	292,900	(9,400)	(3,900)	(1,600)	325,000
Net income (loss)	—	—	(356,500)	—	—	—	(356,500)
Foreign currency translation adjustments for year	—	—	—	(25,900)	—	—	(25,900)
Amortization of unearned compensation	—	—	—	—	3,900	—	3,900
Exercise of employee stock options	—	300	—	—	—	—	300
Balance, 30 June 1993	$300	$47,000	$(63,600)	$(35,300)	$0	$(1,600)	$(53,200)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Commodore International Limited and Subsidiaries
(in Thousands of Dollars)

Year Ended 30 June	1993	1992	1991
Cash Flows from Operating Activities:			
Net income (loss)	$ **(356,500)**	$ 27,600	$ 48,200
Adjustments to reconcile net income(loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	**26,900**	25,200	21,600
Deferred income taxes	—	—	(100)
Provision for inventory writedowns	**88,800**	—	—
Provision for doubtful accounts receivable	**14,300**	4,600	7,300
Writedown of long-term assets	**27,900**	—	—
(Gain) on property dispositions	—	(7,600)	—
(Gain) on investment dispositions	—	(6,700)	—
Other noncash items	**(300)**	(600)	300
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	**132,100**	(4,700)	(20,000)
Decrease in inventories	**34,600**	14,800	18,000
(Increase) decrease in other current assets	**(1,700)**	(2,200)	1,000
Increase (decrease) in accounts payable	**(7,700)**	(6,200)	100
Increase (decrease) in accrued liabilities	**25,300**	(11,700)	(24,500)
Net cash provided by (used for) operating activities	**(16,300)**	32,500	51,900
Cash Flows from Investing Activities:			
Capital expenditures	**(20,300)**	(25,100)	(27,900)
Cash received on property dispositions	**2,300**	13,600	—
Cash received on investment dispositions	—	7,200	—
Other investment activities	**(8,000)**	(7,500)	(7,600)
Net cash (used for) investing activities	**(26,000)**	(11,800)	(35,500)
Cash Flows from Financing Activities:			
Net short-term borrowings (repayments)	**(13,900)**	53,100	(11,700)
Borrowings from Transpacific Company	**17,000**	—	—
Proceeds from issuance of common stock	**300**	2,500	1,600
Purchase of treasury stock	—	(200)	(300)
Repurchase of warrants	—	—	(4,500)
Proceeds from issuance of long-term debt	**16,900**	18,700	—
(Payments) of long-term debt	**(32,300)**	(93,100)	(13,300)
Net cash (used for) financing activities	**(12,000)**	(19,000)	(28,200)
Effect of exchange rate changes on cash and cash equivalents	**(1,300)**	(700)	(2,100)
Net increase (decrease) in cash and cash equivalents	**(55,600)**	1,000	(13,900)
Cash and cash equivalents—beginning of year	**65,500**	64,500	78,400
Cash and cash equivalents—end of year	$ **9,900**	$ 65,500	$ 64,500
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ **18,200**	$ 18,500	$ 22,700
Income taxes	**1,100**	7,000	6,600
Non-cash financing transaction:			
Issuance of 120,000 shares of restricted capital stock in fiscal 1991, pursuant to stock incentive plan	—	—	2,100
Unearned compensation recorded from above transaction	—	—	(2,100)

The accompanying notes are an integral part of these statements.

1. Basis of Presentation

For the fiscal year ended 30 June 1993 the Company experienced a 35% sales decline and a net loss of $356.5 million. The loss included $237 million for asset writedowns, restructuring costs and special pricing and promotional allowances, of which $50 million is included in operating expenses and the remaining balance is included in cost of sales. The loss has resulted in deficit equity of $53 million and deficit working capital of $107 million as of 30 June 1993.

The Company's consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which contemplates continuity of the Company's operations and the realization of its assets and the payment of its liabilities in the ordinary course of business. However, the Company's financial position and operating results raise substantial doubts about the Company's ability to continue as a going concern. The financial statements do not reflect adjustments that would be required should the Company be unable to continue as a going concern.

The Company has addressed its current financial difficulties by restructuring the business in a number of ways including eliminating unprofitable product lines to focus exclusively on Amiga products. A new Amiga CD^{32} was launched in September 1993 and the plan is dependent upon significant future sales of this product. With the restructuring actions taken in fiscal 1993 it is expected that the total expenses for fiscal 1994 will be significantly below fiscal 1993.

The Company is attempting to negotiate appropriate credit terms with suppliers who have restricted the Company's credit and intends to work out a restructuring plan with its creditors, including those which have instituted legal action against the Company, to allow the Company to continue normal operations. However, there can be no assurance that a successful debt restructuring will be achieved.

The Company's long-term liquidity needs cannot reasonably be determined at this time principally because these needs are dependent, in large part, upon the outcome of the Company's debt restructuring.

2. Summary of Accounting Policies

Commodore International Limited is incorporated in the Bahamas. The consolidated financial statements of Commodore International Limited and Subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States. Within those principles, the Company's more important accounting policies are set forth below.

Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. All significant intercompany transactions have been eliminated.

Translation of Non-U.S. Currencies

Assets and liabilities recorded in functional currencies other than U.S. dollars are translated at current exchange rates. The resulting adjustments are charged or credited directly to cumulative translation adjustment in the shareholders' equity section of the consolidated balance sheets. Sales and expenses are translated at the weighted average exchange rates for the period. Foreign currency transaction gains and losses are included in income in the period in which they occur. Foreign currency transaction gains (losses) were $(28.1) million, $16.5 million, and $(10.2) million for fiscal 1993, 1992 and 1991, respectively.

Cash and Cash Equivalents

The Company has included cash, overnight deposits and time deposits with maturities less than 91 days as cash and cash equivalents.

Accounts Receivable

At 30 June 1993 and 1992 a majority of the trade accounts receivable were due from distributors and dealers within the personal computer industry.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, and included material, labor and overhead. Intercompany profits are eliminated from inventory valuations. Inventories, net of reserves of $58 million at 30 June 1993 and $14 million at 30 June 1992, consisted of the following (000s omitted):

	30 June 1993	30 June 1992
Raw materials and work-in process	**$20,700**	$ 76,300
Finished goods	**59,000**	128,100
	$79,700	$204,400

Property and Equipment

Major classes of property and equipment were as follows (000s omitted):

Description	**30 June 1993**	30 June 1992	Estimated Useful Lives
Land	**$ 1,900**	$ 1,600	
Buildings and improvements	**48,000**	42,700	10–40 years
Machinery and equipment	**67,800**	102,000	3–10 years
Furniture and fixtures	**8,700**	13,900	3–10 years
Tooling	**2,200**	8,100	2–3 years
Leasehold improvements	**14,300**	15,300	Lease Term
	$142,900	$183,600	

Depreciation has been provided over the estimated useful lives of the assets using primarily the straight-line method. Expenditures for additions, renewals, and betterments are capitalized. Maintenance and repairs are expensed as occurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Income Taxes

The Company and its subsidiaries provide taxes on income in accordance with the enacted tax rules and regulations of the many taxing jurisdictions where income is earned. The income tax rates imposed by these jurisdictions vary substantially. Taxable income may differ from pretax income for financial accounting purposes. Deferred taxes are based on the estimated future tax effects of differences between the financial statements and tax bases of assets and liabilities. The Company does not provide income taxes on undistributed earnings of foreign subsidiaries which are permanently reinvested.

Investment credits and other allowances provided by income tax laws of respective countries are credited to current income tax expense under the flow-through method of accounting.

In fiscal 1992, the Company implemented the provisions of Statement of Financial Accounting Standards (Statement) No. 109, "Accounting for Income Taxes." Statement No. 109 utilizes the liability method of accounting for income taxes. The effect of adopting Statement No. 109 was not significant.

Revenue Recognition

Sales are recognized when products are shipped or title is transferred to the customer, net of allowances for estimated returns and discounts. Anticipated warranty costs are provided in the same period in which the corresponding revenues are generated.

Research and Development Costs

The Company expenses research and development costs as incurred.

Foreign Exchange Contracts

The Company periodically enters into foreign exchange contracts to hedge financial statement amounts denominated in foreign currencies. Gains and losses related to contracts which hedge future revenues are included in net sales. Gains and losses on contracts which hedge against certain payables denominated in foreign currencies offset the foreign currency transaction gains or losses on those payables. Gains and losses arising from foreign exchange contracts which are designated as, and are effective as, economic hedges of the Company's net foreign investments are reported as translation adjustments. In the first quarter of 1993, $7.5 million of losses were recorded as translation adjustments. In the fourth quarter of 1992, $5.7 million of such losses were recorded as translation adjustments.

Per Share Data

Per share data are calculated using the weighted average number of shares of capital stock and dilutive capital stock equivalents (stock options and warrants) outstanding during each year. The weighted average number of shares used to compute earnings per share was 33,073,000, 33,593,000 and 33,163,000 in 1993, 1992 and 1991, respectively. Net income per share is equivalent to fully diluted earnings per share.

3. Income Taxes

The income tax provision (benefit) consisted of the following (000s omitted):

	1993	1992	1991
Current:			
U.S. Federal	**$ —**	$ —	$ —
Non-U.S. and other	**500**	(2,200)	(4,700)
Subtotal	**500**	(2,200)	(4,700)
Deferred:			
U.S. Federal	**—**	—	—
Non-U.S. and other	**—**	—	(100)
Subtotal	**—**	—	(100)
Total	**$ 500**	$(2,200)	$(4,800)

Non-U.S. earnings (losses) before income taxes amounted to $(337) million, $44 million and $70 million in fiscal 1993, 1992 and 1991, respectively.

The Company and its subsidiaries are engaged in business in countries with statutory rates ranging from zero to approximately 60%. As a result, the Company's effective tax rate may vary year to year depending upon the operating results of individual subsidiaries. In fiscal 1993, 1992 and 1991, exclusive of the adjustments described below, the Company's effective tax rate was zero, zero and 6%, respectively, due to operating losses in certain countries with high tax rates (without currently recoverable tax benefits) and income in countries with low or zero statutory rates.

Certain of the Company's non-U.S. subsidiaries are undergoing audits by their respective tax authorities for various fiscal years. In fiscal 1992, the Company resolved tax disputes in the U.S. for the fiscal years 1981 through 1986 and in Italy for the fiscal years 1982 through 1984. In October 1993 the Company received a favorable ruling in the Japanese tax case. The total refund is $20 million plus interest.

In the fourth quarters of fiscal 1992 and 1991, after consultation with tax counsel concerning the likely outcome of certain tax audits and litigation, the Company reduced by $3 million and $8 million, respectively, income tax accruals no longer considered necessary to meet the probable liabilities in those proceedings.

As of 30 June 1993, the Company's U.S. subsidiaries have net operating loss carryforwards of approximately $140 million. Certain of the Company's non-U.S. subsidiaries have net operating loss carryforwards of approximately $100 million, which expire at various dates through 2002.

As of 30 June 1993, the Company's deferred tax assets consisted primarily of its net operating loss carryforwards, accrued restructuring costs, inventory reserves and allowance for doubtful accounts receivable. Management has assigned a valuation allowance to offset fully the future tax benefits of these deferred tax assets.

4. Short-term Debt

As of 30 June 1993, short-term debt included $50.1 million from various banks in 18 countries and $7.5 million from a company controlled by the chairman of Commodore. Several of the banks have demanded repayment and in most cases the Company has reached temporary resolutions to any legal action in order to allow time to develop a restructuring plan. The bank loans are not collateralized. As of 30 June 1993, there were no unused short-term lines of credit available.

For short-term bank borrowings of $50.1 million at 30 June 1993, the average interest rate was 6.6% (1992 - 8.6%; 1991 - 11.2%). The maximum month-end short-term borrowings during fiscal 1993 were $67.2 million (1992 - $67.8 million; 1991 - $26.6 million). The average month-end short-term borrowings outstanding during fiscal 1993 were $60.3 million (1992 - $28.5 million; 1991 - $17.4 million) at a weighed average interest rate of 7.7% (1992 - 9.8%; 1991 - 12.7%).

In order to obtain needed working capital, Transpacific Company Limited (TPC), a company controlled by the chairman of Commodore, loaned the Company $17.0 million in February and April 1993. An agreement was made to sell $9.5 million of inventory in satisfaction of a portion of the debt. The proceeds of these sales were temporarily retained by the Company but subsequently repaid to TPC. As of 30 June 1993, the $9.5 million obligation to TPC has been recorded as an accrued liability for financial accounting purposes. The remaining amount of $7.5 million is represented by a collateralized demand loan and has been classified as short-term debt as of 30 June 1993.

5. Long-term Debt

(000s omitted)	**30 June 1993**	30 June 1992
Notes, 11.0% due March 1993	**$ —**	$ 5,000
Notes, 10.75% due through March 1995	**25,000**	37,500
Notes, 12.0% due through March 1994	**8,000**	16,000
Real estate mortgages, 7.25% to 17.0%, due through 2006	**16,400**	5,800
Collateralized equipment loans, 7.5% to 9.6%, due through 2001	**16,000**	15,800
Capitalized lease obligations averaging 12.4% due through 2019	**9,100**	9,700
	74,500	89,800
Current Portion	**(56,400)**	(29,500)
	$ 18,100	$ 60,300

In May 1987, the Company issued $60 million of senior and subordinated notes with warrants to purchase 2,250,000 shares of capital stock to an insurance company. The warrants are exercisable at $11.40 per share until March 1994. The Company repurchased 750,000 warrants in March 1989 for $4.5 million and an additional 750,000 warrants in April 1991 for $4.5 million. In March 1993 the unpaid balance of $8 million of subordinated notes were retired in exchange for a similar amount of senior notes. In August 1988, the Company issued an additional $50 million of senior notes to two insurance companies. The notes are uncollateralized.

As of 30 June 1993 the Company was in default under the provisions of the notes. The note agreements contain various covenants which, among others, provide for the maintenance of a minimum level of net worth and contain restrictions on dividends. For financial statement purposes the entire amount of debt has been reclassified as current. The Company is engaged in negotiations with the lenders to restructure the debt, although there can be no assurance an agreement will be reached.

As of 1 November 1993, the Company received a waiver of non-compliance with the provisions of the note agreements through 31 January 1994. The waiver provides that the exercise price of the 750,000 warrants is reduced from $11.40 per share to $3.50 per share and the exercise period is extended from March 1994 to March 1996. In addition, the exercise price is further reduced to $.50 per share if the interest payments due on 1 January 1994 are not made in full.

As of 30 June 1993 the Company was in default under a real estate mortgage for $5.7 million. The bank commenced legal action which has been suspended based on mutually agreed payment terms. For financial statement purposes the entire amount of the mortgage has been classified as current.

As of 30 June 1993 the Company was in default under an equipment loan for $13.0 million. The Company intends to sell the equipment in the near future and retire the debt. For financial statement purposes the entire amount of the equipment loan has been classified as current.

It is not practicable to estimate the fair value of the debt.

Approximate annual maturities of long-term debt as of 30 June 1993 are as follows (000s omitted):

1994	$56,400
1995	1,700
1996	300
1997	200
1998	7,500
Later Years	8,400
	$74,500

6. Capital Stock

As of 30 June 1993 the following shares of capital stock were reserved for future issuance:

Stock Incentive Plan	3,930,063
Warrants	750,000

The Stock Incentive Plan for Key Employees provides for certain key employees to receive grants or options to purchase up to 6,000,000 shares of the Company's capital stock. Although the Plan allows for non-qualified stock options to be granted at a price below the market value, all options have been granted at the fair market value at the date of grant except for options for 300,000 shares, granted to an officer at a price of $7.25, which was below the fair market value at the date of the grant. Options granted under the Plan expire ten years from the date of the grant and outstanding options granted before 1 January 1989 are exercisable in annual increments of 33 1/3% beginning one year from the date of grant. Options granted after 31 December 1988 but before 1 June 1993 are exercisable in annual increments of 25% beginning one year from the date of the grant. Of the options granted after 1 June 1993, 14%, 43% and 43% are exercisable on 2 June 1993, 1 January 1994 and 1 January 1995, respectively. As of 30 June 1993 options were held by 59 employees and range in exercise price from $2.75 to $13.25. These options expire on various dates from May 1996 to June 2003. Options for 634,000 shares were exercisable as of 30 June 1993. Option activity during 1992 and 1993 was as follows:

	Number of Shares	Average Price Per Share
Outstanding as of 30 June 1991	1,591,432	$ 6.98
Granted	273,000	12.75
Exercised	(365,000)	6.43
Cancelled	(231,341)	7.72
Outstanding as of 30 June 1992	1,268,091	$ 8.25
Granted	2,232,500	2.96
Exercised	(49,000)	5.94
Cancelled	(973,834)	8.38
Outstanding as of 30 June 1993	2,477,757	$ 3.48

When options are exercised, the proceeds, including any applicable income tax benefit, are credited to capital stock and contributed surplus.

In fiscal 1990 a total of 650,000 shares of restricted capital stock were granted to two officers at a price of $6,500 or $0.01 per share. In fiscal 1991, 120,000 shares were granted to an officer at a price of $1,200 or $0.01 per share. As of 30 June 1993, 140,000 shares are restricted. The difference between the grant price and the fair market value at the date of the grants has been recorded as unearned compensation in the consolidated balance sheets and has been completely amortized to earnings by 30 June 1993.

7. Leases

The Company leases certain machinery and equipment, manufacturing facilities, warehouses and administrative offices with terms expiring at various dates to 2020. Typically, the Company pays property taxes, insurance and maintenance expenses related to the leased property. The gross cost of property included under capital leases as of 30 June 1993 and 1992 was $9.8 million and $10.4 million, respectively. The related accumulated amortization as of 30 June 1993 and 1992 was $2.8 million and $3.1 million, respectively. Amortization expense of property under capital leases was $.4 million in 1993, $.7 million in 1992 and $.5 million in 1991. Total rental expense under operating leases was $9.7 million in 1993, $8.8 million in 1992 and $8.2 million in 1991.

Operating lease commitments exclude leases with a total obligation of $21.2 million which the Company plans to terminate as part of the restructuring plan. Minimum future obligations under leases as of 30 June 1993 are as follows (000s omitted):

	Capital Leases	Operating Leases
1994	$ 1,500	$ 3,700
1995	1,400	2,800
1996	1,200	2,100
1997	1,100	1,800
1998	1,100	1,400
Later Years	24,100	9,600
Total minimum obligations	$ 30,400	$ 21,400
Amounts representing interest	(21,300)	—
Present value of net minimum obligations	$ 9,100	—

8. Geographic Segment Information

(In Thousands of Dollars)	North America	Europe	Asia/ Australia	Eliminations	Consolidated
1993					
Sales to unaffiliated customers	$ 63,400	$ 495,100	$ 32,300	$ —	$ 590,800
Intersegment sales	31,200	242,000	480,900	(754,100)	—
Net sales	94,600	737,100	513,200	(754,100)	590,800
Income (loss) from operations	(42,800)	(304,700)	(5,800)	18,700	(334,600)
Interest expense, net					(17,800)
Other income, net					(3,600)
(Loss) before income taxes					(356,000)
Identifiable assets	64,300	138,100	65,700	(2,300)	265,800
Depreciation expense	6,100	4,800	4,800	—	15,700
Capital expenditures	2,300	11,800	6,200	—	20,300
1992					
Sales to unaffiliated customers	$ 76,900	$ 798,500	$ 35,600	—	$ 911,000
Intersegment sales	64,800	294,200	586,400	(945,400)	—
Net sales	141,700	1,092,700	622,000	(945,400)	911,000
Income (loss) from operations	(6,100)	31,400	(100)	6,100	31,300
Interest expense, net					(14,700)
Other income, net					8,800
Income before income taxes					25,400
Identifiable assets	103,300	451,800	98,100	(6,100)	647,100
Depreciation expense	7,800	6,600	3,300	—	17,700
Capital expenditures	5,900	5,900	13,300	—	25,100
1991					
Sales to unaffiliated customers	$ 110,100	$ 883,100	$ 54,000	—	$ 1,047,200
Intersegment sales	82,700	454,800	711,100	(1,248,600)	—
Net sales	192,800	1,337,900	765,100	(1,248,600)	1,047,200
Income (loss) from operations	(24,700)	74,400	(800)	24,500	73,400
Interest expense, net					(15,400)
Other expense, net					(5,400)
Income before income taxes					52,300
Identifiable assets	137,000	414,400	87,100	(12,100)	626,400
Depreciation expense	7,600	6,600	3,400	—	17,600
Capital expenditures	16,900	8,600	2,400	—	27,900

9. Commitments and Contingencies

In fiscal 1993 the Company completed an investigation and feasibility study regarding ground water contamination at its semiconductor manufacturing facility in Pennsylvania. As a result of the study the Company and a previous owner were ordered by the United States Environmental Protection Agency (EPA) to remedy the contamination. The previous owner of the facility has agreed to undertake the cleanup of the site. Settlement discussions have taken place with the previous owner and an insurer to relieve Commodore from future costs related to the cleanup. Management anticipates that the settlement discussions will be concluded favorably.

The Company is a party to various claims and litigation matters incidental to the normal course of business, including certain collection actions by creditors. Although it is impossible to predict the results of specific matters, management believes that the aggregate liability, if any, for all lawsuits to which the Company is a party, in excess of insurance coverage and financial statement provisions, will not have a material adverse effect on the Company's operations or financial position.

10. Legal Settlement

During the third quarter of fiscal 1991, the Company under a court order, settled a lawsuit brought by its former president. The suit arose from facts surrounding the former president's employment. As a result of the unfavorable outcome the Company paid $9.2 million which has been classified as an extraordinary charge in the accompanying consolidated statement of operations.

11. Quarterly Financial Information (unaudited)

(000's omitted, except per share amounts)

For the Year Ended 30 June 1993	First	Second	Third	Fourth	Year
Net sales	$ 158,600	$ 237,700	$ 120,900	$ 73,600	$ 590,800
Gross profit (loss) *(a)*	25,200	(16,700)	(111,300)	(29,300)	(132,100)
Income (loss) before income taxes	(18,600)	(76,700)	(177,600)	(83,100)	(356,000)
Income tax provision	200	500	—	(200)	500
Net income (loss)	(18,800)	(77,200)	(177,600)	(82,900)	(356,500)
Net income (loss) per share	$ (0.57)	$ (2.33)	$ (5.37)	$ (2.51)	$ (10.78)
For the Year Ended 30 June 1992					
Net sales	$ 204,100	$ 371,600	$ 194,600	$ 140,700	$ 911,000
Gross profit	57,100	120,600	54,300	14,300	246,300
Income (loss) before income taxes	5,800	42,200	4,300	(26,900)	25,400
Income tax provision (benefit)	500	2,100	200	(5,000) *(b)*	(2,200)
Net income (loss)	$ 5,300	$ 40,100	$ 4,100	$ (21,900)	$ 27,600
Net income (loss) per share	$ 0.16	$ 1.18	$ 0.12	$ (0.66)	$ 0.82 *(c)*

(a) Certain amounts have been reclassified to conform with the presentation for the fiscal year
(b) Reflects reduction of certain income tax accruals. See Note 3
(c) Total for year differs from sum of quarters due to fluctuations in the stock price affecting quarterly common stock equivalents

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Commodore International Limited:

We have audited the accompanying consolidated balance sheets of Commodore International Limited (a Bahamian corporation) and subsidiaries (the Company) as of 30 June 1993, and the related consolidated statements of operations, shareholders' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company for the years ended 30 June 1992 and 1991 were audited by other auditors. The Company has not obtained an updated auditors' report on the consolidated financial statements for the years ended 30 June 1992 and 1991.

We conducted our audit 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 audit provides a reasonable basis for our report.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. As discussed in notes 1, 4, and 5 to the consolidated financial statements, the Company experienced a significant decline in sales and incurred a loss of $356 million for the year ended 30 June 1993, and had deficit equity of $53 million and deficit working capital of $107 million as of 30 June 1993. In addition, the Company was in default on various credit agreements and a mortgage loan. While the Company is attempting to negotiate appropriate credit terms with suppliers and restructure its credit arrangements with institutional lenders to allow the Company to continue normal operations, in many of the countries in which the Company operates, unlike the United States, the Company may not have the ability to seek judicial protection to prevent liquidation while it reorganizes its operations. All of these factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in the notes to the consolidated financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Because of the possible material effects of the uncertainty about whether the Company will continue as a going concern discussed in the preceding paragraph, we are unable to express, and we do not express, an opinion on the consolidated financial statements as of 30 June 1993 or for the year then ended.

Coopers & Lybrand

Philadelphia, PA
18 October 1993, except as to the information presented in paragraph 3
of Note 5, for which the date is 1 November 1993

SHAREHOLDER INFORMATION

Capital Stock Information

The Company's shares are listed on the New York Stock Exchange. The high and low quarterly common stock prices for the past two fiscal years were as follows:

Quarters		Fiscal 1993 High – Low	Fiscal 1992 High – Low
1st	(30 September)	$\$10\frac{3}{8} - 6\frac{3}{4}$	$\$15\frac{1}{8} - 10\frac{1}{8}$
2nd	(31 December)	$9\frac{1}{4} - 6\frac{3}{4}$	$18 - 12\frac{1}{8}$
3rd	(31 March)	$7\frac{5}{8} - 4\frac{3}{4}$	$19\frac{1}{4} - 12\frac{7}{8}$
4th	(30 June)	$5\frac{1}{8} - 2\frac{1}{2}$	$14\frac{3}{4} - 9\frac{1}{2}$

Transfer Agent and Registrar

Chemical Bank
P.O. Box 24935
Church Street Station
New York, New York 10249

Shareholder Communication Center

(212) 613-7147

Shares Listed

New York Stock Exchange
(Ticker Symbol CBU)

Corporate Information

Board of Directors

Irving Gould
Chairman of the Board

Mehdi R. Ali
President

General Alexander M. Haig, Jr.
President of Worldwide Associates, Inc. and Director of Interneuron Pharmaceuticals, Inc., MGM Grand, Inc. and America On-Line

Ralph D. Seligman
Consultant Counsel
Graham, Thompson & Company

Burton Winberg
President of Rockport Holdings Limited and Director of Fahnestock-Viner Holdings Inc. and Aviva Petroleum Canada Ltd.

Officers

Irving Gould
Chairman of the Board and Chief Executive Officer

Mehdi R. Ali
President

Lewis C. Eggebrecht
Vice President, Engineering

J. Edward Goff
Vice President and General Counsel

Hock E. Tan
Vice President and Chief Financial Officer

John Helmsøe-Zinck
Vice President

U.S. Offices

Commodore International Limited
1200 Wilson Drive
West Chester, PA 19380

375 Park Avenue
Suite 2109
New York, NY 10152

Registered Office

Commodore International Limited
Sassoon House
Shirley and Victoria Streets
P.O. Box N-10256
Nassau, Bahamas

Operating Subsidiaries and Branches

Commodore AB
Fagerstagatan 7
P.O. Box 8184
S-163 08
Spanga, Sweden

Commodore AG
Langenhagstrasse 1
CH-4147 Aesch
Switzerland

Commodore B.V.
Heathrowstraat 3
1043 CE Amsterdam, Netherlands

Commodore S.A.
C/General Aranaz, 95-97
28027 Madrid, Spain

Commodore-Amiga, Inc.
1200 Wilson Drive
West Chester, PA 19380

Commodore Büromaschinen GmbH
Lyoner Straße 38
Postfach 710126
6000 Frankfurt 71
Germany

Carl-Giesecke-Straße 5
3300 Braunschweig
Germany

Commodore Computer GmbH
Laxenburgerstraße 36
A-1100 Vienna, Austria

Commodore Business Machines, Inc.
1200 Wilson Drive
West Chester, PA 19380

Commodore Business Machines Limited
3470 Pharmacy Avenue
Agincourt, Ontario
Canada, M1W3G3

Commodore Business Machines (N.Z.) Ltd.
1-3 Parkhead Place
Albany
Auckland, New Zealand

Commodore Business Machines U.K. Limited
The Switchback, Gardner Road
Maidenhead, Berkshire
United Kingdom

Commodore Business Machines Pty. Ltd.
67 Mars Road
Lane Cove
New South Wales 2066
Australia

Commodore Computers Norge A/S
Waldemar Thranesg 77
0175 Oslo, Norway

Commodore Computer N.V./S.A.
Europlaan 74
B-1940 St. Stevens-Woluwe
Belgium

Commodore Data A/S
Jens Juuls Vej 42
DK 8260 Viby J/Aarhus
Denmark

Commodore Electronics Limited
Sassoon House
Shirley and Victoria Streets
P.O. Box N-10256
Nassau, Bahamas

Block 17, Cepza Complex
Rosario, Cavite, Philippines

Langenhagstrasse 1
CH-4147 Aesch
Switzerland

Commodore France S.A.R.L.
Parc d'activitie du Moulin de Massy
10-12 rue du Saule Trapu
BP 216
91882 Massy Cedex, France

Commodore Italiana, S.p.A.
Viale Fulvio Testi, 280
20126 Milano, Italy

Commodore Japan Ltd.
Sumitomo Higashi-Shimbashi Building No. 2
12-7, Higashi-Shimbashi
2-Chome
Minato-Ku, Tokyo 105 Japan

Commodore Philippines, B.V.
(Philippines Branch)
Block 17, Cepza Complex
Rosario, Cavite, Philippines

Commodore Portuguesa Electronica, S.A.
Av. dos Bombeiros Voluntários, No. 76 A
Algés
1495 Lisbon, Portugal

Commodore Semiconductor Group
950 Rittenhouse Road
Norristown, PA 19403
