

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**  
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### FILER

#### **GOOD GUYS INC**

CIK: **785931** | IRS No.: **942366177** | State of Incorpor.: **DE** | Fiscal Year End: **0930**  
Type: **10-K** | Act: **34** | File No.: **000-14134** | Film No.: **96687954**  
SIC: **5731** Radio, tv & consumer electronics stores

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## FORM 10-K

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

Commission File Number 0-14134

THE GOOD GUYS, INC.

(Exact name of registrant as specified in its charter)

Delaware

94-2366177

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. employer identification no.)

7000 Marina Boulevard, Brisbane, California 94005-1840  
(Address of principal executive offices)

Registrant's telephone number, including area code: (415) 615-5000

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

Common Stock, \$.001 par value  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 nonaffiliates of the registrant was approximately \$94,490,135 as of December 15, 1996.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

On December 15, 1996, there were 13,419,362 shares of common stock outstanding.

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## DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of Annual Report to Shareholders for fiscal year ended September 30, 1996. (Part II of Form 10-K)
- (2) Portions of definitive proxy statement filed with Securities and Exchange Commission relating to the Company's 1997 Annual Meeting of Shareholders. (Part III of Form 10-K)

PART I

ITEM 1. BUSINESS

General

THE GOOD GUYS! is a leading specialty retailer of consumer electronics products. The Company currently operates 76 stores: In California, 19 stores are located in the San Francisco Bay area, 25 in the greater Los Angeles/Orange County metropolitan area, 3 in Sacramento, 7 in San Diego, and one each in Bakersfield, Fresno, Modesto and Stockton. In Washington, Oregon and Nevada, THE GOOD GUYS! operates 9 stores, 5 stores and 4 stores, respectively.

The Good Guys, Inc. was incorporated in California in 1976. On March 4, 1992, the Company changed its state of incorporation from California to Delaware by merging into a wholly-owned Delaware subsidiary formed for that purpose. In September 1995, The Good Guys, Inc. transferred substantially all of its assets and liabilities to The Good Guys - California, Inc., its wholly-owned operating subsidiary. Unless the context otherwise requires, the terms "THE GOOD GUYS!" and "Company" refer to The Good Guys, Inc., together with its operating subsidiary.

Information Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides companies with a "safe harbor" when making forward-looking statements. Statements of the Company that are not historical facts, including statements about management's expectations for fiscal year 1997 and beyond, are forward-looking statements and involve certain risks and uncertainties. Factors that could cause the Company's actual results to differ materially from management's projections, forecasts, estimates and expectations include, but are not limited to, the following:

- (a) Demand for the Company's products, which in turn is dependent upon factors such as economic trends, the availability of consumer credit, the introduction and acceptance of new products and new product features, and the continued popularity of existing products.
- (b) Changes in the amount of promotional activities of current competitors and potential new competition from both retail stores and alternative methods of distribution such as electronic and telephone shopping services and mail order.
- (c) Changes in the Company's product mix.
- (d) The Company's ability to continue to locate suitable store sites and to hire and train skilled personnel.

- (e) Changes in the cost of the Company's advertising or in the support received from vendors for advertising and promotional programs.
- (f) The ability of the Company to achieve economies of scale in its advertising.
- (g) Changes in availability of capital expenditure, working capital and credit card financing.
- (h) Availability of sources of supply for the products the Company desires to sell.
- (i) Adoption of new laws or regulations placing restrictions on the sale of products and/or services by the Company.

Business Strategy

THE GOOD GUYS! goal is to be a leading consumer electronics retailer in each of its targeted markets. The cornerstones of its business strategy include:

Customer Service. THE GOOD GUYS! believes that superior service is the single most important factor in overall customer satisfaction, and that the Company differentiates itself from other consumer electronics retailers by providing superior customer service. The Company believes that friendly and knowledgeable sales associates are critical to satisfying customers interested in middle to high-end electronics products. The Company's objective is to generate long-term repeat business from its customers.

Merchandising. The Company's merchandising strategy is to provide customers with a broad and compelling selection of brand name consumer electronics with an emphasis on middle to high-end merchandise. Merchandise is offered at competitive prices, which are backed by a low price guarantee.

Marketing. The Company aggressively uses newspaper, direct mail and television advertising to build name recognition, to position THE GOOD GUYS! in its markets, and to increase store traffic. Stores are designed to be exciting and easy to shop and are located in high visibility and high traffic commercial areas.

Expansion. The Company plans to continue to expand its store base. Successful expansion will depend, among other things, on the Company's ability to continue to locate suitable store sites and to hire and train skilled personnel. It will also depend on the Company's ability to open new stores quickly in new markets, to achieve economies of scale in advertising and distribution, and to continue to gain market share from established competitors.

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Customer Service

The Company believes that knowledgeable and friendly sales associates are critical to providing superior customer service. As of September 30, 1996, the Company had over 2,600 highly trained part-time and full-time sales associates. Sales associates are paid under an incentive compensation program with a salary guarantee that is applied against incentives earned. Incentives are based on the gross profit realized, the amount of "repeat" business the sales associate generates, performance against sales goals and peer ranking, which evaluates a number of performance standards including product return percentage. The Company believes this incentive structure creates long-term repeat customers for THE GOOD GUYS!.

All sales associates attend a full-time, in-house initial training program. The Company's training program is continually updated and is designed to develop good sales practices and techniques and to help sales associates explain and demonstrate to customers the use and operation of store merchandise. This training enables sales associates to better understand customer needs and to help them select products with which they are satisfied.

The Company generally holds meetings daily at each store to keep sales associates trained in Company procedures and policies and to update them on competitive information, current product introductions, product availability and pricing. Manufacturers also conduct in-store training sessions to familiarize sales associates with existing and new products.

The Company hosts a product show annually. All sales associates attend the product show and are required to participate in training sessions focused on product knowledge and selling skills. Manufacturers are in attendance with product displays and are available to answer questions. Additionally, regional training workshops are conducted twice a year to enhance the sales associates' product knowledge. These sessions are conducted by a combination of manufacturers, corporate trainers and the corporate buyers. Customer service and sales techniques are also incorporated into these training workshops.

In recent years, THE GOOD GUYS! has eliminated cashiers and customer pickup windows, enabling sales associates to assist customers throughout the entire sales transaction. This allows sales associates to spend more time assessing the customer's needs, and provides customers with a smoother, more efficient and more enjoyable shopping experience.

The Company's satisfaction guaranteed policy provides that a product generally may be returned within 30 days of purchase for a full refund or in exchange for another product. When purchasing a product from the Company, customers may elect to purchase a Premier Performance Guarantee under which a third party provides extended service coverage beyond the period covered by the manufacturer's warranty.

All merchandise purchased from THE GOOD GUYS! and in need of repair may be returned to any of the Company's stores for service. Such merchandise is sent to either a Company-operated or an independent factory authorized repair facility

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and is returned to the store after repair. The Company has its own regional service facilities, which service all of its stores. The Company also operates car audio and car cellular phone installation facilities at almost all of its locations.

The majority of the Company's sales are made through credit cards. The Company currently honors MasterCard, VISA, American Express and various other credit cards, as well as THE GOOD GUYS! "Preferred Customer Card" issued by an independent third party. Because of the relatively high cost of many of the consumer electronics products sold by the Company, its business could be affected by consumer credit availability.

The Company places emphasis on developing the skills of its employees in order to provide a source of quality management personnel for current and future stores. The Company has been able to fill many sales managerial positions by promoting sales associates and, similarly, to fill many store management positions by promoting sales managers.

Merchandising

The Company offers its customers a broad range of high quality consumer electronics products supplied primarily by manufacturers of nationally known brands. This selection comprises approximately 4,400 products from over 240 vendors and is intended to cover all of the popular price points within each product category. The Company does not carry private label products. In addition, the Company continually introduces and evaluates new and complementary product lines. For example, in 1994 the Company commenced selling personal computers and peripheral equipment in all of its stores and in 1996 the Company began selling internet access devices.

The following table shows the approximate percentage of sales for each major product category for the last three fiscal years. Historical percentages may not be indicative of percentages in future years.

<TABLE>  
<CAPTION>

Category	Year Ended September 30,		
	1996	1995*	1994*
<S>	<C>	<C>	<C>
Video . . . . .	39%	38%	39%
Audio and cellular phones . . . . .	29%	32%	35%
Home office . . . . .	20%	19%	15%
Other (accessories, repair service, and premier performance guarantee) . . . . .	12%	11%	11%
	100%	100%	100%
	====	====	====

</TABLE>

\*Certain reclassifications have been made to the 1995 and 1994 financial data in order to conform to the present year's presentation.

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For the year ended September 30, 1996, the Company's three leading suppliers for video products were, in alphabetical order, Mitsubishi, Panasonic and Sony and for audio and cellular products were, in alphabetical order, Denon, Sony and Yamaha. The three leading suppliers of home office products were, in alphabetical order, Apple, Hewlett Packard and Packard Bell.

#### Marketing

The Company believes that its advertising activities have resulted in significant name recognition in its markets and have increased the number of qualified potential customers visiting its stores. The Company's advertising vehicles include newspaper, direct mail and television.

All of the Company's print and direct mail advertisements are created, produced and placed by the Company's advertising staff. The Company believes that the use of its own personnel maximizes its control over advertising effectiveness, increases its flexibility, allows quick response to changing market conditions, and enables it to purchase media on advantageous terms.

The Company's advertisements promote the Company as an "audio-video specialist" and emphasize competitive prices, extensive selection, and superior customer service from knowledgeable sales associates.

#### Expansion

Since the end of fiscal 1985, the Company has grown from 7 to 76 stores. Over the past five years, the Company has expanded its store base at a compound rate of approximately 18% per year. During fiscal 1996, THE GOOD GUYS! opened 11 new stores, continuing to penetrate its current markets by opening three stores in northern California, two stores each in Nevada, Oregon, Washington and the Orange County area. The Company also closed two of its northern California stores that were too small to adequately display its full product selection. The Company will continue to expand within its current four-state market during fiscal 1997, with plans to open one to three new stores and remodel/relocate several stores during the fiscal year.

In October 1996, the Company also opened a WOW!, MULTIMEDIA SUPERSTORE, in Long Beach, California, the second WOW! concept store jointly operated with Tower Records. In October 1996, the Company also introduced its new Expo format in its newly remodeled Redondo Beach, California store, as discussed in the Store Operations section below.

#### Store Operations

The Company's stores range in size from approximately 9,000 to 32,000 square feet. Most of the newer stores reflect the ongoing evolution in the Company's store design and are approximately 20,000 to 25,000 square feet in size. All of the Company's stores are located in high visibility, high traffic commercial areas and are open seven days a week, including most holidays.

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THE GOOD GUYS! stores are designed to reinforce the Company's merchandising philosophy and its desire to provide a pleasant shopping experience. Merchandise is generally displayed by category to facilitate comparison of brands, models and prices. During fiscal 1995, the Company introduced a new store design, called "Generation 21". These stores are larger and brighter stores that feature interactive displays, easily accessible merchandise and vibrant graphics.

On November 1, 1996, the Company introduced its latest store design called THE GOOD GUYS! Audio Video Exposition ("Expo") in its remodeled Redondo Beach, California store. The new Expo store format was designed to meet the changing merchandising needs that new convergence products, such as

home theater, internet access terminals, internet phones, internet televisions, PCS communication devices, digital versatile discs and digital satellite systems, require. The Expo format provides greater merchandising flexibility and connectivity between existing categories of product, featuring hands-on demonstrations of product interactivity throughout the store and a central area for customers to meet with sales consultants to design system solutions for their homes. The Company has identified and begun to initiate additional store relocations/renovations using the Expo concept.

The Company opened its second WOW!, MULTIMEDIA SUPERSTORE in Long Beach, California on October 31, 1996. These concept stores, which are jointly operated with Tower Records, provide the full range of consumer electronics offered at all THE GOOD GUYS! stores, as well as a full range of music, video, computer software and books and magazines offered by Tower Records. THE GOOD GUYS! occupies approximately 32,000 square feet in each of the WOW! stores.

Each store generally has one store manager, three sales managers and an operations manager. The store manager oversees the store's operations and the sales managers supervise the sales associates. Sales associates are specialized by product category. Sales associates handle all aspects of the customer interface: providing customers with the information necessary to determine the best product for their specific need, tendering the invoice and handling the payment, and bringing the goods from the stockroom to the customer.

Store operations are overseen by a senior management team which holds frequent meetings with the store managers. Merchandising and store operation policies for all stores are established by senior management.

#### Distribution

The Company operates a 460,000 square foot operations center in Hayward, California, which has the capacity to handle deliveries to more than 100 stores in the western United States. Deliveries are generally made to each store six or seven days a week, as ordered by the Company's automatic replenishment system. The Company believes that this frequency of delivery maximizes availability of merchandise at the stores while minimizing store level and overall inventories.

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#### Management Information Systems

The Company's management information system is a distributed, on-line network of computers that links all stores, delivery locations, service centers, credit providers, the distribution facility and the corporate offices into a fully integrated system. Each store has its own system which allows store management to track sales and inventory at the product, customer or sales associate level. The Company's point of sale system allows the capture of sales data and customer information and allows the tracking of merchandising trends and inventory levels on a daily basis. Management believes that its current systems are adequate to support THE GOOD GUYS! anticipated growth.

#### Competition

The business of the Company is highly competitive. The Company competes primarily with other specialty stores, independent electronics and appliance stores, department stores, mass merchandisers, discount stores and catalog showrooms. To some extent, the Company also competes with drugstores, supermarkets and others that make incidental sales of electronics products. Competitors of the Company include Circuit City Stores, Best Buy, Sears, Incredible Universe, Montgomery Ward, Target, several smaller electronics chains and independent stores.

The Company's strategy is to compete by being a value-added retailer, offering a broad selection of top national brand name merchandise sold at competitive prices by a friendly, knowledgeable and motivated team of associates.

#### Seasonality

As is the case with many other retailers, the Company's sales are higher during the Christmas season than during other periods of the year.

#### Employees

At September 30, 1996, the Company employed approximately 4,500 persons, of whom 700 were salaried, 1,200 were hourly non-selling associates and 2,600 were salespeople on commission against a minimum guarantee. At September 30, 1996, over 300 of its employees were employed in the Company's executive offices; the balance were employed in its stores, distribution center, home delivery center, and service centers. There are no collective bargaining agreements covering any of the Company's employees. The Company has never experienced a strike or work stoppage and management believes that relations with its employees are excellent.

#### Trademarks and Service Marks

The Company has registered the name "THE GOOD GUYS!" as a trademark with the United States Patent and Trademark Office and the State of California. Federal registration of the trademark extends through 2000 and is renewable indefinitely. The Company has registered "THE GOOD GUYS!" as a service mark through

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1999, which is renewable indefinitely. The Company's name is an integral part of its advertising and is important to its business.

#### ITEM 2. PROPERTIES

Of the Company's stores in California, 19 are located in the San Francisco Bay area, 25 in the greater Los Angeles/Orange County metropolitan area, 3 in Sacramento, 7 in San Diego; and one each in Bakersfield, Fresno, Modesto and Stockton, California. In addition, THE GOOD GUYS! operates 9 stores in the State of Washington, 5 stores in Oregon and 4 stores in Nevada. All of the stores are leased under leases that have expiration dates (assuming that lease options are exercised) in years ranging from 1999 to 2038.

The Company's operations center is located in a 460,000 square foot facility in Hayward, California under a lease, the term of which expires (assuming that lease options are exercised) in 2011.

The Company also maintains executive offices in Brisbane, California at 7000 Marina Boulevard under a lease, the term of which expires (assuming that lease options are exercised) in 2004.

#### ITEM 3. LEGAL PROCEEDINGS

On September 7, 1995, the Company was named as a defendant in two purported class actions, entitled Long v. Packard Bell Electronics, et al., Case No. 7515706, filed in Orange County Superior Court on August 21, 1995, and Sutter v. Acer America Corporation, et al., Case No. 95A505027, Sacramento County Superior Court. In both cases, plaintiffs have named a large number of computer manufacturers, wholesalers and retailers, alleging that since 1986 the defendants have misrepresented to the public the screen size of certain computer monitors. In addition to these two cases, there are numerous other cases pending around the State of California (and in other parts of the country) making essentially the same allegations against a variety of computer manufacturers, wholesalers and retailers. All of the California cases have now been coordinated in a single court in San Francisco. At the end of June 1996, the Court granted the Company's demurrers on the grounds (a) that a prior settlement of an action brought by the California Attorney General precludes relitigation of the same issues in this case; and (b) that plaintiffs lack standing to bring class claims against the Company because none of the named plaintiffs claims to have purchased any computer monitors from the Company. Plaintiffs have indicated that they plan to appeal these rulings. The cases are at an early stage, discovery has not yet commenced, and it is too early to be able to express any opinion as to the likely outcome of the matter. The Company believes it has meritorious defenses to the claims alleged in the lawsuit and intends to defend the action vigorously. The Company also believes it has meritorious claims for indemnification from certain computer manufacturers from which it has purchased computer equipment.

On July 19, 1996, McBride-Newell, Inc. dba Carphones, Inc. and numerous other individuals and entities filed a complaint against the Company and 21 other named defendants entitled McBride-Newell, Inc., et al. v. Mobilworks, Inc., et

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al., San Diego Superior Court Case No. 695897. The defendants include the two cellular telephone service providers in the San Diego area, Airtouch Cellular and U.S. West; a manufacturer of cellular telephones, Motorola, Inc.; and numerous large retail chain stores, including Circuit City, Tandy, Office Depot, Sears Roebuck, Wal-Mart Stores, Price-Costco, and others. Plaintiffs, who are small agents of the cellular service providers offering cellular telephone products and service in the San Diego area, allege a wide variety of antitrust and fraud-related claims against the cellular telephone service providers, including alleged conspiracy to fix cellular telephone rates. As against the retailer defendants, including the Company, the plaintiffs allege a conspiracy to sell cellular telephone equipment below cost with the intent to drive the plaintiffs out of business, in violation of the California Cartwright Act and Unfair Practices Act; unfair trade practices; unlawful "leveraging"; and "bundling" of cellular telephone equipment and service. Plaintiffs seek treble damages under the California antitrust laws. The case is at a very early stage, and it is too soon to be able to express an opinion as to the likely outcome of this matter. The Company believes it has meritorious defenses to the claims alleged in the lawsuit and intends to defend the action vigorously.

On or about July 22, 1996, Joe Quattrini dba Sand Canyon Cellular and numerous other individuals and entities filed a complaint against the Company and 20 other named defendants entitled Quattrini, et al. v. Pana-Pacific Corp., et al., Orange County Superior Court Case No. 766649. The defendants include the two cellular telephone service providers in the Orange County area, Los Angeles Cellular Telephone Company and Airtouch Cellular; a manufacturer of cellular telephones, Motorola, Inc.; and numerous large and small retail chain stores, including Tandy, Wal-Mart Stores, Sears Roebuck, The Warehouse, Al & Ed's Audio, Affordable Portables, L.A. Tronics, Adrays, Celluland, and others. Plaintiffs, who are small agents or sub-agents of the cellular service providers offering cellular telephone products and service in the Orange County area, allege a wide variety of antitrust and fraud-related claims against the cellular telephone service providers, including alleged conspiracy to fix cellular telephone prices. As against the retailer defendants, plaintiffs allege a conspiracy to sell cellular telephone equipment below cost with the intent to drive plaintiffs out of business in violation of the California Cartwright Act and Unfair Practices Act; unfair trade practices; and "bundling" of cellular telephone equipment and service. Plaintiffs seek treble damages under the California antitrust laws. The case is at a very early stage, and it is too soon to be able to express an opinion as to the likely outcome of this matter. The Company believes it has meritorious defenses to the claims alleged in the lawsuit and intends to defend the action vigorously.

In November 1995, the Company was named as a defendant in an action captioned as Littau et al. v. Circuit City, et al., No. 973978, San Francisco Superior Court. The other defendants are Circuit City Stores West Coast, Inc., Sears Roebuck & Co., Tandy Corp., Fry's Electronics, Inc., Best Buy Co., Inc., CompUSA, Inc., and Whole Earth Access Co. (which we understand is now in bankruptcy). Plaintiffs' complaint, which is styled as a class action, alleges that the Company has engaged in false advertising and unfair competition in violation of the California Business and Professions Code and the California Consumer Legal Remedies Act in the manner in which it has advertised personal computers sold with pre-installed, "bundled" software. Plaintiffs' primary allegation is that the Company's advertisements overstated the value of this software. Plaintiffs seek injunctive relief,

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restitution, special damages, and attorneys' fees. The case is still in the discovery stage, and it is too early to express any opinion as to the likely outcome of the matter. The Company believes it has meritorious defenses to the claims alleged in the suit and intends to defend the action vigorously. The Company also believes it has meritorious claims for indemnification from the computer manufacturers from which it has purchased personal computers and upon

whose representations it relied in representing the values of bundled software in its advertisements.

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

Not Applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

The executive officers of the Company and their respective ages and positions with the Company are as follows:

<TABLE>  
<CAPTION>

Name	Age	Position
Robert A. Gunst	48	President and Chief Executive Officer
Thomas A. Hannah	51	Senior Vice President, Operations
Brad S. Bramy	44	Vice President, Advertising
Dennis C. Carroll	37	Vice President, Chief Financial Officer and Secretary
William C. Curley	53	Vice President, Management Information Services and Operations
John G. Duken	36	Vice President, Store Operations
William B. Perlstein	46	Vice President, Stores
Gregory L. Steele	49	Vice President, Real Estate
Geradette M. Vaz	43	Vice President, Human Resources

</TABLE>

All executive officers are elected by and serve at the discretion of the Board of Directors.

Robert A. Gunst became the President and Chief Operating Officer of the Company in May 1990 and its Chief Executive Officer in January 1993.

Thomas A. Hannah joined the Company as Senior Vice President, Stores in June 1993 and was named Senior Vice President, Operations, in May 1995. From November 1982 to March 1993 he was Assistant Vice President, Circuit City Stores, Inc., and General Manager of three separate operating divisions located in Richmond, San Francisco and Dallas.

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Brad S. Bramy was named Vice President, Advertising in May 1995. Prior to holding this position, Mr. Bramy served in various positions in the advertising department since joining the Company in 1983.

Dennis C. Carroll, who had served as controller of the Company from 1990 to 1993, rejoined the Company as Vice President, Chief Financial Officer and Secretary in May 1996. Mr. Carroll served as Vice President and Chief Financial Officer of Beverages, & more!, a specialty retailer, from February 1994 to April 1996 and as Vice President, Controller and Treasurer of Supercuts, Inc., an owner and franchisor of hair salons, from May 1993 to January 1994.

William C. Curley joined the Company as Vice President, Management Information Services and Distribution in October 1990 and became Vice President, Management Information Services and Operations in November 1991.

John G. Duken joined the Company in September 1993 as General Manager of Store Operations and was named Vice President, Store Operations in June 1994. From June 1988 to August 1993 he held several positions with Circuit City Stores, Inc., including Divisional Operations Manager of the Northern California Division and General Operations Manager of the Midwest

Division.

William B. Perlstein joined the Company as Regional Sales Manager in March 1987, was named Vice President, Store Operations in January 1993, and was named Vice President, Stores in June 1993.

Gregory L. Steele has served as Vice President, Real Estate since April 1986.

Geradette M. Vaz joined the Company in July 1986 as Vice President, Human Resources, and has served in that position to the present.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Incorporated by reference from page 26 of the Company's 1996 Annual Report to Shareholders.

### ITEM 6. SELECTED FINANCIAL DATA

Incorporated by reference from page 15 of the Company's 1996 Annual Report to Shareholders.

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

Incorporated by reference from pages 12 through 14 of the Company's 1996 Annual Report to Shareholders.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Incorporated by reference from pages 16 through 24 of the Company's 1996 Annual Report to Shareholders.

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

Not Applicable.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information relating to directors of the Company required to be furnished pursuant to this item is incorporated by reference from portions of the Company's definitive Proxy Statement for its annual meeting of shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after September 30, 1996 (the "Proxy Statement") under the caption "Election of Directors." Certain information relating to executive officers of the Company is set forth in Item 4A of Part I of this Form 10-K under the caption "Executive Officers of Registrant."

### ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from portions of the Proxy Statement under the captions "Compensation of Directors and Executive Officers" and "Certain Relationships and Related Transactions."

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

Incorporated by reference from portions of the Proxy Statement under the captions "Certain Shareholders" and "Compensation of Directors and Executive Officers."

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from portions of the Proxy Statement

PART IV

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

(a)1. FINANCIAL STATEMENTS

Included in Part II of this report by incorporation by reference from the 1996 Annual Report to Shareholders:

Independent Auditors' Report (page 25 of the 1996 Annual Report to Shareholders)

Consolidated statements of operations for each of the three years in the period ended September 30, 1996 (page 17 of the 1996 Annual Report to Shareholders)

Consolidated balance sheets as of September 30, 1996 and 1995 (page 16 of the 1996 Annual Report to Shareholders)

Consolidated statements of shareholders' equity for each of the three years in the period ended September 30, 1996 (page 18 of the 1996 Annual Report to Shareholders)

Consolidated statements of cash flows for each of the three years in the period ended September 30, 1996 (page 19 of the 1996 Annual Report to Shareholders)

Notes to consolidated financial statements (pages 20 through 24 of the 1996 Annual Report to Shareholders)

(a)2. FINANCIAL STATEMENT SCHEDULES

All schedules are omitted because they are not required (in some cases because the information is not material), or are not applicable, or the information is included in the financial statements.

(a)3. EXHIBITS

- 3.1 Certificate of Incorporation. (Exhibit 3.1 to the Company's Form 8-K Report for March 4, 1992; incorporated herein by reference.)
- 3.2 Bylaws. (Exhibit 3.2 to the Company's Form 8-K Report for March 4, 1992; incorporated herein by reference.)
- 10.1 1985 Stock Option Plan, as amended.\*

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\*Compensatory plan or arrangement.

- 10.2 Form of Nonqualified Stock Option Agreements.\* (Exhibit 4.3 to the Company's Registration Statement on Form S-8 as filed on January 28, 1991, registration number 33-38749; incorporated herein by reference.)

- 10.3 THE GOOD GUYS! Profit-Sharing Plan, as amended and restated as of

- December 20, 1990.\* (Exhibit 10.4 to the Company's Form 10-K Annual Report for its fiscal year ended September 30, 1991; incorporated herein by reference.)
- 10.4 THE GOOD GUYS! Deferred Pay Plan.\* (Exhibit 4.1 to the Company's Registration Statement on Form S-8 as filed on March 12, 1991, registration number 33-39421; incorporated herein by reference.)
- 10.5 THE GOOD GUYS! Deferred Pay Plan Amendment No. 1.\* (Exhibit 4.6 to the Company's Registration Statement on Form S-8 as filed on March 12, 1991, registration number 33-39421; incorporated herein by reference.)
- 10.6 Letter Agreement with Robert A. Gunst, dated March 30, 1990.\* (Exhibit 10.14 to the Company's Form 10-K Annual Report for its fiscal year ended September 30, 1990; incorporated herein by reference.)
- 10.7 Employee Stock Purchase Plan, as amended.\*
- 10.8 THE GOOD GUYS! Deferred Pay Plan Amendment No. 2.\* (Exhibit 10.27 to the Company's Form 10-K Annual Report for its fiscal year ended September 30, 1992; incorporated herein by reference.)
- 10.9 Letter Agreement with Thomas A. Hannah, dated June 1, 1993.\* (Exhibit 10.10 to the Company's Form 10-K Annual Report for its fiscal year ended September 30, 1993, incorporated herein by reference.)
- 10.10 1994 Stock Incentive Plan, as amended.\*
- 10.11 Assignment and Assumption Agreement, dated September 26, 1995, by and between The Good Guys, Inc. and The Good Guys - California, Inc. (Exhibit 10.18 to the Company's Form 10-K Annual Report for the fiscal year ended September 30, 1995; incorporated herein by reference.)
- 10.12 Credit Agreement, dated as of September 26, 1995, by and among Bank of America National Trust & Savings Association, The Bank of California, N.A. and The Good Guys-California, Inc. (Exhibit 10.19 to the Company's Form 10-K Annual Report for the fiscal year ended September 30, 1995; incorporated herein by reference.)
- 10.13 Amendment to September 26, 1995 Credit Agreement among Bank of America National Trust & Savings Association, The Bank of California and The Good Guys-California, Inc., dated as of February 29, 1996.

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\*Compensatory plan or arrangement.

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- 10.14 Operating Agreement, dated effective as of April 15, 1995, between MTS, Inc., a California corporation, dba Tower Records/Book/Video, and The Good Guys, Inc., a Delaware corporation. (Exhibit 10.20 to the Company's Form 10-K Annual Report for the fiscal year ended September 30, 1995; incorporated herein by reference.)
- 10.15 Non-Committed Line of Credit Agreement, dated October 27, 1995, by and between The Bank of California, N.A. and The Good Guys - California, Inc. (Exhibit 10.21 to the Company's Form 10-K Annual Report for the fiscal year ended September 30, 1995; incorporated herein by reference.)
- 10.16 Non-Committed Line of Credit Agreement, dated July 24, 1995, by and between The Dai-Ichi Kangyo Bank, Limited and The Good Guys, Inc. (Exhibit 10.22 to the Company's Form 10-K Annual Report for the fiscal year ended September 30, 1995; incorporated herein by reference.)
- 10.17 Amended and Restated Credit Agreement, dated December 27, 1996, among The Good Guys - California, Inc., Bank of America National Trust & Savings Association and The Union Bank of California N.A.
- 11.1 Statement re Computation of Per Share Earnings.
- 13.1 Annual Report to Shareholders for fiscal year ended September 30, 1996

(pages incorporated by reference).

23.1 Independent Auditors' Consent.

24.1 Powers of Attorney.

(b) REPORTS ON FORM 8-K.

There were no reports on Form 8-K for the quarter ended September 30, 1996.

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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

THE GOOD GUYS, INC.

By /s/ ROBERT A. GUNST  
Robert A. Gunst  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<TABLE>		
<S>	<C>	<C>
/s/ ROBERT A. GUNST ----- (Robert A. Gunst)	Director, President and  Chief Executive Officer (Principal Executive Officer)	December 30, 1996
/s/ DENNIS C. CARROLL ----- (Dennis C. Carroll)	Vice President and  Chief Financial Officer (Principal Financial Officer)	December 30, 1996
/s/ LESLIE S. BENSON ----- (Leslie S. Benson)	Controller (Principal  Accounting Officer)	December 30, 1996
/s/ STANLEY R. BAKER* ----- (Stanley R. Baker)	Director	December 30, 1996
/s/ RUSSELL M. SOLOMON* ----- (Russell M. Solomon)	Director	December 30, 1996
/s/ JOHN E. MARTIN* ----- (John E. Martin)	Director	December 30, 1996
/s/ W. HOWARD LESTER* ----- (W. Howard Lester)	Director	December 30, 1996
*By /s/ ROBERT A. GUNST -----		
Attorney-in-Fact </TABLE>		

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## EXHIBIT INDEX

<TABLE>	Description
<CAPTION>	Description
Number	Description
-----	-----
<S>	<C>
10.1	1985 Stock Option Plan, as amended.
10.7	Employee Stock Purchase Plan, as amended.
10.10	1994 Stock Incentive Plan, as amended.
10.13	Amendment to September 26, 1995 Credit Agreement among Bank of America National Trust & Savings Association, The Bank of California and The Good Guys-California, Inc., dated as of February 29, 1996.
10.17	Amended and Restated Credit Agreement, dated December 27, 1996, among The Good Guys - California, Inc., Bank of America National Trust & Savings Association and The Union Bank of California N.A.
11.1	Statement re Computation of Per Share Earnings.
13.1	Annual Report to Shareholders for fiscal year ended September 30, 1996 (pages incorporated by reference).
23.1	Independent Auditors' Consent.
24.1	Powers of Attorney.
27.1	Financial Data Schedule.
</TABLE>	

## THE GOOD GUYS

## 1985 Stock Option Plan

(As Amended Through August 20, 1996)

1. Purpose. The purpose of the 1985 Stock Option Plan (the "Plan") is to enable The Good Guys, Inc. ("Company") and its subsidiaries, if any, to attract and retain directors, officers and other key employees and to provide such employees with additional incentive to advance the interests of the Company. Options qualifying as incentive stock options under Section 422A of the Internal Revenue Code of 1954, as amended, and nonqualified options may be granted under the Plan.

2. Administration.

(a) The Plan shall be administered by the Board of Directors, or by a committee (the "Committee") of three or more persons selected by the Board.

(b) The Board of Directors or the Committee shall have the power, subject to the express provisions of the Plan:

(1) To determine the recipients of options under the Plan, the time of grant of the options, and the number of shares covered by the grant.

(2) To prescribe the terms and provisions of each option granted (which need not be identical).

(3) To construe and interpret the Plan and options, to establish, amend, and revoke rules and regulations for the Plan's administration, and to make all other determinations necessary or advisable for the administration of the Plan.

3. Shares Subject to the Plan. Subject to the provisions of Paragraph 7 (relating to the adjustment upon changes in stock), the shares

which may be sold pursuant to options granted under the Plan shall not exceed in the aggregate 857,500 shares of common stock of the Company and may be unissued shares or reacquired shares. If any options granted under the Plan shall for any reason terminate or expire without having been exercised in full, the shares not purchased under such options shall be available again for the purposes of the Plan.

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4. Eligibility. Options under this Plan may be granted only to directors, officers and other key employees of the Company and/or of its subsidiaries. Persons to whom options to purchase shares are granted are hereinafter referred to as "optionee(s)." Subject to the provisions of Paragraphs 3, 4A and 5 of this Plan, there is no limitation on the number of options that may be granted to an optionee.

4A. Formula Awards to Nonemployee Directors. On the date on which the Board of Directors appoints, or the shareholders of the Company elect, a person who is not an employee of the Company as a member of the Board of Directors for the first time, such director shall be awarded a non-qualified option to purchase 5,000 shares of common stock of the Company. Immediately after the completion of each annual meeting of the shareholders of the Company, each nonemployee member of the Board of Directors shall be awarded a non-qualified option to purchase 1,000 shares of common stock of the Company. Such options shall have an exercise price per share equal to the fair market value of the shares of common the Company on the date of such award, determined in accordance with the provisions of Paragraph 5(a)(2) of this Plan. The amounts of such awards shall be adjusted as necessary in accordance with the provisions of Paragraph 7 of this Plan. Except as otherwise specifically provided in this Paragraph 4A, the terms of this Plan, including the vesting provisions of Paragraph 5(a)(1), shall apply to all options granted pursuant to this Paragraph 4A. This Paragraph 4A shall not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder.

5. Terms of Option Agreements.

(a) All Option Agreements. Options granted pursuant to the Plan shall be evidenced by agreements specifying the number of shares covered thereby, in such form as the Board or Committee shall from time to time establish, which agreements may incorporate all or any of the terms hereof by reference and shall comply with and be subject to the following terms and conditions:

(1) The Board or Committee shall have the power to set the time or times within which each option shall be exercisable, and to accelerate the time or times of exercise. Unless the stock option agreement executed by the optionee expressly otherwise provides, the option

shall become exercisable on a cumulative basis as to one-quarter of the total number of shares covered thereby on each of the first, second, third, and fourth anniversary dates of the date of grant of the option and shall not be exercisable

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after the expiration of ten years from the date it is granted (except in the case of an incentive stock option granted to a 10% shareholder in which event the option must be exercised within five years).

(2) Except as provided in paragraph 5(b) below, the exercise price shall not be less than 100% of the fair market value of the shares of common stock of the Company on the date of the granting of the option. If the common stock of the Company is not publicly traded on the date of grant of an option, fair market value may be computed by any method the Board or Committee believes in good faith will reflect the fair market value of the stock on such day. During such time as such stock is publicly traded but not listed upon an established stock exchange, the fair market value per share shall be the last sale price on the day the option is granted as reported on the National Market System, or, if such stock is not then reported on the National Market System but quotations are reported on the National Association of Securities Dealers Automated Quotations System, the average of the bid and asked prices on the day the option is granted, in either event as such price quotes are listed in The Wall Street Journal, Western Edition (or if not so reported in The Wall Street Journal any other listing service or publication known to the Board). If the stock is listed upon an established stock exchange or exchanges, such fair market value shall be deemed to be the closing price of the common stock on the largest such stock exchange upon which such stock is listed on the day the option is granted.

(3) To the extent that the right to purchase shares has accrued hereunder, options may be exercised from time to time by written notice to the Company, stating the number of shares being purchased and accompanied by the payment in full of the option price for such shares. Such payment shall be made in cash or in shares of the outstanding common stock of the Company or in a combination of cash and such stock. If shares of common stock are used in part or full payment for the shares to be acquired upon exercise of the option, such shares shall be valued for the purpose of such exchange as of the date of exercise of the option in accordance with the provisions of subparagraph (2) above. Any certificates for shares of outstanding common stock used to pay the option price shall be accompanied by stock powers duly endorsed in blank by the registered holder of the certificate (with the signature thereon guaranteed). In the event the certificates tendered by the optionee in such payment cover more shares than are required for such payment, the certificates shall also be accompanied by instructions

from the optionee to the Company's transfer agent with regard to disposition of the balance of the shares covered thereby.

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(4) The Company at all times shall keep available the number of shares of stock required to satisfy options granted under the Plan.

(5) The Company may require any person to whom an option is granted, his or her legal representative, heir, legatee, or distributee, as a condition of exercising any other option granted hereunder to give written assurance satisfactory to the Company to the effect that such person is acquiring the shares subject to the option for his or her own account for investment and not with any present intention of selling or otherwise distributing the same. The Company reserves the right to place a legend on any share certificate issued pursuant to this Plan to assure compliance with this paragraph. No shares of common stock of the Company shall be required to be distributed until the Company shall have taken such action, if any, as is then required to comply with the provisions of the Securities Act of 1933 or any other applicable securities law.

(6) Neither a person to whom an option is granted, nor such person's legal representative, heir, legatee, or distributee, shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such option unless and until such person has exercised his or her option pursuant to the terms thereof.

(7) No stock option shall be transferable by the grantee otherwise than by will, or if the grantee dies intestate, by the laws of descent and distribution of the state of domicile of the grantee at the time of death, provided that a non-qualified stock option may be transferred by a grantee to a trust or other entity established by the grantee for estate planning purposes. Except for exercises of non-qualified stock options by trusts or entities established by the grantee for estate tax purposes, all stock options shall be exercisable during the lifetime of the grantee only by the grantee.

(8) An option shall terminate and may not be exercised if the person to whom it is granted ceases to be an employee or director of the Company or of a subsidiary of the Company, with the following exceptions:

(i) If the employment or directorship is terminated for any reason other than the person's death or disability, such person may at any time within not more than three months after

such termination exercise the option, but only to the extent that it was exercisable on the date of such termination;

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(ii) If such person dies while he or she is an employee or director of the Company or of a subsidiary of the Company, his or her option may be exercised in full by his or her personal representatives, heirs or legatees at any time within not more than twelve (12) months following the date of death, regardless of any provision for vesting to the contrary; and

(iii) If such person suffers an injury or illness while he or she is an employee or director of the Company or of a subsidiary of the Company that renders such person unable to serve as an employee, or as a director, as the case may be, of the Company or of a subsidiary of the Company, such person or such person's guardian may at any time within not more than twelve (12) months following the date of such disability exercise the option in full, regardless of any provision for vesting to the contrary.

(9) In no event may an option be exercised by anyone after the expiration of the term of the option established pursuant to Subparagraph 5(a)(1) hereof.

(10) Each option granted pursuant to this Plan shall specify whether it is a non-qualified or an incentive stock option.

(11) As to individuals otherwise eligible under this Plan who own more than 10% of the total combined voting power of all classes of stock of the Company and its parent and subsidiary corporations, incentive stock options can be granted under this Plan to any such individual only if at the time such option is granted the option price is at least 110% of the fair market value of the stock subject to the option and such option by its terms is not exercisable after the expiration of five years from the date such option is granted.

(b) Incentive Stock Options. In addition to the terms and conditions specified above, incentive stock options granted under this Plan shall be subject to the term and condition that the aggregate fair market value (determined as of the time the option is granted) of the stock with respect to which incentive stock options are exercisable for the first time by any optionee during any calendar year (under all option plans of the Company or its parent and subsidiary corporations) shall not exceed \$100,000.

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6. Use of Proceeds from Shares. Proceeds from the sale of shares pursuant to options granted under the Plan shall be used for general corporate purposes.

7. Adjustment Upon Changes in Shares.

(a) If any change is made in the shares subject to the Plan, or subject to any option granted under the Plan (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or otherwise) appropriate adjustments shall be made by the Board of Directors or Committee in the maximum number of shares subject to the Plan and the number of shares and price per share of stock subject to the outstanding options.

(b) In the event of (i) a dissolution or liquidation of the Company or (ii) a transaction in which more than 50% of the shares of the Company entitled to vote are exchanged, the Board shall have discretion and power to accelerate the time when an option may be exercised, notwithstanding the provisions of the option.

(c) In the event of a merger or consolidation or other reorganization in which the Company is not the surviving corporation, or in which the Company becomes a subsidiary of another corporation, the successor corporation shall agree to assume the outstanding options or substitute comparable options therefor, or, if the successor corporation is unwilling to do so, the outstanding options shall become fully exercisable prior to such merger or consolidation or other reorganization.

8. Rights as an Employee. Nothing in this Plan or in any rights awarded hereunder shall confer upon any employee any right to continue in the employ of the Company or of any of its subsidiaries or interfere in any way with the right of the Company or any such subsidiary to terminate such employee's employment at any time.

9. Withholding Tax. There shall be deducted from the compensation of any employee holding options under this Plan the amount of any tax required by any governmental authority to be withheld and paid over by the Company to such governmental authority for the account of the person with respect to such options.

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10. Termination and Amendment of Plan. The Board of Directors may at any time terminate this Plan, or make such modifications the Plan as it shall deem advisable. Any modification which materially increases the benefits accruing to participants or the number of rights or shares which may be issued under the Plan, or materially modifies the requirements as to eligibility for participation in the Plan shall become effective only upon approval of the holders of a majority of the securities of the Company present, or represented, and entitled to vote at a meeting duly held in accordance with the laws of the State of California.

11. Effective Date of the Plan. The 1985 Stock Option Plan shall become effective on September 16, 1985. Any rights granted under this Plan must be granted within ten (10) years of such effective date.

12. Indemnification. In addition to such other rights of indemnification as they may have as directors, the members of the Board of Directors administering the Plan shall be indemnified by the Company against the reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding that such member is liable for negligence or misconduct in the performance of his duties; provided that within 60 days after institution of any such action, suit or proceeding, the member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

## THE GOOD GUYS, INC.

EMPLOYEE STOCK PURCHASE PLAN  
(as amended through November 1996)

## 1. PURPOSE:

The Good Guys, Inc. EMPLOYEE STOCK PURCHASE PLAN (the "Plan") is designed to foster continued cordial employee relations, to encourage and assist its employees and the employees of any present or future subsidiaries in acquiring a stock ownership interest in The Good Guys, Inc. (the "Corporation") and to help them provide for their future security. The Plan is intended to be an Employee Stock Purchase Plan under Internal Revenue Code Section 423.

## 2. STOCK SUBJECT TO THE PLAN:

Subject to adjustment pursuant to Section 12 of the Plan, the aggregate number of shares of Common Stock (the "shares") which may be sold under the Plan is 2,500,000.(1) The shares may be authorized, but unissued, or reacquired shares of Common Stock of the Corporation. The Corporation, during the term of the Plan, shall at all times reserve and keep available, such number of shares as shall be sufficient to satisfy the requirements of the Plan.

## 3. BI-ANNUAL PERIODS:

Bi-annual period shall mean the six-month periods ending on the last day of June and December of each year, provided that the first period under this Plan shall commence on the day on which the Corporation's Form S-1 Registration Statement covering the initial public offering of its Common Stock becomes effective (the "effective date") and shall end on the later of June 30, 1986 or the day which is 120 days after the effective date. The second period under this Plan shall commence on the day after the end of the final period and shall end on December 31, 1986.

## 4. ELIGIBILITY:

Anyone who becomes an employee of the Corporation or any of its subsidiaries (except those employees who own or hold options to purchase five percent (5%) or more of the capital stock of the Corporation or any subsidiary of the Corporation at the start of any bi-annual period), those employees whose customary employment is less than 20 hours

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1Includes additional 600,000 shares approved by Board of Directors in November 1996; subject to shareholder approval.

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per week, and those employees whose customary employment is for not more than 5 months in any calendar year) is eligible to become a member of the Plan on the first day of the bi-annual period following the commencement of service. Notwithstanding the foregoing, no employee shall be entitled to purchase (i) shares of stock under the Plan and all other purchase plans of the Corporation and any parent or subsidiary of the Corporation with an aggregate fair market value (determined at date of grant) exceeding \$25,000 per year for each calendar year in which such option is outstanding at any time, or (ii) more than 2,000 shares of stock under the Plan in any bi-annual period.

For purposes of this Plan, "subsidiary" shall mean a corporation of which not less than fifty percent (50%) of the voting shares are held by the Corporation or a subsidiary of the Corporation.

5. JOINING THE PLAN:

Any eligible employee's participation in the Plan shall be effective as of the first day of the bi-annual period following the day on which the employee completes, signs, and returns to the Corporation, or one of its present or future subsidiaries, a Stock Purchase Plan Application and Payroll Deduction Authority form indicating his or her acceptance and agreement to the Plan. Membership of any employee in the Plan is entirely voluntary.

Any employee receiving shares shall have no rights with respect to continuation of employment, nor with respect to continuation of any particular Corporation business, policy or product.

6. MEMBER'S CONTRIBUTIONS:

Each member shall elect to make contributions by payroll deduction of two percent (2%), five percent (5%) or ten percent (10%) of his or her gross compensation.

Subject to the maximum described above, a member may elect in writing to increase or decrease his or her rate of contribution; such change will become effective the first day of the bi-annual period following receipt by the Corporation of such written election.

The amount of each member's contribution shall be held by the Corporation in a special account and such contributions, free of any obligation of the Corporation to pay interest thereon, shall be credited to such member's individual account as of the last day of the month during

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which the compensation from which the contributions were deducted was earned.

No member will be permitted to make contributions for any period during which he or she is not receiving pay from the Corporation or one of its present or future subsidiaries.

7. ISSUANCE OF SHARES:

On the last trading day of each bi-annual period so long as the Plan shall remain in effect, and provided the member has not before that date advised the Corporation that he or she does not wish share purchased for his or her account on that date, the Corporation shall apply the funds credited to the member's account as of that date to the purchase of authorized but unissued shares of its Common Stock in units of one share or multiples thereof.

The cost to each member for the shares so purchased shall be eighty-five percent (85%) of the lower of:

1. With respect to the first bi-annual period, the price at which the Common Stock of the Corporation is first offered to the public; thereafter, the mean between the average bid and ask prices of the stock in the over-the-counter market as quoted on the National Association of Security Dealers Automatic Quotation System (NASDAQ), or if its stock is a National Market Issue the last sales price of the stock, or if the stock is traded on one or more securities exchanges the average of the closing prices on all such exchanges, on the first trading day of the bi-annual period; or

2. The mean between the average bid and ask prices of the stock in the over-the-counter market as quoted on the National Association of Securities Dealers Automatic Quotation System (NASDAQ) or if the stock is a National Market issue the last sales price of the stock, or if the stock is traded on one or more securities exchanges the average of the closing prices on all such exchanges on the last trading day of the bi-annual period.

Any moneys remaining in such member's account equaling less than the sum required to purchase one share shall, unless otherwise requested by the member, be held in the member's account for use during the next bi-annual period. Any moneys remaining in such member's account by reason of his or her prior election not to purchase shares in a given bi-annual period, as aforesaid, or moneys remaining in such member's account by reason of application of the provisions of the next paragraph hereof, shall be promptly

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returned to the member. The Corporation shall as expeditiously as possible after the last day of each bi-annual period issue to the member entitled thereto the certificate evidencing the shares issuable to him or her as provided herein.

Notwithstanding anything above to the contrary, (a) if the number of shares members desire to purchase at the end of any bi-annual period exceeds the number of shares then available under the Plan, the shares available shall be allocated among such members in proportion to their contributions during the bi-annual period; and (b) no funds in an employee's account shall be applied to the purchase of shares and no shares hereunder shall be issued unless such shares are covered by an effective registration statement under the Securities Act of 1933, as amended, or by an exemption therefrom.

8. TERMINATION OF MEMBERSHIP:

A member's membership in the Plan will be terminated when the member (a) voluntarily elects to withdraw his or her entire account, (b) resigns or is discharged from the Corporation or one of its present or future subsidiaries, (c) dies, or (d) does not receive pay from the Corporation or one of its present or future subsidiaries for twelve (12) consecutive months, unless this period is due to illness, injury or for other reasons approved by the persons or person appointed by the Corporation to administer the Plan as provided in Paragraph 10 below. Upon termination of membership, the terminated member shall not be entitled to rejoin the Plan until the first day of the bi-annual period immediately following the bi-annual period in which the termination occurs. Upon termination of membership, the member shall be entitled to the amount of his or her individual account within fifteen (15) days after termination.

9. BENEFICIARY:

Each member shall designate a beneficiary or beneficiaries and may, without their consent, change his or her designation. Any designation shall be effective only after it is received by the Corporation and shall become effective as of the date it is signed and shall be controlling over any disposition by will or otherwise.

Upon the death of a member his or her account shall be paid or distributed to the beneficiary or beneficiaries designated by such member, or in the absence of such designation, to the executor or administrator of his or her estate, and in either event the Corporation shall not be

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under any further liability to anyone. If more than one beneficiary is designated, then each beneficiary shall receive an equal portion of the account unless the member indicates to the contrary in his or her designation, provided that the Corporation may in its sole discretion make distributions in such form as will avoid the creation of fractional shares.

10. ADMINISTRATION OF THE PLAN:

The Plan shall be administered by such officers or other employees of the Corporation as the Corporation may from time to time select, and the persons so selected shall be responsible for the administration of the Plan. All costs and expenses incurred in administering the Plan shall be paid by the Corporation. Any taxes applicable to the member's account shall be charged or credited to the member's account by the Corporation.

11. MODIFICATION AND TERMINATION:

The Corporation expects to continue the Plan until such time as the shares reserved for issuance under the Plan have been sold. The Corporation reserves, however, the right to amend, alter, or terminate the Plan in its discretion. Upon termination, each member shall be entitled to the amount of his or her individual account within thirty (30) days after termination.

12. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION:

Appropriate and proportionate adjustments shall be made in the number and class of shares of stock subject to this plan, and to the rights granted hereunder and the prices applicable to such rights, in the event of a stock dividend, stock split, reverse stock split, recapitalization, reorganization, merger, consolidation, acquisition, separation, or like change in the capital structure of the Corporation.

13. ASSIGNABILITY OF RIGHTS:

No rights of any employee under this Plan shall be assignable by him or her, by operation of law, or otherwise, except to the extent that a member is permitted to designate a beneficiary or beneficiaries as hereinabove provided, and except to the extent permitted by the law of descent and distribution if no such beneficiary be designated. Prior to the issuance of any shares under this Plan, each employee member shall be required to sign a statement as set forth in Exhibit "A" attached hereto and incorporated herein.

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14. PARTICIPATION IN OTHER PLANS:

Nothing herein contained shall affect an employee's right to participate in and receive benefits under and in accordance with the then current provisions of any pension, insurance, or other employee welfare plan or program of the Corporation.

15. APPLICABLE LAW:

The interpretation, performance, and enforcement of this Plan shall be governed by the laws of the State of California.

16. EFFECTIVE DATE OF PLAN; SHAREHOLDER APPROVAL:

The Plan shall become effective upon adoption by the Board and approval by the shareholders of the Corporation.

17. LEGEND CONDITIONS:

The share of Common Stock to be issued pursuant to the provisions of this Plan shall have endorsed upon their face the following:

1. Any legend condition imposed as a condition of qualification by the California Commissioner of Corporations;

2. Unless the shares to be issued under this Plan have been registered under the Securities Act of 1933, the following additional legend shall be placed on the certificates:

"The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be pledged or hypothecated, and may not be sold or transferred in the absence of an effective Registration Statement for the shares under the Securities Act of 1933 or an opinion of counsel to the Company that registration is not required under said Act."

## THE GOOD GUYS, INC.

## 1994 STOCK INCENTIVE PLAN

(As amended through August 20, 1996)

## 1. PURPOSE.

The purposes of the 1994 Stock Incentive Plan (the "Plan") are to enable The Good Guys, Inc. (the "Corporation") and its Subsidiaries, if any, to attract and retain directors and key employees and to provide them with additional incentive to advance the interests of the Corporation. For the purposes of the Plan, the term "Subsidiary" means any corporation or other entity in which the Corporation has, directly or indirectly, an equity interest representing 50% or more of the capital stock thereof or equity interests therein.

## 2. ADMINISTRATION.

(a) The Plan shall be administered by a committee (the "Committee") appointed by the Board of Directors of the Corporation (the "Board") and consisting of not less than two members of the Board, each of whom at the time of appointment to the Committee and at all times during service as a member of the Committee shall be a "disinterested person" as then defined under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), or any successor rule.

(b) The Committee shall interpret the Plan and prescribe such rules, regulations and procedures in connection with the Plan as it shall deem to be necessary and advisable for the administration of the Plan.

## 3. ELIGIBILITY.

(a) Officers and other key employees of the Corporation or any Subsidiary shall be eligible to be granted stock options and to receive restricted share, restricted share unit, performance unit or bonus share awards as described herein.

(b) Non-employee directors shall be eligible to receive under the Plan only non-qualified options (i.e., options that do not qualify under Section 422 or 423 of the Internal Revenue Code of 1986 (the "Code")) in accordance with the provisions of Section 5(b) hereof.

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4. SHARES AVAILABLE.

The aggregate number of shares of the Corporation's Common Stock, \$.001 par value ("Common Stock"), which may be issued and as to which grants or awards of stock options, restricted shares, restricted share units, performance units or bonus shares may be made under the Plan is 1,000,000 shares (of which no more than 350,000 shares shall be available for the grant of restricted shares or restricted share units), subject to adjustment and substitution as set forth in Section 8. If any stock option granted under the Plan is cancelled by mutual consent or terminates or expires for any reason without having been exercised in full, the number of shares subject thereto shall again be available for purposes of the Plan. If shares of Common Stock or the right to receive shares of Common Stock are forfeited to the Corporation pursuant to the restrictions applicable to restricted shares or restricted share units awarded under the Plan, the shares so forfeited or covered by such right shall not again be available for the purposes of the Plan. To the extent any award of performance units is not earned or is paid in cash rather than shares, the number of shares covered thereby shall again be available for purposes of the Plan. The shares which may be issued under the Plan may be either authorized but unissued shares or treasury shares or partly each, as shall be determined from time to time by the Board.

5. GRANTS AND AWARDS.

(a) With respect to officers and other key employees, the Committee shall have authority, in its discretion, to grant incentive stock options pursuant to Section 422 of the Code and non-qualified stock options, and to award restricted shares, restricted share units, performance units and bonus shares.

Notwithstanding any other provision contained in the Plan or in any stock option agreement, the aggregate fair market value, determined on the date of grant, of the shares with respect to which incentive stock options are exercisable for the first time by an employee during any calendar year under all plans of the corporation employing such employee, any parent or subsidiary corporation of such corporation and any predecessor corporation of any such corporation shall not exceed \$100,000; provided, however, that all or any portion of a stock option which cannot be exercised because of such limitation shall be treated as a non-qualified option.

The maximum number of shares covered by all grants or awards in any fiscal year of the Corporation to any participant shall not exceed 100,000 (subject to adjustment and substitution as set forth in Section 8).

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(b) On the date on which the Board appoints, or the shareholders of the Corporation elect, a person who is not an employee of the Corporation as a member of the Board for the first time, such director shall be awarded a non-qualified option under this Plan to purchase 5,000 shares of Common Stock. Immediately after the completion of each annual meeting of the shareholders of the Corporation, each such director shall be awarded a non-qualified option to purchase 1,000 shares of Common Stock (unless such director receives a like grant under the Corporation's 1985 Stock Option Plan). Such options shall have an exercise price per share equal to the fair market value of the shares of the Corporation on the date of such award. Except as otherwise specifically provided in this Section 5(b), the terms of this Plan, including the vesting provisions of Section 6(d), shall apply to all options granted pursuant to this Section 5(b). This Section 5(b) shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder.

(c) If a grantee of a stock option, restricted share or performance unit engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment) which is in competition with the Corporation or any of its Subsidiaries, the Committee may immediately terminate all outstanding stock options held by the grantee, declare forfeited all restricted shares or restricted share units held by the grantee as to which the restrictions have not yet lapsed and terminate all outstanding performance unit awards held by the grantee for which the applicable Performance Period has not been completed; provided, however, that this sentence shall not apply if the exercise period of a stock option following termination of employment has been extended as provided in Section 9(c), if the lapse of the restrictions applicable to restricted shares or restricted share units has been accelerated as provided in Section 9(d), or if a performance unit has been deemed to have been earned as provided in Section 9(e). Whether a grantee has engaged in the operation or management of a business which is in competition with the Corporation or any of its Subsidiaries shall be determined by the Committee in its discretion, and any such determination shall be final and binding.

6. TERMS AND CONDITIONS OF STOCK OPTIONS.

Stock options granted under the Plan shall be subject to the following terms and conditions:

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(a) The purchase price at which each stock option may be

exercised (the "option price") shall not be less than one hundred percent (100%) of the fair market value per share of the Common Stock covered by the stock option on the date of grant; provided, however, that in the case of an incentive stock option granted to an employee, who, immediately prior to such grant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or a Subsidiary (a "Ten Percent Employee"), the option price shall not be less than one hundred ten percent (110%) of such fair market value on the date of grant. For purposes of this Section 6(a), an individual (i) shall be considered as owning not only shares of stock owned individually but also all shares of stock that are at the time owned, directly or indirectly, by or for the spouse, ancestors, lineal descendants and brothers and sisters (whether by the whole or half blood) of such individual and (ii) shall be considered as owning proportionately any shares owned, directly or indirectly, by or for any corporation, partnership, estate or trust in which such individual is a shareholder, partner or beneficiary.

(b) The option price for each stock option shall be paid in full upon exercise and shall be payable in cash in United States dollars (including check, bank draft or money order), which may include cash forwarded through a broker or other agent-sponsored exercise or financing program; provided, however, that in lieu of such cash the person exercising the stock option may pay the option price in whole or in part by delivering to the Corporation shares of Common Stock having a fair market value on the date of exercise of the stock option equal to the option price for the shares being purchased; except that (i) any portion of the option price representing a fraction of a share shall in any event be paid in cash and (ii) no shares of Common Stock which have been held for less than six months may be delivered in payment of the option price of a stock option. Notwithstanding any procedure of a broker or other agent-sponsored exercise or financing program, if the option price is paid in cash, the exercise of the stock option shall not be deemed to occur and no shares of the Common Stock will be issued until the Corporation has received full payment in cash (including check, bank draft or money order) for

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the option price from the broker or other agent. The date of exercise of a stock option shall be determined under procedures established by the Committee, and as of the date of exercise the person exercising the stock option shall be considered for all purposes to be the owner of the shares with respect to which the stock option has been exercised. Payment of the option price with shares shall not increase

the number of shares of Common Stock available for issuance under the Plan.

(c) No stock option shall be exercisable during the first six months of its term, except that this limitation on exercise shall not apply if Section 9(b) becomes applicable. No stock option shall be exercisable after the expiration of ten years (five years in the case of an incentive stock option granted to a Ten Percent Employee) from the date of grant. To the extent it is exercisable, a stock option may be exercised at any time in whole or in part.

(d) The Committee shall have the power to set the time or times within which each option shall be exercisable, and to accelerate the time or times of exercise. Unless the stock option agreement otherwise provides, the option shall become exercisable on a cumulative basis as to one-quarter of the total number of shares covered thereby on each of the first, second, third and fourth anniversary dates of the date of grant of the option.

(e) No stock option shall be transferrable by the grantee otherwise than by will, or if the grantee dies intestate, by the laws of descent and distribution of the state of domicile of the grantee at the time of death, provided that a non-qualified stock option may be transferred by a grantee to a trust or other entity established by the grantee for estate planning purposes. Except for exercises of non-qualified stock options by trusts or entities established by the grantee for estate tax purposes, all stock options shall be exercisable during the lifetime of the grantee only by the grantee.

(f) Unless the Committee, in its discretion, shall otherwise determine:

(i) If the employment or directorship of a grantee who is not

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disabled within the meaning of Section 422(c)(6) of the Code (a "Disabled Grantee") is voluntarily terminated with the consent of the Corporation or a Subsidiary or a grantee retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding incentive stock option held by such grantee shall be exercisable by the grantee (but only to the extent exercisable by the grantee immediately prior to such termination) at any time prior to the expiration date of such incentive stock option or within three months after the

date of such termination, whichever is the shorter period;

(ii) If the employment or directorship of a grantee who is not a Disabled Grantee is voluntarily terminated with the consent of the Corporation or a Subsidiary or a grantee retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding non-qualified stock option held by such grantee shall be exercisable by the grantee (but only to the extent exercisable by the grantee immediately prior to such termination) at any time prior to the expiration date of such nonstatutory stock option or within one year after the date of termination of employment, whichever is the shorter period;

(iii) If the employment or directorship of a grantee who is a Disabled Grantee is voluntarily terminated with the consent of the Corporation or a Subsidiary, any then outstanding stock option held by such grantee shall be exercisable by the grantee in full (whether or not so exercisable by the grantee immediately prior to such termination) by the grantee at any time prior to the expiration date of such stock option or within one year after the date of such termination, whichever is the shorter period;

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(iv) Following the death of a grantee during employment or while serving as a director, any outstanding stock option held by the grantee at the time of death shall be exercisable in full (whether or not so exercisable by the grantee immediately prior to the death of the grantee) by the person entitled to do so under the will of the grantee, or, if the grantee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the grantee at any time prior to the expiration date of such stock option or within one year after the date of death, whichever is the shorter period;

(v) Following the death of a grantee after termination of employment or his or her directorship during a period within which a stock option is exercisable, any outstanding stock option held by the grantee at the time of death shall be exercisable by such person entitled to do so under the will of the grantee or by such legal representative (but only to the extent the stock option was exercisable by the grantee immediately prior to the death of the grantee) at

any time prior to the expiration date of such stock option or within one year after the date of death, whichever is the shorter period; and

(vi) Unless the exercise period of a stock option following termination of employment or directorship has been extended as provided in Section 9(c), if the employment or directorship of a grantee terminates for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death, all outstanding stock options held by the grantee at the time of such termination shall automatically terminate.

Whether termination of employment or directorship is a voluntary termination with the consent of the

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Corporation or a Subsidiary and whether a grantee is a Disabled Grantee shall be determined in each case by the Committee in its discretion and any such determination by the Committee shall be final and binding.

(g) All stock options shall be confirmed by an agreement, which shall be executed on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President of the Corporation and by the grantee.

(h) The term "fair market value" for all purposes of the Plan shall mean the market price of the Common Stock, determined by the Committee as follows:

(i) If the Common Stock is traded on a stock exchange, then the Fair Market Value shall be equal to the closing price reported by the applicable composite-transactions report for such date;

(ii) If the Common Stock is traded in the Nasdaq Stock Market and is classified as a national market issue, then the Fair Market Value shall be equal to the last-transaction price quoted by the Nasdaq National Market system for such date;

(iii) If the Common Stock is traded in the Nasdaq Stock Market, but is not classified as a national market issue, then the Fair Market Value shall be equal to the mean

between the last reported representative bid and asked prices quoted by the Nasdaq system for such date; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

(i) The obligation of the Corporation to issue shares of Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the

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Corporation, (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the Common Stock may then be listed and (iii) all other applicable laws, regulations, rules and orders which may then be in effect.

Subject to the foregoing provisions of this Section and the other provisions of the Plan, any stock option granted under the Plan may be exercised at such times and in such amounts and be subject to such restrictions and other terms and conditions, if any, as shall be determined, in its discretion, by the Committee and set forth in the agreement referred to in Section 6(i), or an amendment thereto.

7. TERMS AND CONDITIONS OF RESTRICTED SHARE, RESTRICTED SHARE UNIT, PERFORMANCE UNIT AND BONUS SHARE AWARDS.

(a) Restricted Shares and Units. Restricted share or restricted share unit awards shall be evidenced by a written agreement in the form prescribed by the Committee in its discretion, which shall set forth the number of restricted shares of Common Stock or restricted share units entitling the holder to receive shares of Common Stock awarded, the restrictions imposed thereon (including, without limitation, restrictions on the right of the grantee to sell, assign, transfer or encumber such shares or units while such shares or units are subject to other restrictions imposed under this Section 7), the duration of such restrictions, events (which may, in the discretion of the Committee, include performance-based events) the occurrence of which would cause a forfeiture of restricted shares or restricted share units and such other terms and conditions as the Committee in its discretion deems appropriate. Restricted share or restricted share unit awards shall be effective only upon execution of the applicable restricted share or restricted

share unit agreement on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President, and by the grantee.

Restricted shares or restricted share units may be issued for no consideration other than for services to be rendered or for such consideration as shall be determined at the time of award by the Committee.

Except as otherwise specified by the Committee at the time of award of restricted shares or restricted share units, restricted shares or restricted share units issued shall vest (i.e., become non-forfeitable,) as follows: 25% on the date of the first anniversary of the date of issuance

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of the restricted shares or restricted share units and an additional 25% on each anniversary date thereafter. If prior to full vesting of the restricted shares or restricted share units the employment of the holder thereof is voluntarily terminated with the consent of the Corporation or Subsidiary or the holder retires under any retirement plan of the Corporation or a Subsidiary or dies during employment, the Committee may in its absolute discretion determine to vest all or any part of the restricted shares or restricted share units except as otherwise provided in Section 9(e). If the employment of the holder of restricted shares or restricted share units terminates for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the corporation or a Subsidiary or death, all unvested restricted shares or restricted share units shall be forfeited. Whether the termination of employment is a voluntary termination with the consent of the Corporation or a Subsidiary shall be determined by the Committee in its discretion, and a determination by the Committee on any matter with respect to restricted shares or restricted share units shall be final and binding on both the Corporation and the holder of restricted shares or restricted share units.

Following a restricted share award and prior to the lapse or termination of the applicable restrictions, the Committee shall deposit share certificates for such restricted shares in escrow (which may be an escrow in the custody of an officer of the Corporation). Upon the lapse or termination of the applicable restrictions (and not before such time), the grantee shall be issued or transferred share certificates for such restricted shares. From the date a restricted share award is effective, the grantee shall be a shareholder with respect to all the shares represented by such certificates and shall have all the rights of a shareholder with respect to all such shares, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares, subject only to the restrictions imposed by the Committee. The grantee of restricted share units shall not have any rights

as a shareholder until the delivery to the grantee of shares on lapse of the restrictions imposed.

(b) Performance Units. The Committee may award performance units which shall be earned by an awardee based on the level of performance over a specified period of time by the Corporation, a Subsidiary or Subsidiaries, any branch, department or other portion thereof or the awardee individually, as determined by the Committee. For the purposes of the grant of performance units, the following definitions shall apply:

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(i) "Performance unit" shall mean an award, expressed in dollars or shares of Common Stock, granted to an awardee with respect to a Performance Period. Awards expressed in dollars may be established as fixed dollar amounts, as a percentage of salary, as a percentage of a pool based on earnings of the Corporation, a Subsidiary or Subsidiaries or any branch, department or other portion thereof or in any other manner determined by the Committee in its discretion, provided that the amount thereof shall be capable of being determined as a fixed dollar amount as of the close of the Performance Period.

(ii) "Performance Period" shall mean an accounting period of the Corporation or a Subsidiary of not less than one year, as determined by the Committee in its discretion.

(iii) "Performance Target" shall mean that level of performance established by the Committee which must be met in order for the performance unit to be fully earned. The Performance Target may be expressed in terms of earnings per share, return on assets, asset growth, ratio of capital to assets or such other level or levels of accomplishment by the Corporation, a Subsidiary or Subsidiaries, any branch, department or other portion thereof or the awardee individually as may be established or revised from time to time by the Committee.

(iv) "Minimum Target" shall mean a minimal level of performance established by the Committee which must be met before any part of the performance unit is earned. The Minimum Target may be the same as or less than the Performance Target in the discretion of the Committee.

An awardee shall earn the performance unit in full by meeting the Performance Target for the Performance Period. If the Minimum Target has not been attained at the end of the Performance Period, no part of the

performance unit shall have been earned by the awardee. If the Minimum Target is attained but the Performance Target is not attained, the portion of the performance unit earned by the awardee shall be determined on the basis of a formula established by the Committee.

Payment of earned performance units shall be made to awardees following the close of the Performance Period as soon as practicable after the time the amount payable is determined by the Committee. Payment in respect of earned performance units, whether expressed in dollars or shares,

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may be made in cash, in shares of Common Stock, or partly in cash and partly in shares of Common Stock, as determined by the Committee at the time of payment. For this purpose, performance units expressed in dollars shall be converted to shares, and performance units expressed in shares shall be converted to dollars, based on the fair market value of the Common Stock, as of the date the amount payable is determined by the Committee.

If prior to the close of the Performance Period the awardee of performance units is voluntarily terminated with the consent of the Corporation or a Subsidiary or the awardee retires under any retirement plan of the Corporation or a Subsidiary or the awardee dies during employment, the Committee may in its absolute discretion determine to pay all or any part of the performance unit based upon the extent to which the Committee determines the Performance Target or Minimum Target has been achieved as of the date of termination of employment, retirement or death, the period of time remaining until the close of the Performance Period and/or such other factors as the Committee may deem relevant. If the Committee in its discretion determines that all or any part of the performance unit shall be paid, payment shall be made to the awardee or his or her estate as promptly as practicable following such determination and may be made in cash, in shares or Common Stock, or partly in cash and partly in shares of Common Stock, as determined by the Committee at the time of payment. For this purpose, performance units expressed in dollars shall be converted to shares, and performance units expressed in shares shall be converted to Dollars, based on the fair market value of the Common Stock as of the date the amount payable is determined by the Committee.

Except as otherwise provided in Section 9(e), if the employment of an awardee of performance units terminates prior to the close of a Performance Period for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary or retirement under any retirement plan of the Corporation or a Subsidiary or death, the performance units of the awardee shall be deemed not to have been earned, and no portion of such performance units may be paid. Whether termination of employment is a

voluntary termination with the consent of the Corporation or a Subsidiary shall be determined, in its discretion, by the Committee. Any determination by the Committee on any matter with respect to performance units shall be final and binding on both the Corporation and the awardee.

Performance unit awards shall be evidenced by a written agreement in the form prescribed by the Committee which shall set forth the amount or manner of determining the

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amount of the performance unit, the Performance Period, the Performance Target and any Minimum Target and such other terms and conditions as the Committee in its discretion deems appropriate. Performance unit awards shall be effective only upon execution of the applicable performance unit agreement on behalf of the Corporation by the Chief Executive Officer (if other than the President), the President or any Vice President, and by the awardee.

(c) Bonus Shares. The Committee shall have the authority in its discretion to award bonus shares of Common Stock to eligible employees from time to time in recognition of the contribution of the awardee to the performance of the Corporation, a Subsidiary or Subsidiaries, or any branch, department or other portion thereof, in recognition of the awardee's individual performance or on the basis of such other factors as the Committee may deem relevant.

#### 8. ADJUSTMENT AND SUBSTITUTION OF SHARES.

If a dividend or other distribution shall be declared upon the Common Stock payable in shares of the Common Stock, the number of shares of the Common Stock then subject to any outstanding stock options, restricted share units or performance unit awards and the number of shares of the Common Stock which may be issued under the Plan but are not then subject to outstanding stock options or awards shall be adjusted by adding thereto the number of shares of the Common Stock which would have been distributable thereon if such shares had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend or distribution. Shares of Common Stock so distributed with respect to any restricted shares held in escrow shall be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares on which they were distributed.

If the outstanding shares of the Common Stock shall be changed into or exchangeable for a different number or kind of shares of stock or other securities of the Corporation or another corporation, whether through reorganization, reclassification, recapitalization, stock split-up, combination

of shares, merger or consolidation, then there shall be substituted for each share of the Common Stock subject to any then outstanding stock option, restricted share unit or performance unit award, and for each share of the Common Stock which may be issued under the Plan but which is not then subject to any outstanding stock option or award, the number and kind of shares of stock or other securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchangeable. Unless otherwise determined by the

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Committee in its discretion, any such stock or securities, as well as any cash or other property, into or for which any restricted shares held in escrow shall be changed or exchangeable in any such transaction shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was issued or distributed.

In case of any adjustment or substitution as provided for in this Section 8, the aggregate option price for all shares subject to each then outstanding stock option prior to such adjustment or substitution shall be the aggregate option price for all shares of stock or other securities (including any fraction) to which such shares shall have been adjusted or which shall have been substituted for such shares. Any new option price per share shall be carried to at least three decimal places with the last decimal place rounded upwards to the nearest whole number.

No adjustment or substitution provided for in this Section 8 shall require the Corporation to issue or sell a fraction of a share or other security. Accordingly, all fractional shares or other securities which result from any such adjustment or substitution shall be eliminated and not carried forward to any subsequent adjustment or substitution. Owners of restricted shares held in escrow shall be treated in the same manner as owners of Common Stock not held in escrow with respect to fractional shares created by an adjustment or substitution of shares, except that, unless otherwise determined by the Committee in its discretion, any cash or other property paid in lieu of a fractional share shall be subject to restrictions similar to those applicable to the restricted shares exchanged therefor.

If any such adjustment or substitution provided for in this Section 8 requires the approval of shareholders in order to enable the Corporation to grant incentive stock options, then no such adjustment or substitution shall be made without the required shareholder approval. Notwithstanding the foregoing, in the case of incentive stock options, if the effect of any such adjustment or substitution would be to cause the stock option to fail to continue to qualify as an incentive stock option or to cause

a modification, extension or renewal of such stock option within the meaning of Section 424 of the Code, the Committee may elect that such adjustment or substitution not be made but rather shall use reasonable efforts to effect such other adjustment of each then outstanding stock option as the Committee, in its discretion, shall deem equitable and which will not result in any disqualification, modification,

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extension or renewal (within the meaning of Section 424 of the Code) of such incentive stock option.

9. ADDITIONAL RIGHTS IN CERTAIN EVENTS.

(a) Definitions. For purposes of this Section 9, the following terms shall have the following meanings:

(i) The term "Person" shall be used as that term is used in Sections 13(d) and 14(d) of the 1934 Act.

(ii) Beneficial ownership shall be determined as provided in Rule 13d-3 under the 1934 Act as in effect on the effective date of the Plan.

(iii) "Voting Shares" shall mean all securities of a company entitling the holders thereof to vote in an annual election of Directors (without consideration of the rights of any class of stock other than the Common Stock to elect Directors by a separate class vote); and a specified percentage of "Voting Power" of a company shall mean such number of the Voting Shares as shall enable the holders thereof to cast such percentage of all the votes which could be cast in an annual election of directors (without consideration of the rights of any class of stock other than the Common Stock to elect Directors by a separate class vote).

(iv) "Tender Offer" shall mean a tender offer or exchange offer to acquire securities of the Corporation (other than such an offer made by the Corporation or any Subsidiary), whether or not such offer is approved or opposed by the Board.

(v) "Section 9 Event" shall mean the date upon which any of the following events occurs:

(A) The Corporation acquires actual knowledge that any Person has acquired the Beneficial Ownership, directly or indirectly, of securities of the Corporation entitling such Person to 20% or more of the Voting Power of the Corporation, other than the

Corporation, a Subsidiary or any employee benefit plan(s) sponsored by the Corporation, or a Person approved by the Board that has acquired 20% or more but less than 50% of the Voting Power of the Corporation;

(B) A Tender Offer is made to acquire securities of the Corporation entitling the holders thereof to 20% or more of the Voting Power of the Corporation; or

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(C) A solicitation subject to Rule 14a-11 under the 1934 Act (or any successor Rule) relating to the election or removal of 50% or more of the members of any class of the Board shall be made by any person other than the Corporation; or

(D) The shareholders of the Corporation shall approve a merger, consolidation, share exchange, division or sale or other disposition of assets of the Corporation as a result of which the shareholders of the Corporation immediately prior to such transaction shall not hold, directly or indirectly, immediately following such transaction a majority of the Voting Power of (i) in the case of a merger or consolidation, the surviving or resulting corporation, (ii) in the case of a share exchange, the acquiring corporation or (iii) in the case of a division or a sale or other disposition of assets, each surviving, resulting or acquiring corporation which, immediately following the transaction, holds more than 20% of the consolidated assets of the Corporation immediately prior to the transaction;

provided, however, that (i) if securities beneficially owned by a grantee are included in determining the Beneficial Ownership of a Person referred to in Section 9(a)(v)(A), (ii) a grantee is required to be named pursuant to Item 2 of the Schedule 14D-1 (or any similar successor filing requirement) required to be filed by the bidder making a Tender Offer referred to in Section 9(a)(v)(B), or (iii) if a grantee is a "participant" as defined in 14a-11 under the 1934 Act (or any successor Rule) in a solicitation (other than a solicitation by the Corporation) referred to in Section 9(a)(v)(C), then no Section 9 Event with respect to such grantee shall be deemed to have occurred by reason of such event.

(b) Acceleration of the Exercise Date of Stock Options. Unless the agreement referred to in Section 6(g), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, in case any "Section 9 Event" occurs all outstanding stock options (other than those held by a person referred to in the proviso to Section 9(a)(v)) shall become immediately and fully exercisable whether or not otherwise

exercisable by their terms.

(c) Extension of the Expiration Date of Stock Options. Unless the agreement referred to in Section 6(g), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, all stock options held by a grantee (other than a grantee

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referred to in the proviso to Section 9(a)(v)) whose employment with the Corporation or a Subsidiary terminates within one year of any Section 9 Event for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death shall be exercisable for a period of three months from the date of such termination of employment, but in no event after the expiration date of the stock option.

(d) Lapse of Restrictions on Restricted Share or Restricted Share Unit Awards. If any "Section 9 Event" occurs prior to the scheduled lapse of all restrictions applicable to restricted share or restricted share unit awards under the Plan (other than those held by a person referred to in the proviso to Section 9(a)(v)), all such restrictions shall lapse upon the occurrence of any such "Section 9 Event" regardless of the scheduled lapse of such restrictions.

(e) Payment of Performance Units. If any "Section 9 Event" occurs prior to the end of any Performance Period, all performance units awarded with respect to such Performance Period (other than those held by a person referred to in the proviso to Section 9(a)(v)) shall be deemed to have been fully earned as of the date of such Section 9 Event, regardless of the attainment or nonattainment of the Performance Target or any Minimum Target, and shall be paid to the awardees thereof as promptly as practicable thereafter. If the performance unit is not expressed as a fixed amount in dollars or shares, the Committee may provide in the performance unit agreement for the amount to be paid in the case of a Section 9 Event.

10. EFFECT OF THE PLAN ON THE RIGHTS OF EMPLOYEES AND EMPLOYER.

Neither the adoption of the Plan nor any action of the Board or the Committee pursuant to the Plan shall be deemed to give any employee any right to be granted a stock option or to be awarded restricted shares, restricted share units, performance units or bonus shares under the Plan. Nothing in the Plan, in any stock option, in any restricted share, restricted share unit, performance unit or bonus share award under the Plan or in any agreement providing for any of the foregoing shall confer any right to any employee to continue in the employ of the Corporation or any Subsidiary or

interfere in any way with the rights of the Corporation or any Subsidiary to terminate the employment of any employee at any time.

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11. AMENDMENT.

The right to alter and amend the Plan at any time and from time to time and the right to revoke or terminate the Plan are hereby specifically reserved to the Board; provided that no such alteration or amendment of the Plan shall, without shareholder approval (a) increase by more than 10% the total number of shares which may be issued under the Plan to persons subject to Section 16 under the 1934 Act ("Section 16 Persons"), (b) materially increase the benefits accruing under the Plan to Section 16 Persons, (c) materially modify the requirements as to eligibility for participation in the Plan by Section 16 Persons, (d) make any changes in the class of employees eligible to receive incentive stock options under the Plan, or (e) increase the number of shares with respect to which incentive stock options may be granted under the Plan; approval of the Plan by the shareholders of the Corporation pursuant to Section 12 shall also be deemed to constitute approval of any amendments to Section 6(e) that are designed to take advantage of changes in income tax or securities laws or regulations adopted for the purpose of reducing or eliminating restrictions on transferability of options. No alteration, amendment, revocation or termination of the Plan shall, without the written consent of the holder of a stock option, restricted shares, restricted share units, performance units or bonus shares theretofore awarded under the Plan, adversely affect the rights of such holder with respect thereto.

12. EFFECTIVE DATE AND DURATION OF PLAN.

The effective date and date of adoption of the Plan shall be November 14, 1994, the date of adoption of the Plan by the Board. No stock option may be granted, and no restricted shares, restricted share units, bonus shares or performance units payable in performance shares may be awarded under the Plan subsequent to November 13, 2004.

13. INDEMNIFICATION.

In addition to such other rights of indemnification as they may have as directors, the members of the Committee administering the Plan shall be indemnified by the Corporation against the reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any rights granted thereunder, and against all amounts paid by them in settlement thereof

(provided such settlement is approved by independent legal counsel selected

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by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit or proceeding that such member is liable for negligence or misconduct in the performance of such member's duties; provided that within 60 days after institution of any such action, suit or proceeding, the member shall in writing offer the Corporation the opportunity, at its own expense, to handle and defend the same.

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## FIRST AMENDMENT TO CREDIT AGREEMENT

This Amendment is entered into as of February 29, 1996, among Bank of America National Trust and Savings Association ("BofA"); The Bank of California N.A. ("BankCal"); The Good Guys - California, Inc. a California corporation ("Borrower"). BofA and BankCal are sometimes referred to as "Banks" and each is a "Bank."

## RECITALS

- A. The Banks and the Borrower entered into a certain Credit Agreement dated as of September 26, 1995 (the "Credit Agreement").
- B. The Banks and the Borrower desire to amend the Agreement.

## AGREEMENT

1. Definitions. Capitalized terms used but not defined in this Agreement shall have the meaning given to them in the Credit Agreement.
2. Amendments. The Credit Agreement is hereby amended as follows:

2.1 The definition of Tangible Net Worth in paragraph 1.1 is hereby amended to read as follows:

"Tangible Net Worth" means the gross book value of the assets of Guarantor on a consolidated basis (exclusive of goodwill, patents, trademarks, trade names, organization expense, treasury stock, unamortized debt discount and expense, deferred charges and other like intangibles) less (a) reserves applicable thereto, and (b) all liabilities (including accrued and deferred income taxes).

2.2 Paragraph 6.4 is hereby amended to read as follows:

6.4 Adjusted Tangible Net Worth. Maintain on a consolidated basis Adjusted Tangible Net Worth of at least the amount indicated as of the end of each quarter set forth below. "Adjusted Tangible Net Worth" means Tangible Net Worth (a) minus the proceeds of any public or private offering of stock of the Guarantor on or after January 1, 1996, other than stock sold under the Employee Stock Purchase Plan; (b) minus the fair market value, on the date of sale, of the Guarantor's stock sold to employees of the Guarantor or the

Borrower under the Employee Stock Purchase Plan on or after January 1, 1996; provided, however, that the amount subtracted from Tangible Net Worth under this subparagraph (b) shall not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000) per fiscal year; (c) plus the fair market value, on the date of purchase, of any of the Guarantor's stock repurchased by the Guarantor on or after January 1, 1996; provided, however, that the amount added to Tangible Net Worth under this subparagraph (c) shall not exceed Six Million Five Hundred Thousand Dollars (\$6,500,000).

<TABLE>  
<CAPTION>

Quarter Ending -----	Amount -----
<S> March 31, 1996	<C> \$140,500,000
June 30, 1996	\$141,500,000
September 30, 1996	\$143,000,000

</TABLE>

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<TABLE>

<S> December 31, 1996	<C> \$150,000,000
March 31, 1997	\$151,000,000
June 30, 1997	\$152,000,000
September 30, 1997	\$154,000,000

</TABLE>

2.3 Paragraph 6.8 is amended to read as follows:

6.8 Out-Of-Debt Requirement. For each one hundred and twenty (120) day period ending on April 15 of each year, Borrower and Guarantor must fulfill either the requirements of (a) or of (b) below:

(a) Repay all outstanding advances, and not draw any new advances, for a period of at least thirty (30) consecutive calendar days during such one hundred and twenty (120) day period. This

requirement must be fulfilled for the BofA Facility, the BankCal Facility and any indebtedness permitted under paragraphs 6.9(g) and (h) at the same time; or

(b) Reduce the amount of all advances (including the BofA Facility, the BankCal Facility and any indebtedness permitted under paragraphs 6.9(g) and (h)) to not more than Fifteen Million Dollars (\$15,000,000) for a period of at least sixty (60) consecutive calendar days during such one hundred and twenty (120) day period.

2.4 Subparagraph 6.9(h) is amended to read as follows:

(h) additional indebtedness under uncommitted facilities from either Bank; provided, however, that the total outstanding indebtedness from both Banks (whether under this Agreement or otherwise) plus the total outstanding indebtedness from other lenders under subparagraph (g) above must not exceed the following at any one time: from February 1 through October 31 of any year, Fifty Million Dollars (\$50,000,000); and at other times, Seventy Five Million Dollars (\$75,000,000).

2.5 Paragraph 6.12 is hereby amended to read as follows:

6.12 Dividends. Borrower and Guarantor shall not (and shall not permit any of their subsidiaries to) declare or pay any dividends on any of their respective shares except dividends payable in capital stock, and not purchase, redeem or otherwise acquire for value any of their respective shares, or create any sinking fund in relation thereto; provided, however, that Borrower and Guarantor may purchase stock from their employees for a consideration not exceeding, in the aggregate, One Million Five Hundred Thousand Dollars (\$1,500,000) in any one fiscal year; such dollar limit to be non-cumulative from year to year; and provided further that Guarantor may, on or after January 1, 1996, purchase an additional amount of its stock with a fair market value, on the date of purchase, not to exceed Six Million Five Hundred Thousand Dollars (\$6,500,000) in the aggregate.

2.6 Paragraph 6.14 is amended to read as follows:

6.14 Capital Ownership. Borrower and Guarantor each

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shall not cause, permit, or suffer any one shareholder to control, directly, indirectly or through affiliates, more than fifty percent (50%) of Guarantor's capital ownership; and Borrower's capital stock must continue to be entirely owned by Guarantor;

2.7 Subparagraph 6.29 is hereby deleted.

3. Representations and Warranties. When the Borrower signs this Amendment, the Borrower represents and warrants to the Banks that:

(a) There is no event which is, or with notice or lapse of time or both would be, an Event of Default under the Agreement;

(b) The representations and warranties in the Agreement are true and correct as of the date of this Amendment as if made on the date of this Amendment;

(c) This Amendment is within the Borrower's powers, has been duly authorized, and does not conflict with any of the Borrower's organizational papers; and

(d) This Amendment does not conflict with any law, agreement, or obligation by which the Borrower is bound.

4. Effect of Amendment. Except as provided in this Amendment, all of the terms and conditions of the Agreement shall remain in full force and effect.

5. Counterparts. This Amendment may be executed in counterparts, each of which when so executed shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

This Amendment is executed as of the date first stated above.

<TABLE>

<S>

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

<C>

THE GOOD GUYS - CALIFORNIA, INC.

By \s\ Hagop Bouldoukian

By \s\ Robert A. Gunst

Title Vice President

Title President and CEO

By \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

Title \_\_\_\_\_

THE BANK OF CALIFORNIA N.A.

By \s\ Wanda Headrick

Title Vice President

By \_\_\_\_\_

Title \_\_\_\_\_

</TABLE>

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Guarantor's Acknowledgment and Agreement

The Guarantor acknowledges the covenants applicable to it as set forth in the foregoing Amendment and agrees to comply with them until full and final payment of all of the Borrower's obligations under the Credit Agreement and any instrument or agreement required under the Credit Agreement.

Date: February 29, 1996

THE GOOD GUYS, INC.

By \_\_\_\_\_

Title \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

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AMENDED AND RESTATED CREDIT AGREEMENT

DATED AS OF DECEMBER 27, 1996

AMONG

THE GOOD GUYS - CALIFORNIA, INC.

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION

AND

THE UNION BANK OF CALIFORNIA N.A.

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AMENDED AND RESTATED CREDIT AGREEMENT

This Agreement is effective as of December 27, 1996 among Bank of America National Trust and Savings Association ("BoFA"), The Union Bank of California N.A., as successor by merger to The Bank of California N.A. ("UBOC") and The Good Guys - California, Inc., a California corporation ("Borrower"). BoFA and UBOC are sometimes referred to as "Banks," and each is a "Bank."

RECITALS

A. The Banks and the Borrower entered into a certain Credit Agreement dated as of September 26, 1995 (the "Previous Credit Agreement").

B. On the effective date of this Agreement, all indebtedness outstanding under the Previous Credit Agreement shall be deemed outstanding under this Agreement, and the Previous Credit Agreement shall be deemed cancelled.

AGREEMENT

1. Definitions and Financial Requirements.

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms have the meanings indicated for the purposes hereof:

"Availability Period" means the period commencing on the Closing Date and ending on December 31, 1997.

"Banking Day" means, unless otherwise defined in this Agreement, a day other than a Saturday or a Sunday on which Banks are open for business in California. With respect to LIBOR Rate Portions, a Banking Day is a day other than a Saturday or a Sunday on which Banks are open for business in California, New York and London and are dealing in offshore dollars.

"UBOC Facility" means the facility provided by UBOC under Paragraph 2.2 below.

"UBOC Money Market Rate" means a rate per annum which UBOC quotes as the rate at which funds in the amount of the Portion and for a period of time comparable to the Interest Period are available for purchase from other banks in the ordinary course of UBOC's business on the first day of the applicable Interest Period, adjusted for the then maximum reserve, capital adequacy, deposit insurance, and similar requirements that under any circumstances could be applicable to UBOC pursuant to applicable law or regulation, and other amounts associated with UBOC's costs and desired return. The

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UBOC Money Market Rate may be accepted only at the time quoted by UBOC. Due to changes in legal, regulatory, economic, or market conditions, UBOC may at any time determine that the UBOC Money Market Rate is not available.

"UBOC's Prime Rate" means a fluctuating rate that changes with the rate UBOC announces to be in effect from time to time as its prime rate. The Prime Rate is set by UBOC based on various factors, including general economic and market conditions, and is used as a reference point in pricing certain loans. UBOC may price its loans at, above or below the Prime Rate.

"BofA Facility" means the facility provided by BofA under Paragraph 2.1 below.

"BofA's Reference Rate" means the rate of interest publicly announced from time to time by BofA in San Francisco, California, as its reference rate. Any change in BofA's Reference Rate shall take effect on the day specified in the public announcement of such change. BofA's Reference Rate is set by BofA based on various factors,

including BofA's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. BofA may price loans at, above or below BofA's Reference Rate.

"Capital Expenditure" means an expenditure for the acquisition of fixed or capital assets or the leasing of fixed or capital assets, net of (a) the leasing of premises for retail store locations and distribution facilities; (b) equipment rentals for less than one year; (c) landlord allowances for leasehold improvements; (d) expenditures under operating leases; and (e) amounts funded during the fiscal year ending September 30, 1996.

"Cayman Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by BofA as of the first day of the Interest Period.)

$$\text{Cayman Rate} = \frac{\text{Cayman Base Rate}}{\text{-----}} \\ \text{(1.00 - Reserve Percentage)}$$

Where "Cayman Base Rate" means the interest rate (rounded upward to the nearest 1/16th of one percent) at which BofA's Grand Cayman Branch, Grand Cayman, British West Indies, would offer U.S. dollar deposits for the applicable Interest Period to other major banks in the offshore dollar inter-bank market.

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"Closing Date" means the date that the conditions precedent stated in Paragraph 4.1 below are all satisfied or waived as provided by the Banks in writing.

"ERISA" means the Employee Retirement Income Act of 1974, as amended from time to time.

"ERISA Plan" means any employee pension benefit plan maintained or contributed to by Borrower and insured by the Pension Benefit Guaranty Corporation under Title IV of ERISA.

"Event of Default" means any event listed in Article 7 of this Agreement.

"Interest Period" means for each Portion the period during which such Portion shall bear interest at a specified Optional Rate, as agreed by the Banks and the Borrower at the time Borrower requests the

Portion.

"LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the respective Bank as of the first day of the Interest Period.)

$$\text{LIBOR Rate} = \frac{\text{London Rate}}{\text{-----}} \\ \text{(1.00 - Reserve Percentage)}$$

Where "London Rate" means the interest rate (rounded upward to the nearest 1/16th of one percent) determined as follows:

(a) for amounts outstanding from BofA, the rate at which BofA's London Branch, London, Great Britain, would offer U.S. dollar deposits for the applicable Interest Period to other major banks in the London inter-bank market at approximately 11:00 a.m. London time two (2) Banking Days before the commencement of the Interest Period.

(b) for amounts outstanding from UBOC, the rate at which U.S. dollar deposits for the applicable Interest Period would be offered to UBOC in the Eurodollar market two (2) Banking Days before the commencement of the Interest Period.

"Optional Rate" means one of the optional interest rates provided under this Agreement, other than BofA's Reference Rate and UBOC's Prime Rate.

"Portion" means all or such part of the principal balance of credit provided under this Agreement for which interest is accruing at one of the Optional Rates.

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"Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

"Spread" means one and two-tenths (1.20) percentage points; provided, however, that the Spread shall be reduced to ninety-five one-hundredths (.95) of one percentage point on the Banking Day

following the day on which the Banks receive written evidence that the Borrower and Guarantor have, on a consolidated basis, achieved net income (exclusive of non-recurring gains) of not less than Three Million Five Hundred Thousand Dollars (\$3,500,000) for the fiscal quarter ending December 31, 1996, and Two Hundred Fifty Thousand Dollars (\$250,000) for the fiscal quarter ending March 31, 1997.

"Tangible Net Worth" means the gross book value of the assets of Guarantor on a consolidated basis (exclusive of goodwill, patents, trademarks, trade names, organization expense, treasury stock, unamortized debt discount and expense, deferred charges and other like intangibles) less (a) reserves applicable thereto, and (b) all liabilities (including accrued and deferred income taxes).

1.2 Financial Requirements. Unless otherwise specified in this Agreement, all accounting terms used in this Agreement shall be interpreted, all financial computations required under this Agreement shall be made, and all financial information required under this Agreement shall be prepared in accordance with generally accepted accounting principles consistently applied.

## 2. The Credit Facilities

2.1 The BofA Facility. Subject to the provisions of this Agreement, from time to time during the Availability Period, BofA, on a revolving basis, will make advances to Borrower and issue standby letters of credit for Borrower's account. The undrawn and the drawn and unreimbursed amount of all letters of credit outstanding under the BofA Facility may not exceed at any one time Five Million Dollars (\$5,000,000). The total of all advances, plus the undrawn and the drawn and unreimbursed amount of all letters of credit, outstanding under the BofA Facility may not exceed at any one time Thirty Three Million Dollars (\$33,000,000) (the "BofA Credit Limit").

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2.2 The UBOC Facility. Subject to the provisions of this Agreement, from time to time during the Availability Period, UBOC, on a revolving basis, will make advances to Borrower and issue standby letters of credit for Borrower's account. The undrawn and the drawn and unreimbursed amount of all letters of credit outstanding under the UBOC Facility may not exceed at any one time Two Million Five Hundred Thousand Dollars (\$2,500,000). The total of all advances plus the undrawn and the drawn and unreimbursed amount of all letters of credit outstanding under the UBOC Facility may not exceed at any one time Seventeen Million Dollars (\$17,000,000) (the "UBOC Credit Limit").

2.3 Pro Rata Borrowings. Borrower agrees that, at all times,

the total of all advances, plus the undrawn and the drawn and unreimbursed amount of all letters of credit, outstanding under the BofA Facility and the UBOC Facility, respectively, shall bear the same ratio as the ratio of the BofA Credit Limit to the UBOC Credit Limit. Whenever the ratio of the BofA Credit Limit to the UBOC Credit Limit changes in accordance with the provisions of paragraphs 2.1 and 2.2 above, the Borrower shall adjust the credit outstandings from the two Banks to maintain the ratio required by the preceding sentence as soon as it is possible to do so without incurring any penalties for prepaying any Portion bearing interest at an Optional Rate. Whenever the Borrower requests a letter of credit, both Banks shall issue letters of credit to the same beneficiary and for the same term, in pro rata amounts in proportion to the ratio of the BofA Credit Limit to the UBOC Credit Limit at the time the letters of credit are designated.

#### 2.4 Advances Under this Agreement.

(a) Borrower shall repay the entire principal balance of all advances under this Agreement on the last day of the Availability Period, subject to the provisions of Paragraph 2.5(e) below.

(b) Except as provided below, advances made by BofA under this Agreement shall bear interest at a rate per annum equal to BofA's Reference Rate, and advances made by UBOC under this Agreement shall bear interest at a rate per annum equal to UBOC's Prime Rate. Borrower shall pay interest monthly in arrears on the first day of each month until the last day of the Availability Period, on which date all accrued and unpaid interest shall be due and payable.

2.5 Optional Interest Rates. In lieu of the rates related to BofA's Reference Rate and UBOC's Prime Rate, Borrower may elect to have all or portions of advances under this Agreement bear interest at any of the following rates plus the Spread during an appropriate Interest Period: the LIBOR Rate; for amounts advanced by BofA, the Cayman Rate; and for amounts

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advanced by UBOC, the UBOC Money Market Rate. Each Optional Rate is subject to the following requirements:

(a) Each Portion shall be for an amount not less than the following:

(i) For the LIBOR Rate or the UBOC Money Market Rate, One Million Dollars (\$1,000,000).

(ii) For the Cayman Rate, an amount not less than Five

Hundred Thousand Dollars (\$500,000) for interest periods of 30 days or longer. For shorter maturities, each Portion will be for an amount which, when multiplied by the number of days in the applicable interest period, is not less than fifteen million (15,000,000) dollar-days.

(b) Each Interest Period shall not end later than the last day of the Availability Period. For the LIBOR Rate, the Interest Period shall be one (1), two (2), three (3), six (6), or twelve (12) months. For the UBOC Money Market Rate, the Interest Period shall be from one to no longer than sixty days. For the Cayman Rate, the Interest Period shall be from one day to no longer than one year. For the LIBOR Rate and the Cayman Rate, the last day of the Interest Period will be determined by each Bank using the practices of the offshore dollar inter-bank market.

(c) Borrower shall pay interest on each Portion on the first day of each month following the first day of the Interest Period for such portion and on the last day of the Interest Period for such portion.

(d) A Portion shall not be converted to a different interest rate during its Interest Period. Upon the expiration of an Interest Period, the Portion shall thereafter bear interest at the rate based on BofA's Reference Rate or UBOC's Prime Rate, as applicable, unless Borrower elects a new interest rate as provided hereunder.

(e) Any payment of a Portion prior to the last day of the Interest Period for such Portion, whether voluntary, by reason of acceleration or otherwise, including any mandatory payments required under this Agreement and applied by either Bank to a Portion, shall be accompanied by the amount of accrued interest on the amount repaid and by the amount (if any) by which (i) the additional interest which would have been payable on the amount repaid had it not been paid until the last day of its Interest Period exceeds (ii) the interest which would have been recoverable by such Bank by placing the amount repaid on deposit in the Reinvestment Market specified below for a period starting on the date it

was repaid and ending on the last day of the Interest Period for such portion. The Reinvestment Market for LIBOR Rate Portions, Cayman Rate Portions and UBOC Money Market Rate Portions shall be the offshore dollar inter-bank markets.

(f) Banks shall have no obligation to accept an election for a Portion if any of the following described events has occurred and is continuing:

(1) Dollar deposits in the principal amount, and for periods equal to the Interest Period, of a Portion are not available in the relevant market; or

(2) The Optional Rate does not accurately reflect the cost of the Portion.

## 2.6 Standby Letters of Credit.

(a) Each standby letter of credit shall be issued pursuant to the terms and conditions hereof and of each Bank's standard form agreement for standby letter of credit executed by Borrower.

(b) Each standby letter of credit shall:

(1) expire on or before one (1) year after the date such letter of credit is issued, but in no event later than the last day of the Availability Period;

(2) be otherwise in form and substance and in favor of beneficiaries satisfactory to Banks.

(c) Borrower shall pay the Banks an issuance fee equal to one and two-tenths percent (1.20%) per annum of the outstanding undrawn amount of each standby letter of credit, payable in advance at the time the letter of credit is issued and annually thereafter, calculated on the basis of the face amount outstanding on the day the fee is calculated. If there is a default under this Agreement, at each Bank's option, the amount of the fee shall be increased to 2.0% per annum, effective starting on the day the Banks provide notice of the increase to the Borrower. In addition, the Borrower shall pay such other fees at the times and in the amounts that each Bank advises Borrower from time to time as being applicable to Borrower's standby letters of credit.

(d) Any sum owed to either Bank with respect to a standby letter of credit issued for Borrower's account which is not paid when due shall, at the option of that Bank in each instance, be added to advances outstanding under the that Bank's Facility and shall thereafter bear interest at the rate applicable to advances.

(e) In addition to any other rights or remedies which Banks may have under this Agreement or otherwise, upon the occurrence of an Event of Default each Bank may require Borrower to prepay the amount of any standby letters of credit outstanding from that Bank under this Agreement.

2.7 Fee. Borrower has previously paid the following fees on or before the date of execution of this Agreement: for BofA, a fee of Twenty Thousand Dollars (\$20,000); and for UBOC, a fee of Ten Thousand Dollars (\$10,000).

#### 2.8 Commitment Fee.

(a) Borrower shall pay each Bank a commitment fee at the rate of three tenths of one percent (0.30%) per annum on the average daily unused portion of the following: (i) for BofA, the BofA Credit Limit; and (ii) for UBOC, the UBOC Credit Limit. The commitment fee shall be computed on a calendar quarter basis in arrears. The commitment fee shall be payable on the first day of each calendar quarter, and on the last day of the Availability Period. The amounts of the Credit Limits which are used shall include both advances and the face amount of outstanding letters of credit.

(b) Upon at least thirty (30) days' advance written notice to Banks, Borrower may cancel the availability of credit under this Agreement and repay all of its obligations hereunder in full (subject to the provisions of Paragraphs 2.5(e) above), and Borrower shall not be obligated to pay a commitment fee for any quarterly fee after the quarterly period in which such cancellation and repayment occurred.

2.9 Default Rate. Upon the occurrence and during the continuation of any Event of Default under Paragraph 6.4, 6.5, 6.7, or 7.1 below and without constituting a waiver of any such Event of Default, advances under this Agreement from either Bank shall at the option of such Bank bear interest at a rate per annum which is two percentage points (2.00%) higher than the rate of interest otherwise provided under this Agreement. Upon the expiration of any Interest Period, the relevant Portion shall thereafter bear interest at BofA's Reference Rate plus two percentage points (2.00%) or UBOC's Prime Rate plus two percentage points (2.00%).

2.10 Termination of This Agreement. Borrower may, at any time, terminate this Agreement by written notice to Banks, provided that all amounts outstanding hereunder have been paid and all other obligations of Borrower have been fulfilled.

### 3. Extensions of Credit, Payments and Interest Calculations

3.1 Requests for Credit. Each request for an extension of credit shall be made in writing on a form acceptable to the Bank extending the credit or in any other manner acceptable to that Bank. Requests for advances must be received no later than 2:00 p.m. on the date the advance will be made; provided that requests for advances or the designation of portions which will bear interest at the LIBOR Rate must be received no later than 9:00 a.m. three (3) Banking Days before the date the advance will be made or the designation will take effect; provided further that requests for advances or the designation of Portions which will bear interest at an Optional Rate other than the LIBOR Rate must be received no later than 11:00 a.m. on the date the advance will be made or the designation will take effect.

3.2 Oral Requests. At each Bank's sole discretion in each instance, such Bank may accept telephone requests to make or to repay extensions of credit. Extensions of credit requested by telephone shall be deposited or wired into Borrower's commercial account number 14995-05205 with BofA, or such other account(s) as may be specified in writing by Borrower. Telephone requests may be made by any individual identified in writing to such Bank on a form acceptable to such Bank as being authorized to make such requests. Each Bank shall be entitled to rely upon any written or telephone request from persons it reasonably believes to be authorized by Borrower to make such requests without making independent inquiry. Borrower hereby indemnifies each Bank for, and holds each Bank harmless from, any and all losses, damages, claims and expenses (including reasonable attorneys' fees and allocated costs of Banks' in-house counsel), however arising, which such Bank suffers or incurs based on or arising out of extensions of credit or payments made on any telephone request, except that Banks shall not be indemnified against their own gross negligence or wilful misconduct. The provisions of this Paragraph shall survive termination of this Agreement.

3.3 Disbursements and Payments. Each disbursement by Banks and each payment by Borrower under this Agreement shall be made in U.S. Dollars and in immediately available funds and at such branch of each Bank as that Bank may from time to time select.

3.4 Branch Accounts. Each extension of credit under this Agreement shall be made for the account of such branch of the Bank extending the credit as such Bank may from time to time select.

3.5 Evidence of Indebtedness. Principal, interest and all other sums due each Bank under this Agreement shall be evidenced by entries in records maintained by such Bank, and, if required by such Bank, by a promissory note or notes. Each

payment on and any other credits with respect to principal, interest and all other sums due under this Agreement shall be evidenced by entries to records maintained by each Bank.

3.6 Debits to Borrower's Accounts. Borrower hereby authorizes BofA to debit Borrower's account number 14995-05205 in the amount of interest and fees due to BofA under this Agreement. BofA shall debit the account on the date such amounts become due, or, if such due date is not a Banking Day, on the next Banking Day after such due date. For amounts due to UBOC, upon the instructions of Borrower, BofA shall wire such amounts as designated by Borrower to The Union Bank of California N.A., ABA #1220-00496, for credit to CBND Bancontrol Account No. 001-2060232 to the attention of Corporate Note Department. If there are insufficient funds in the account to cover the amount debited to the account in accordance with this Paragraph, such debit will be reversed and such amount will remain unpaid. Borrower shall pay BofA's standard fees for each wire transfer.

3.7 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, payable under this Agreement shall be computed on the basis of a three hundred sixty (360) day year and actual days elapsed, which results in more interest or a larger fee than if a three hundred sixty-five (365) day year were used.

3.8 Late Payments; Compounding. At the option of each Bank, in each instance, any sum payable hereunder which is not paid when due (including unpaid interest) may be added to principal of this Agreement and shall thereafter bear interest at the rate applicable to principal.

3.9 Banking Day. Any sum payable by Borrower hereunder which becomes due on a day which is not a Banking Day shall be due on the next Banking Day after such due date (subject to the practices of the Eurodollar market, if applicable). Any payments received by either Bank on a day which is not a Banking Day or after 2:00 p.m. on a Banking Day shall be deemed to be received on the next Banking Day after such date of receipt.

### 3.10 Taxes and Other Charges.

(a) Borrower agrees to make all payments or reimbursements under this Agreement free and clear of and without deduction for any present or future taxes, levies, imposts, fees or other charges of any kind which may be imposed by any governmental authority with respect to such payments or reimbursements ("Taxes"). If any Taxes are imposed by any governmental authority, Borrower agrees to pay such Taxes and to confirm payment by delivery of official tax receipts or notarized copies thereof to Banks within thirty (30) days after the due date for each tax payment. This

Paragraph shall not apply with respect to any taxes which are imposed on or measured by either Bank's net income by any jurisdiction.

(b) In the event the Borrower is prohibited by operation of law from making payments or reimbursements to the Banks without making such deductions or paying, or causing to be paid, any and all Taxes, the Borrower shall pay to the Banks upon demand such additional amounts as may be necessary in order to reimburse the Banks for Taxes paid by the Banks on the Borrower's behalf such that the aggregate net amounts received by the Banks shall equal the amounts which would have been received if such deduction or withholding had not been required.

3.11 Increased Costs. Borrower shall reimburse or compensate each Bank, upon demand by that Bank, for all costs incurred, losses suffered or payments made by that Bank which are applied or allocated by such Bank to this Agreement (all as reasonably determined by such Bank in its sole discretion) by reason of any change in any statute, regulation, or any request or requirement of any regulatory agency, whether or not having the force of law, which is applicable to all or a class of all national banks, including:

(a) any and all present or future reserve, deposit or similar requirements applied against (or against any class of or change in or in the amount of) assets or liabilities of, or commitments or extensions of credit by, such Bank; and

(b) any and all present or future capital or similar requirements against (or against any class of or change in or in the amount of) assets or liabilities of, or commitments or extensions of credit by, such Bank.

#### 4. Conditions to Availability of Credit.

Each Bank's obligation to extend credit under this Agreement is subject to the following conditions. In the case of documents or evidence to be received by Banks, each such item must be in form and substance satisfactory to both Banks:

4.1 Conditions to First Extension of Credit. Before the first extension of credit:

(a) Receipt by Banks of evidence that the execution, delivery, and performance by Borrower and Guarantor of this Agreement and any instrument or agreement required under this Agreement, as appropriate, have been duly authorized.

(b) Receipt by Banks of an executed copy of this Agreement; a promissory note as required by UBOC; and each Bank's standard wire transfer agreement.

(c) Payment of any fees and costs due on the Closing Date.

(d) Continuing guaranties, on each Bank's standard form, executed by Guarantor, guarantying the obligations of Borrower to each Bank, in a principal amount acceptable to each Bank.

(e) Payment by the Borrower of all costs, expenses and attorneys' fees (including allocated costs for in-house legal services) incurred by the Banks in connection with this Agreement.

4.2 Conditions to Each Extension of Credit. As a condition to each extension of credit,

(a) Borrower must be in compliance with Paragraph 2.3 above.

(b) Each representation and warranty made by Borrower and Guarantor under this Agreement must be true and correct as of the date of the extension of credit.

## 5. Representations and Warranties

Borrower represents and warrants (and each request for an extension of credit under this Agreement shall be deemed a representation and warranty made on the date of such request) that:

5.1 Organization. Borrower and Guarantor each is a corporation duly organized and existing under the laws of the state of its organization and the execution, delivery, and performance of this Agreement and of any instrument or agreement required by this Agreement are within Borrower's and Guarantor's powers, have been duly authorized, and are not in conflict with the terms of any charter, bylaw, or other organization papers of Borrower or Guarantor;

5.2 No Conflicts. The execution, delivery, and performance of this Agreement and of any instrument or agreement required by this Agreement are not in conflict with any law or any indenture, agreement, or undertaking to which Borrower or Guarantor is a party or by which Borrower or Guarantor is bound or affected;

5.3 Enforceability. This Agreement is a legal, valid and

in accordance with its terms, and any instrument or agreement required under this Agreement, when executed and delivered, will be similarly legal, valid, binding and enforceable;

5.4 Good Standing. Borrower and Guarantor each is properly licensed and in good standing in each state in which it is doing business and Borrower and Guarantor each has qualified under, and complied with, where required, the fictitious name statute of each state in which it is doing business;

5.5 Compliance with Laws. Borrower and Guarantor each has complied with all federal, state, and local laws, rules, and regulations affecting the business of Borrower and Guarantor including, but not limited to, laws regulating Borrower's and Guarantor's sales or the furnishing of services to their customers and disclosures in connection therewith;

5.6 Litigation. There is no litigation, tax claim, proceeding or dispute pending, or, to the knowledge of Borrower, threatened, against or affecting Borrower or Guarantor or their property, the adverse determination of which would have a material adverse effect on Borrower's or Guarantor's financial condition or operations or impair Borrower's or Guarantor's ability to perform its obligations hereunder or under any instrument or agreement required hereunder;

5.7 No Event of Default. No event has occurred and is continuing or would result from the extension of credit under this Agreement which constitutes or would constitute an Event of Default or which, upon a lapse of time or notice or both, would become an Event of Default;

5.8 Information Submitted. All financial information submitted by Borrower or Guarantor to either Bank has been prepared in accordance with generally accepted accounting principles consistently applied, is fairly presented in all material respects and is complete insofar as may be necessary to give Banks a true and accurate knowledge of the subject matter thereof;

5.9 No Material Adverse Change. There has been no material adverse change in the consolidated financial condition of Borrower and Guarantor since the date of the most recent financial statements submitted to Banks;

5.10 ERISA Plan Compliance.

(a) Borrower and Guarantor each has fulfilled its

obligations, if any, under the minimum funding standards of ERISA and the Internal Revenue Code of 1986, as amended from time to time, (the "Code") with respect to each ERISA Plan and is in compliance in all material respects with the

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presently applicable provisions of ERISA and the Code, and has not incurred any liability with respect to any ERISA Plan under Title IV of ERISA;

(b) No reportable event has occurred under Section 4043(b) of ERISA for which the Pension Benefit Guaranty Corporation requires 30 day notice;

(c) No action by Borrower or Guarantor to terminate or withdraw from any ERISA Plan has been taken and no notice of intent to terminate an ERISA Plan has been filed under Section 4041 of ERISA;

(d) No proceeding has been commenced with respect to an ERISA Plan under Section 4042 of ERISA, and no event has occurred or condition exists which might constitute grounds for the commencement of such a proceeding.

5.11 Transfer of Assets. All of the assets of the Guarantor have been transferred to the Borrower, and all of the liabilities and obligations of the Guarantor have been assumed by the Borrower, except for such assets, liabilities and obligations which have been disclosed to the Banks and are acceptable to the Banks.

## 6. Covenants

So long as credit is available under this Agreement and until full and final payment of all of Borrower's obligations under this Agreement and any instrument or agreement required under this Agreement, Borrower and Guarantor shall, unless Banks waive compliance in writing:

6.1 Notices of Certain Events. Promptly give written notice to both Banks of:

(a) all litigation affecting Borrower or Guarantor where the amount claimed is Two Million Dollars (\$2,000,000) or more;

(b) any substantial dispute which may exist between Borrower or Guarantor and any governmental regulatory body or law enforcement authority;

(c) any Event of Default or any event which, upon a lapse of time or notice or both, would become an Event of Default;

(d) the occurrence of any reportable event under Section 4043(b) of ERISA for which the Pension Benefit Guaranty Corporation requires thirty (30) day notice; any action by Borrower or Guarantor to terminate or withdraw from

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an ERISA Plan or the filing of any notice of intent to terminate under Section 4041 of ERISA; any notice of noncompliance made with respect to an ERISA Plan under Section 4041(b) of ERISA; or the commencement of any proceeding with respect to an ERISA Plan under Section 4042 of ERISA;

(e) any other matter which has resulted or could reasonably be expected to result in an adverse change in Borrower's or Guarantor's financial condition or operations;

6.2 Financial and Other Information. Deliver to both Banks in form and detail satisfactory to Banks, and in such number of copies as Banks may request:

(a) Within one hundred twenty (120) days after the end of each fiscal year Guarantor's consolidated financial statements for such year audited by a certified public accountant together with an unqualified opinion of such certified public accountant and including, at a minimum, Guarantor's consolidated balance sheet and statements of income, retained earnings and cash flow, and including a copy of the accountant's management letter;

(b) Within one hundred twenty (120) days after the end of each fiscal year, a copy of Guarantor's Form 10-K Annual Report; within sixty (60) days after each quarterly accounting period, a copy of Guarantor's Form 10-Q Quarterly Report; and within ten (10) days after the date of filing with the Securities and Exchange Commission, a copy of each Form 8-K Current Report filed by Guarantor;

(c) Within forty-five (45) days after each quarterly accounting period, a certificate, signed by a responsible officer of Borrower, certifying compliance with all terms and conditions of this Agreement;

(d) Within thirty (30) days after each monthly accounting

period, the Guarantor's consolidated financial statements prepared by the Guarantor;

(e) By September 30, 1997, Guarantor's projected consolidated balance sheet and statements of income, retained earnings and cash flow for the fiscal year ending September 30, 1998;

(f) Promptly upon request of either Bank, such other statements, lists of property and accounts, budgets, forecasts or reports as to Borrower or Guarantor as Banks may reasonably request;

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6.3 Books, Records, Audits and Inspections. Borrower and Guarantor must maintain adequate books, accounts and records and prepare all financial statements required hereunder in accordance with generally accepted accounting principles consistently applied, and in compliance with the regulations of any governmental regulatory body having jurisdiction over Borrower or Guarantor or their business and permit employees or agents of either Bank at any reasonable time to inspect Borrower's and Guarantor's properties and to examine or audit Borrower's and Guarantor's books, accounts, and records and make copies and memoranda thereof.

6.4 Adjusted Tangible Net Worth. Maintain on a consolidated basis Adjusted Tangible Net Worth of at least One Hundred Thirty Million Dollars (\$130,000,000). "Adjusted Tangible Net Worth" means Tangible Net Worth minus the proceeds of any public or private offering of stock of the Guarantor on or after September 30, 1996, including stock sold under the Employee Stock Purchase Plan.

6.5 Total Liabilities to Adjusted Tangible Net Worth. Not permit the ratio of consolidated total liabilities (as shown on consolidated balance sheet, prepared in accordance with generally accepted accounting principles) to Adjusted Tangible Net Worth to exceed the figures indicated as of each date set forth below:

(a) As of December 31, 1996: 1.40:1.00.

(b) As of March 31, 1997: 1.00:1.00.

(c) As of June 30, 1997: 1.20:1.00.

(d) As of September 30, 1997: 1.00:1.00.

6.6 Capital Expenditures. Not, during the fiscal year ending September 30, 1997, on a consolidated basis, expend or incur, or consent to expend or incur, Capital Expenditures of more than Eleven Million Dollars

(\$11,000,000).

6.7 Out-Of-Debt Requirement. During the one hundred and sixty (160) day period ending on May 30, 1997, Borrower and Guarantor must repay all outstanding advances, and not draw any new advances, for a period of at least thirty (30) consecutive calendar days. This requirement must be fulfilled at the same time for the BofA Facility, the UBOC Facility, and any uncommitted facilities from either Bank or any other lender.

6.8 Other Indebtedness. Borrower and Guarantor each shall not create or incur any indebtedness for borrowed money or for the deferred purchase price of property under capital leases, or become liable as a surety, guarantor, accommodation endorser,

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or otherwise for or upon the obligation of any other person, firm or corporation; provided, however, that this Paragraph shall not be deemed to prohibit:

(a) the acquisition of goods, supplies or merchandise on normal trade credit; including, but not limited to, indebtedness for the purchase of inventory under the existing agreements with Deutsche Financial Services Corporation and Transamerica Commercial Finance Corporation, in an amount not exceeding Forty Million Dollars (\$40,000,000) at any one time; provided, however, that in each case the agreement between the Borrower and the lender (and any amendments thereto) must be in form and substance acceptable to the Banks;

(b) the execution of bonds or undertakings in the ordinary course of its business as presently conducted;

(c) the endorsement of negotiable instruments received in the ordinary course of its business as presently conducted;

(d) indebtedness and lease obligations existing as of the date of this Agreement and which have been disclosed to Banks in writing;

(e) leasing of premises for retail store locations, distribution facilities and corporate facilities;

(f) equipment rentals for less than one year;

(g) additional indebtedness under uncommitted facilities from either Bank or any other lender; provided, however, that the total

outstanding indebtedness from both Banks (whether under this Agreement or otherwise) plus the total outstanding indebtedness under uncommitted facilities from other lenders must not exceed at any time Fifty Million Dollars (\$50,000,000).

6.9 Liens. Borrower and Guarantor each shall not create, assume or suffer to exist any security interest, lien (including the lien of an attachment, judgment or execution) or encumbrance, securing a charge or obligation, on or of any of its property, real or personal, whether now owned or hereafter acquired, except:

(a) liens, security interests and encumbrances in existence as of the date of this Agreement which have been disclosed to Banks in writing;

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(b) liens for current taxes, assessments or other governmental charges which are not delinquent or remain payable without any penalty;

(c) purchase money security interests in property acquired after the date of this Agreement; provided, however, that no such liens shall cover Borrower's inventory;

(d) statutory liens of landlords and liens of carriers, warehousemen, mechanics, materialmen and other liens, other than any lien imposed under ERISA, imposed by law and created in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with the provisions of GAAP; provided that all such items shall not, in the aggregate, exceed Two Million Dollars (\$2,000,000) at any time (excluding any mechanics and materialmen liens which have not been recorded in the real property records and for which no other enforcement action has been taken); provided, however, that no such liens shall cover Borrower's inventory;

6.10 Acquisitions and Investments. Borrower and Guarantor each shall not acquire or purchase the assets or business of any other person, firm, or corporation; and not purchase any stock or make any other investment in any other company, except for:

(a) joint ventures for real estate development with respect to the Borrower's retail store locations and distribution facilities, for an aggregate investment in any one fiscal year not exceeding Two

Million Five Hundred Thousand Dollars (\$2,500,000); such dollar limit to be non-cumulative from year to year;

(b) cash and certificates of deposit;

(c) U.S. treasury bills and other obligations of the federal government;

(d) readily marketable commercial paper with a maturity not exceeding sixty (60) days;

(e) bankers' acceptances;

(f) repurchase agreements covering U.S. government securities;

6.11 Dividends. Borrower and Guarantor shall not (and shall not permit any of their subsidiaries to) declare or pay any dividends on any of their respective shares except dividends

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payable in capital stock, and not purchase, redeem or otherwise acquire for value any of their respective shares, or create any sinking fund in relation thereto; provided, however, that Borrower and Guarantor may purchase stock from their employees for a consideration not exceeding, in the aggregate, One Million Five Hundred Thousand Dollars (\$1,500,000) in any one fiscal year;

6.12 Loans to Officers. Borrower and Guarantor each shall not make any loans, advances or other extensions of credit to any of Borrower's or Guarantor's executives, officers, employees, directors or shareholders (or any relatives of any of the foregoing); provided, however, that Borrower and Guarantor may make such loans, advances and extensions of credit to executives, officers and employees in an amount not exceeding, in the aggregate, One Million Dollars (\$1,000,000) in any one fiscal year; such dollar limit to be non-cumulative from year to year;

6.13 Capital Ownership. Borrower and Guarantor each shall not cause, permit, or suffer any one shareholder to control, directly, indirectly or through affiliates, more than fifty percent (50%) of Guarantor's capital ownership; and Borrower's capital stock must continue to be entirely owned by Guarantor;

6.14 Sales and Leasebacks. Borrower and Guarantor each shall:

(a) Not dispose of any of its assets except for full, fair

and reasonable consideration;

(b) Not enter into any sale and leaseback agreement covering any of its fixed or capital assets; provided, however, that Borrower may enter into sale/leaseback agreements covering rolling stock, equipment and fixtures as follows: (i) agreements covering assets first used by Borrower or Guarantor within the 90 days prior to the agreement; and (ii) additional agreements in an aggregate amount not exceeding Five Million Dollars (\$5,000,000) in each fiscal year; such dollar limit to be non-cumulative from year to year;

6.15 Existence and Properties. Borrower and Guarantor each shall maintain and preserve Borrower's and Guarantor's existence and all rights, privileges and franchises now enjoyed, conduct Borrower's and Guarantor's business in an orderly, efficient and customary manner, keep all Borrower's and Guarantor's properties in good working order and condition, and from time to time make all needed repairs, renewals or replacements thereto and thereof so that the efficiency of such property shall be fully maintained and preserved;

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6.16 Liquidations and Mergers. Borrower and Guarantor each shall not liquidate or dissolve or enter into any consolidation, merger, partnership, joint venture or other combination, except for joint ventures permitted in Paragraph 6.10 above; and (b) any merger whose primary purpose is to reincorporate in another state; provided that Borrower provides to Banks such documentation as reasonably required by either Bank;

6.17 Sale of Assets. Borrower and Guarantor each shall not sell, lease, or otherwise dispose of its business or assets as a whole or such as in the opinion of either Bank constitute a substantial portion of its business or assets except in the ordinary course of its business as heretofore conducted;

6.18 Insurance. Borrower and Guarantor each shall maintain and keep in force insurance of the type usual for the business it is in, and deliver to Banks upon either Bank's request a copy of each insurance policy or, if permitted by Banks, a certificate of insurance listing all insurance in force;

6.19 Compliance with Laws. Borrower and Guarantor each shall at all times comply with, or cause to be complied with, all laws, statutes (including but not limited to any fictitious name statute), rules, regulations, orders and directions of any governmental authority having jurisdiction over Borrower or Guarantor or Borrower's or Guarantor's business;

6.20 Accuracy of Financial Information. Borrower and Guarantor

each shall cause all financial information upon submission by Borrower or Guarantor to Banks to be fairly presented in all material respects and complete to the extent necessary to give Banks a true and accurate knowledge of the subject matter thereof;

6.21 Additional Acts. Borrower and Guarantor each shall perform, on request of either Bank, such acts as may be reasonably necessary or advisable to carry out the intent of this Agreement;

6.22 Business Activities. Borrower and Guarantor each shall not engage in any business activities or operations substantially different from or unrelated to present business activities and operations;

6.23 Change in Name, Structure or Location. Notify Banks in writing prior to any change in (a) Borrower's or Guarantor's name, (b) Borrower's or Guarantor's business or legal structure, or (c) Borrower's or Guarantor's place of business or chief executive office if Borrower or Guarantor has more than one place of business;

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6.24 Subsidiaries. Borrower and Guarantor each shall not create or acquire any subsidiaries without the prior written consent of both Banks, which consent shall not unreasonably be withheld;

6.25 Environmental Quality. Borrower and Guarantor each shall comply with all applicable laws, rules, regulations, orders and directives relating to environmental quality, where a failure to so comply may result in a material adverse effect on the Borrower's or Guarantor's financial condition or ability to repay the credit outstanding under this Agreement;

6.26 Use of Proceeds. Borrower shall use the proceeds of the credit provided by this Agreement for general working capital purposes, and such other purposes as may be acceptable to Banks;

6.27 Taxes. Borrower and Guarantor each shall pay all taxes when due.

## 7. Events of Default

The occurrence of any of the following Events of Default shall terminate any obligation on the part of either Bank to extend credit under this Agreement and, at the option of each Bank, shall make all obligations of Borrower to such Bank under or in respect of this Agreement and any instrument or agreement required under this Agreement immediately due and payable, without notice of default, presentment or demand for payment, protest or notice of

nonpayment or dishonor, or other notices or demands of any kind or character:

7.1 Failure to Pay. Borrower fails to pay when due, any instalment of interest or principal or any other sum due under this Agreement in accordance with the terms hereof;

7.2 Breach of Representation or Warranty. Any representation or warranty herein or in any agreement, instrument or certificate executed pursuant hereto or in connection with any transaction contemplated hereby proves to have been false or misleading in any material respect when made;

7.3 Falsity of Information. Any financial or other information delivered by Borrower or Guarantor to Banks proves to be false or misleading in any material respect;

7.4 Suits. One or more suits are filed against Borrower or Guarantor by a trade creditor or trade creditors of Borrower or Guarantor in an aggregate amount of at least Two Million Dollars (\$2,000,000) provided that such suit may have a material adverse impact on Borrower or Guarantor;

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7.5 Judgments. One or more judgments or arbitration awards are entered against Borrower or Guarantor, or Borrower or Guarantor enters into any settlement agreements with respect to any litigation or arbitration, in the aggregate amount of Two Million Dollars (\$2,000,000) or more on a claim or claims not covered by insurance;

7.6 Failure to Pay Debts; Voluntary Bankruptcy. Borrower or Guarantor fails to pay its debts generally as they come due, or files any petition, proceeding, case, or action for relief under any bankruptcy, reorganization, insolvency, or moratorium law, or any other law or laws for the relief of, or relating to, debtors;

7.7 Involuntary Bankruptcy. An involuntary petition is filed under any bankruptcy or similar statute against Borrower or Guarantor, or a receiver, trustee, liquidator, assignee, custodian, sequestrator, or other similar official is appointed to take possession of the properties of Borrower or Guarantor; provided, however, that such Event of Default shall be deemed cured if such petition or appointment is set aside or withdrawn or ceases to be in effect within sixty (60) days from the date of said filing or appointment;

7.8 Governmental Action. Any governmental regulatory authority takes or institutes action which, in the opinion of either Bank, will materially adversely affect Borrower's or Guarantor's condition, operations or ability to pay Borrower's obligations under this Agreement or any instrument or agreement

required under this Agreement;

7.9 Default of Other Financial Obligations. Any default occurs under any other agreement involving the borrowing of money or the extension of credit to which Borrower or Guarantor may be a party as borrower, guarantor or instalment purchaser if such default consists of the failure to pay any obligation when due or if such default gives to the holder of the obligation concerned the right to accelerate the obligation;

7.10 Default of Other Bank Obligations. Any default occurs under any other obligation of Borrower or Guarantor to either Bank or to any subsidiary or affiliate of either Bank, which default has not been waived in writing by such Bank or cured by Borrower or Guarantor within any applicable grace period;

7.11 Material Adverse Change. Any material adverse change occurs in the financial condition or results of operations of Borrower or Guarantor or in Borrower's or Guarantor's ability to perform its obligations under this Agreement or under any instrument or agreement required by this Agreement;

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7.12 ERISA Plan Termination. Any ERISA Plan termination or any full or partial withdrawal from an ERISA Plan occurs which could result in liability of Borrower or Guarantor to the Pension Benefit Guaranty Corporation or to the ERISA Plan in an aggregate amount which, in the reasonable opinion of either Bank, will have a material adverse effect on the financial condition of Borrower or Guarantor;

7.13 Other Breach Under Agreement. Borrower or Guarantor breaches, or defaults under, any term, condition, provision, representation or warranty contained in this Agreement not specifically referred to in this Article.

## 8. Miscellaneous

8.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Borrower shall not assign this Agreement or any of the rights, duties or obligations of Borrower hereunder without the prior written consent of both Banks.

8.2 Consents and Waivers. No consent or waiver under this Agreement shall be effective unless in writing. No waiver of any breach or default shall be deemed a waiver of any breach or default thereafter occurring.

8.3 Governing Law. This Agreement shall be governed by and construed under the laws of the State of California.

8.4 Costs and Attorneys' Fees. Borrower agrees to pay to Banks, on demand, all costs, expenses and attorneys' fees (including allocated costs for in-house legal services) incurred by either Bank in connection with the preparation, administration and enforcement of this Agreement and any instrument or agreement required under this Agreement, including without limitation during any workout, attempted workout, and/or in connection with the rendering of legal advice as to the Banks' rights, remedies, and obligations under this Agreement. In the event a legal action or arbitration proceeding is commenced in connection with the enforcement of this Agreement or any instrument or agreement required under this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees (including allocated costs for in-house legal services), costs and necessary disbursements incurred in connection with such action or proceeding (including any proceeding for declaratory relief, any counterclaim to any proceeding, or any appeal), as determined by the court or arbitrator.

8.5 Integration. This Agreement and any instrument, agreement or document attached hereto or referred to herein (a) integrate all the terms and conditions mentioned herein or

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incidental hereto, (b) supersede all oral negotiations and prior writings in respect to the subject matter hereof, and (c) are intended by the parties as the final expression of the agreement with respect to the terms and conditions set forth in this Agreement and any such instrument, agreement or document and as the complete and exclusive statement of the terms agreed to by the parties. In the event of any conflict between the terms, conditions and provisions of this Agreement and any such instrument, agreement, or document, the terms, conditions and provisions of this Agreement shall prevail.

8.6 Participations.

(a) Any Bank (a "Transferor") may from time to time sell, assign, grant participations in, or otherwise transfer to any other person, firm or corporation (a "Participant") all or part of the obligations of Borrower and Guarantor to Transferor under this Agreement.

(b) Borrower agrees that each transfer of its obligations under this Agreement will give rise to a direct obligation of Borrower to the Participant and that Participant shall have the same rights and

benefits under this Agreement as it would have if it were a Bank party to this Agreement, including rights and benefits under Paragraphs 3.10 and 3.11 above.

(c) Each transferor shall remain liable for the performance of all of its obligations under this Agreement notwithstanding any transfer by such Transferor of Borrower's obligations under this Agreement.

(d) Each transfer of Borrower's obligations under this Agreement shall be on terms which provide that: (i) Participant shall not be entitled to take or refrain from taking, or to require Transferor to take or refrain from taking, any action under this Agreement or any instrument or agreement required hereunder other than through Transferor; and (ii) Except in case of insolvency, bankruptcy, receivership or equivalent proceedings: (A) Participant shall deal only with Transferor; and (B) Borrower shall not be required to deal with Participant.

(e) Borrower authorizes each Bank and each Participant, upon the occurrence of an Event of Default, to proceed directly by right of setoff, banker's lien, or otherwise, against any assets of Borrower which may be in the hands of Bank or such Participant, respectively. Borrower authorizes each Bank to disclose to any prospective Participant and any Participant any and all information in such Bank's possession concerning Borrower, Guarantor and this Agreement.

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#### 8.7 Arbitration; Reference Proceeding.

(a) Any controversy or claim between or among the parties, including but not limited to those arising out of or relating to this Agreement or any agreements or instruments relating hereto or delivered in connection herewith and any claim based on or arising from an alleged tort, shall at the request of any party be determined by arbitration. The arbitration shall be conducted in accordance with the United States Arbitration Act (Title 9, U.S. Code), notwithstanding any choice of law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association ("AAA"). The arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning whether an issue is arbitrable shall be determined by the arbitrator(s). Judgment upon the

arbitration award may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(b) Notwithstanding the provisions of subparagraph (a), no controversy or claim shall be submitted to arbitration without the consent of all parties if, at the time of the proposed submission, such controversy or claim arises from or relates to an obligation to either Bank which is secured by real property collateral located in California. If all parties do not consent to submission of such a controversy or claim to arbitration, the controversy or claim shall be determined as provided in subparagraph (c).

(c) A controversy or claim which is not submitted to arbitration as provided and limited in subparagraphs (a) and (b) shall, at the request of any party, be determined by a reference in accordance with California Code of Civil Procedure Sections 638 et seq. If such an election is made, the parties shall designate to the court a referee or referees selected under the auspices of the AAA in the same manner as arbitrators are selected in AAA-sponsored proceedings. The presiding referee of the panel, or the referee if there is a single referee, shall be an active attorney or retired judge. Judgment upon the award rendered by such referee or referees shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(d) No provision of this Paragraph shall limit the right of any party to this Agreement to exercise self-help remedies such as setoff, to foreclose against or sell any real or personal property collateral or security, or to

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obtain provisional or ancillary remedies from a court of competent jurisdiction before, after, or during the pendency of any arbitration or other proceeding. The exercise of a remedy does not waive the right of either party to resort to arbitration or reference. At each Bank's option, foreclosure under a deed of trust or mortgage may be accomplished either by exercise of power of sale under the deed of trust or mortgage or by judicial foreclosure.

8.8 Notices. All notices required hereunder shall be personally delivered or sent by first class mail, postage prepaid, to the

addresses set forth on the signature page of this Agreement, or to such other addresses as the parties hereto may specify from time to time in writing.

8.9 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

8.10 Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

8.11 Counterparts. This Agreement may be executed in as many counterparts as may be deemed necessary or convenient, and by the different parties hereto on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

8.12 Indemnification. The Borrower shall indemnify the Banks against, and hold the Banks harmless from, all claims, actions, losses, and expenses, including attorneys' fees and costs incurred by the Banks, arising from any contention that the Borrower has failed to comply with any law, rule, regulation, order or directive applicable to the Borrower's sales or leases to or performance of services for the Borrower's customers, including without limitation those sales, leases, and services requiring consumer or other disclosures. This indemnification shall survive the repayment of all principal, interest and fees payable under this Agreement.

8.13 Setoff. Each Bank agrees that it will not set off amounts due to such Bank against deposits made by Borrower or Guarantor at such Bank, unless there has been an Event of Default under Paragraph 7.6 or 7.7 above. Nothing in this Paragraph shall constitute a waiver of any rights the Banks may have to place an administrative hold on any deposits upon the occurrence of an Event of Default under Paragraph 7.6 or 7.7 above.

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## 9. Relation of Banks.

9.1 Independent Facilities. The obligations of each Bank under this Agreement are several and not joint, and the credit facilities provided by each Bank under this Agreement are independent.

9.2 No Agency. Neither Bank is the agent of the other under this Agreement, and each Bank shall manage its own credit facilities and enforce

its own rights and remedies under this Agreement; provided, however, that (a) any amendment of this Agreement requires the consent of both Banks, and (b) any waiver of any provision of this Agreement shall be binding only on such Bank or Banks as consent to the waiver.

9.3 No Requirement to Share. Neither Bank shall be obligated to share with the other Bank any payments or other amounts received from, or for the account of, the Borrower or the Guarantor; provided, however, that to the extent that either Bank exercises the right of setoff as permitted in Paragraph 8.13 above, then that Bank shall share the amount recovered by such setoff, with each Bank receiving from such setoff an amount proportional to the ratio of the total credit outstanding under this Agreement from each Bank at the time of the setoff. The amount shared with the other Bank shall constitute a purchase of a participation in the other Bank's credit outstanding to the Borrower.

9.4 Notices. Each Bank (the "Notifying Bank") shall promptly give notice to the other Bank (the "Receiving Bank") of any (a) declaration of Borrower's default made by the Notifying Bank; (b) termination of the availability of additional credit from the Notifying Bank; or (c) acceleration of the due date of any payment to be made to the Notifying Bank. Upon receipt of such notice, the Receiving Bank shall have the right to terminate the availability of any additional credit from the Receiving Bank.

9.5 Independent Credit Investigations. Each Bank represents that it has made and agrees that it shall continue to make its own independent investigation of the financial condition and affairs of Borrower and Guarantor and its own appraisal of the creditworthiness of Borrower and Guarantor. Neither Bank has any duty to provide the other Bank with any credit or other information with respect to Borrower, Guarantor or this Agreement; provided, however, that Borrower agrees that the Banks may share any such information as the Banks may choose.

9.6 Other Relationships. Each Bank may accept deposits from, lend money to, act as agent or trustee for other lenders to, and generally engage in any kind of banking, trust or other

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business with Borrower or Guarantor as if it were not a party to this Agreement.

In Witness Whereof, the parties hereto have executed this Agreement as of the day and year first above written.

Bank of America National Trust  
and Savings Association

The Good Guys - California,  
Inc.

By /s/  
-----  
Title VICE PRESIDENT  
-----

By  
-----  
Title  
-----

Address for notices:

San Francisco Commercial  
Banking, Concourse Level  
345 Montgomery Street  
San Francisco, CA 94104

The Union Bank of California N.A.

By /s/  
-----  
Title VICE PRESIDENT  
-----

By  
-----  
Title  
-----

Address for notices:

San Francisco Corporate Banking  
17th Floor  
400 California Street  
San Francisco, CA 94104

By /s/  
-----  
Title CEO  
-----

By  
-----  
Title  
-----

Address for notices:

7000 Marina Boulevard  
Brisbane, CA 94005-1830

### Guarantor's Acknowledgment and Agreement

The Guarantor acknowledges the representations and warranties applicable to it as set forth in Article 5 of the foregoing Credit Agreement and agrees that they are true and correct. The

Guarantor further acknowledges the covenants applicable to it as set forth in Article 6 of the foregoing Credit Agreement and agrees to comply with them until full and final payment of all of the Borrower's obligations under said Credit Agreement and any instrument or agreement required under said Credit Agreement.

The Good Guys, Inc.

By /s/

-----

Title CEO

-----

By

-----

Title

-----

## Exhibit 11.1

THE GOOD GUYS, INC.  
 STATEMENT SETTING FORTH COMPUTATION  
 OF EARNINGS PER SHARE  
 (AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	September 30, 1996	September 30, 1995	September 30, 1994
<S>	<C>	<C>	<C>
Net Income			
1 As presented in the annual report	(\$6,219)	\$ 14,166	\$ 13,893
Shares used in per share computation	13,576	13,427	13,164
Net income per common share and common share equivalents	(\$0.46)	\$1.06	\$1.06
2 Computation of primary and fully dilutive earnings per share including common stock equivalents			
a) Primary earnings per common share			
Weighted average number of shares:			
Common stock (A)	13,576	13,427	13,164
Stock options (B)	79	176	270
Total	13,655	13,603	13,434
Primary earnings per share	(\$0.46)	\$1.04	\$1.03
b) Fully diluted earnings per share			
Weighted average number of shares:			
Common stock (A)	13,576	13,427	13,164
Stock options (B)	79	177	271
Total	13,655	13,604	13,435
Fully diluted earnings per share	(\$0.46)	\$1.04	\$1.03

&lt;/TABLE&gt;

A) The weighted average number of common shares outstanding during the year has been computed by taking the number of days each share is outstanding and dividing by the number of days in the year.

B) Stock options used in the primary earnings per share are calculated using the average market price. Stock options in fully diluted earnings per share are calculated using the higher of the ending market price or the average market price.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements made below and elsewhere in the Annual Report that are not historical facts, including any statements about expectations for fiscal year 1997 and beyond, involve certain risks and uncertainties. Factors that could cause the Company's actual results to differ materially from management's projections, estimates and expectations include, but are not limited to, increases in promotional activities of the Company's competitors, changes in consumer buying attitudes, the presence or absence of new products or product features in the Company's merchandise categories, changes in vendor support for advertising and promotional programs, changes in the Company's merchandise sales mix, general economic conditions, and other factors referred to in the Company's fiscal 1996 Annual Report on Form 10-K under "Information Regarding Forward Looking Statements" and in the Company's Consolidated Financial Statements, and Notes thereto. The Consolidated Financial Statements and Notes to the Consolidated Financial Statements should be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

The following table sets forth, for the years indicated, the relative percentages that certain income and expense items bear to net sales, and the number of stores open at the end of each period:

<TABLE>  
<CAPTION>

	Years ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Gross profit	23.1 %	24.2%	26.1%
Selling, general & administrative expenses	23.8 %	21.5%	22.9%
Early retirement of assets	0.4 %	--	--
Income (loss) before income taxes	(1.1)%	2.6%	3.2%
Net income (loss)	(0.7)%	1.6%	1.9%
Number of stores open at end of period	75	66	52

</TABLE>

SALES GROWTH

Sales increased to \$925.7 million in fiscal 1996 from \$889.2 million in fiscal 1995 and \$724.7 million in fiscal 1994. The 4% sales increase in fiscal 1996 was a result of opening a net of nine new stores and a full year of operation for the 14 stores opened in fiscal 1995. This was partially offset by an 8% decline in same store sales due to the general slowdown in demand for consumer electronics.

The 23% sales increase in fiscal 1995 was attributable to a same store sales gain of 7%, the opening of 14 new stores, and a full year of operation of the seven stores opened in fiscal 1994.

Comparable store sales in the future may be affected by competition, the opening of additional stores in existing markets, the absence or introduction of significant new products in the consumer electronics industry, and general economic conditions.

The following table sets forth sales by product category:

SALES BY PRODUCT CATEGORY

<TABLE>  
<CAPTION>

	Years ended September 30,		
	1996	1995*	1994*
<S>	<C>	<C>	<C>
Video	39%	38%	39%
Audio and Cellular Phones	29%	32%	35%
Home Office	20%	19%	15%
Other			
Accessories, Repair Service and Premier Performance			

Guarantee	12%	11%	11%
	---	---	---
Total Company	100%	100%	100%
	===	===	===

</TABLE>

\* Certain reclassifications have been made to the 1995 and 1994 financial data in order to conform to the current year's presentation.

#### SALES/GROSS PROFIT

Net sales for fiscal 1996 increased 4% over fiscal 1995. This reflects an increase in the total number of stores in operation from 66 at fiscal year end 1995 to 75 at fiscal year end 1996, a full year of operation for the 14 stores opened in fiscal 1995, partially offset by an 8% decrease in same store sales. Audio and Cellular Phone categories were impacted the most on a relative basis.

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Home Office continued to increase as a percentage of sales, with strong first quarter same store sales in computers producing positive comparable sales growth in the Home Office category for the year. Cellular Phones decreased as a percentage of sales during the year.

Gross profit margin declined to 23.1% of sales in fiscal 1996 compared with 24.2% in fiscal 1995 and 26.1% in fiscal 1994. The gross profit margin trend reflects the highly promotional and competitive climate in the consumer electronics market and the growth in Home Office sales, primarily computers, which typically carry lower gross margins than the Company's average.

During fiscal 1995, sales of Home Office products increased as a percentage of sales due to increased demand for computers. Video and Audio remained the Company's largest sales categories; however, Audio declined as a percentage of sales due to the increase in Home Office sales.

Gross profit as a percentage of sales was 24.2% in fiscal 1995. The decrease was primarily due to the increased proportion of Home Office sales, which typically carry lower gross margins, the cost impact from enhancements made to the Company's Premier Performance Guarantee program in November 1994 and promotional activity in the consumer electronics market.

Sales of Premier Performance Guarantee contracts were 5%, 5% and 6% for the fiscal years ending 1996, 1995 and 1994, respectively. Profit margins on products sold with Premier Performance Guarantee contracts are generally higher than margins on other products the Company sells.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses consist primarily of payroll, advertising and occupancy costs. Although some of these expenses vary proportionately with sales, there is a fixed component to them that allows the Company to leverage its costs with additional sales. This leverage may not be fully realized during periods when a large number of stores are opened because new stores typically generate lower sales than the average mature location. This provides an opportunity to improve the percentage as new stores mature and we open additional stores in both our established and new market areas.

Selling, general and administrative expenses as a percentage of sales were 23.8% in fiscal 1996 compared to 21.5% in fiscal 1995 and 22.9% in fiscal 1994. The increase as a percentage of sales in fiscal 1996 was a result of the decline in same store sales, an increase in net advertising expense and the fixed costs associated with new stores, which averaged 0.6% of sales more than a mature store. The decrease as a percentage of sales between fiscal 1995 and fiscal 1994 reflects the cost reductions related to restructuring store operations and the leverage from same store sales growth.

During the fourth quarter of fiscal 1996, the Company closed and remodeled its Redondo Beach store to a new format. The Company has identified and begun to initiate additional store relocations/renovations to this new format. The amounts expensed as early retirement of assets reflect the write off of the Redondo Beach store assets as well as amounts reserved for lease payment obligations and assets to be written off in relation to the additional stores noted above.

#### NET INCOME (LOSS)

Income (loss) before income taxes as a percentage of sales for fiscal years 1996, 1995 and 1994 was (1.1%), 2.6% and 3.2%, respectively.

The effective income tax rates for fiscal years 1996, 1995 and 1994 were (37.7%), 39.9% and 41.0%, respectively. The 1996 income tax benefit was reduced by the California net operating loss carryforward limitations. The 1995 effective tax rate was positively impacted by the utilization of job tax credits during the first half of that fiscal year.

Net income (loss) as a percentage of sales for fiscal years 1996, 1995 and 1994 was (0.7%), 1.6% and 1.9%, respectively. The decrease in fiscal 1996 was attributable to reductions in comparable store sales without proportional decreases in selling, general and administrative expenses, a decrease in gross margin previously commented on, and the reserve for retirement of assets.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's sales are primarily cash and credit card transactions, providing a source of liquidity for the Company. The Company also uses private label credit card programs administered and financed by financial services companies, which allow the Company to expand store sales without the burden of additional receivables. Working capital requirements are reduced by vendor credit terms that allow the Company to finance a portion of its inventory. The Company also uses lease financing to fund a portion of its capital requirements.

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As of the end of fiscal 1996, the Company had working capital of \$65.6 million, compared to \$74.0 million in fiscal 1995 and \$66.9 million in fiscal 1994. In fiscal 1996, net cash provided by operating activities was \$16.6 million, compared to \$11.7 million in 1995 and \$26.1 million in fiscal 1994, respectively. This increase in net cash provided by operating activities was primarily attributable to an increase in accounts payable partially offset by an increase in merchandise inventories, income taxes receivable and a net loss for the year. The fiscal 1995 decrease in net cash provided by operating activities was primarily attributable to an increase in merchandise inventories and accounts receivable that were partially offset by an increase in accounts payable and accrued expenses.

During fiscal 1996, the Company added 11 stores and closed two stores. The Company added 14 stores in fiscal 1995 and seven stores in fiscal 1994. This expansion has been financed primarily through the use of cash provided from operations and lease financing. Cash utilized for capital expenditures was \$12.5, \$17.8 and \$19.6 million for fiscal years 1996, 1995 and 1994, respectively. The Company plans to open one to three new stores and remodel/relocate several stores during fiscal 1997. Management estimates that each new store or remodel requires approximately \$1.5 to \$2.0 million for leasehold improvements, fixtures and equipment and inventory.

The Company expects to be able to fund its working capital requirements and expansion plans, including remodels and relocations, with a combination of anticipated cash flow from operations, normal trade credit, financing agreements and continued use of lease financing.

It is the Company's intention to replace its existing \$75 million committed unsecured revolving bank line of credit with a new \$50 million committed unsecured revolving bank line of credit by December 31, 1996. The Company expects that, as is true under its existing credit agreement, funds borrowed under the new credit facility will bear interest at varying alternative rates based on the prime rate and various domestic and international money market rates. The new credit facility is expected to expire on December 31, 1997 and to be used for working capital and store construction purposes. At both September 30, 1996 and 1995, there were no borrowings outstanding under the line.

The Company also has demand line of credit facilities with various banks totaling \$30 million. These uncommitted facilities require bank approval for each advance and allow the Company to borrow at money market rates related to the banks' financing costs. The Company may use these facilities to fund its working capital and construction costs and for general corporate purposes. The amount the Company can borrow under these uncommitted demand line of credit facilities is subject to all limitations on such borrowings contained in its committed credit agreement.

Maximum borrowings outstanding under credit facilities during fiscal 1996 were \$38 million, compared to \$20 million in fiscal 1995 and \$10 million in fiscal 1994. The weighted average borrowings outstanding under credit facilities during fiscal years 1996, 1995 and 1994 were \$9,475,000, \$5,500,000 and \$400,000, respectively. The weighted average interest rates for such borrowings were 5.8% during fiscal 1996, 8.3% during fiscal 1995 and 6.0% during fiscal

## IMPACT OF INFLATION

The Company believes that, because of competition among manufacturers and the technological changes in the consumer electronics industry, inflation has not had a significant effect on results of operations.

## NEW ACCOUNTING PRONOUNCEMENTS

The Company will adopt Statements of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and SFAS No. 123, "Accounting for Stock-Based Compensation" in fiscal 1997. Although the Company has not completed its review of these standards, management does not believe they will have a significant impact on its financial statements when implemented. For further discussion, see Note 1 to the Consolidated Financial Statements included in this Annual Report.

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## SELECTED FINANCIAL DATA

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Years ended September 30,				
	1996	1995	1994	1993	1992
-----					
(Dollars and shares in thousands, except per share and other data)					
<S>	<C>	<C>	<C>	<C>	<C>
SUMMARY OF EARNINGS					
Net sales	\$925,714	\$889,206	\$724,713	\$562,827	\$509,629
Cost of sales	711,463	674,179	535,690	402,755	374,200
	-----	-----	-----	-----	-----
Gross profit	214,251	215,027	189,023	160,072	135,429
Selling, general and administrative expenses	220,032	191,066	166,046	147,579	129,330
Early retirement of assets	3,741	--	--	--	--
	-----	-----	-----	-----	-----
Income (loss) from operations	(9,522)	23,961	22,977	12,493	6,099
Interest income	211	220	758	477	471
Interest expense	679	619	191	131	238
	-----	-----	-----	-----	-----
Income (loss) before income taxes	(9,990)	23,562	23,544	12,839	6,332
Income tax expense (benefit)	(3,771)	9,396	9,651	5,188	2,539
	-----	-----	-----	-----	-----
Net income (loss)	\$ (6,219)	\$ 14,166	\$ 13,893	\$ 7,651	\$ 3,793
	=====	=====	=====	=====	=====
Net income (loss) per share	\$ (0.46)	\$ 1.06	\$ 1.06	\$ 0.60	\$ 0.29
Weighted average shares	13,576	13,427	13,164	12,787	12,908
FINANCIAL POSITION					
Working capital	\$ 65,606	\$ 74,042	\$ 66,900	\$ 59,320	\$ 47,440
Total assets	\$246,015	\$227,729	\$188,712	\$149,782	\$128,121
Shareholders' equity	\$129,268	\$136,022	\$118,948	\$102,518	\$ 91,274
OTHER DATA					
Number of stores at year end	75	66	52	45	41
Average sales per store (in thousands)	\$ 13,024	\$ 14,962	\$ 14,912	\$ 12,998	\$ 13,700
Sales per selling square foot	\$ 1,213	\$ 1,481	\$ 1,519	\$ 1,324	\$ 1,426
Sales per gross square foot	\$ 756	\$ 921	\$ 925	\$ 813	\$ 897
Comparable stores sales	(8)%	7%	19%	0%	2%
Inventory turns*	5.9	6.4	6.4	6.0	6.5

&lt;/TABLE&gt;

\* Based on average of beginning and ending inventories for each fiscal year.

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## CONSOLIDATED BALANCE SHEETS

&lt;TABLE&gt;

&lt;CAPTION&gt;

	September 30,	
	1996	1995
-----		
(Dollars in thousands)		
<S>	<C>	<C>

## ASSETS

## CURRENT ASSETS:

Cash and cash equivalents	\$ 21,965	\$ 18,434
Accounts receivable, less allowance for doubtful accounts of \$921 and \$569	21,601	21,209
Income taxes receivable	8,372	-
Merchandise inventories	123,802	115,806
Prepaid expenses	6,613	10,300
	-----	-----
Total current assets	182,353	165,749

## PROPERTY AND EQUIPMENT:

Leasehold improvements	58,490	51,127
Furniture, fixtures, and equipment	43,278	37,791
Construction in progress	9,516	12,907
	-----	-----

Total property and equipment	111,284	101,825
Less accumulated depreciation and amortization	49,614	42,584
	-----	-----

Property and equipment - net	61,670	59,241
	-----	-----

Other assets	1,992	2,739
	-----	-----

Total Assets	\$246,015	\$227,729
	=====	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY

## CURRENT LIABILITIES:

Accounts payable	\$ 73,531	\$ 53,504
Accrued expenses and other liabilities:		
Payroll	12,630	12,435
Sales taxes	5,447	6,025
Other	25,139	19,743
	-----	-----
Total current liabilities	116,747	91,707

## SHAREHOLDERS' EQUITY:

Preferred stock, no par value -		
Authorized, 2,000,000 shares - None issued		
Common stock, \$.001 par value:		
Authorized, 40,000,000 shares; Issued and outstanding,		
13,554,862 and 13,581,416 shares, respectively	14	14
Additional paid-in capital	61,298	61,833
Retained earnings	67,956	74,175
	-----	-----
Total shareholders' equity	129,268	136,022
	-----	-----
Total Liabilities and Shareholders' Equity	\$246,015	\$227,729
	=====	=====

&lt;/TABLE&gt;

See notes to these consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF OPERATIONS

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Years ended September 30,		
	1996	1995	1994
(Dollars and shares in thousands, except per share data)			
<S>	<C>	<C>	<C>
Net sales	\$925,714	\$889,206	\$724,713
Cost of sales	711,463	674,179	535,690
	-----	-----	-----
Gross profit	214,251	215,027	189,023
Selling, general and administrative expenses	220,032	191,066	166,046
Early retirement of assets	3,741	--	--
	-----	-----	-----
Income (loss) from operations	(9,522)	23,961	22,977
Interest income	211	220	758
Interest expense	(679)	(619)	(191)
	-----	-----	-----
Income (loss) before income taxes	(9,990)	23,562	23,544
Income tax expense (benefit)	(3,771)	9,396	9,651
	-----	-----	-----

Net income (loss)	\$ (6,219)	\$ 14,166	\$ 13,893
	=====	=====	=====
Net income (loss) per share	\$ (0.46)	\$ 1.06	\$ 1.06
	=====	=====	=====
Weighted average shares	13,576	13,427	13,164
	=====	=====	=====

</TABLE>

See notes to these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>

<CAPTION>

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT			
-----					
(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1993	13,021,028	\$13	\$56,389	\$46,116	\$102,518
Issuance of common stock under Employees Stock Purchase Plan	228,054		2,180		2,180
Exercise of stock options including related tax benefits	33,099		357		357
Net income				13,893	13,893
	-----	---	-----	-----	-----
Balance at September 30, 1994	13,282,181	13	58,926	60,009	118,948
Issuance of common stock under Employees Stock Purchase Plan	264,335	1	2,576		2,576
Exercise of stock options including related tax benefits	34,900		332		332
Net income				14,166	14,166
	-----	---	-----	-----	-----
Balance at September 30, 1995	13,581,416	14	61,833	74,175	136,022
Issuance of common stock under Employees Stock Purchase Plan	317,316		2,397		2,397
Exercise of stock options including related tax benefits	14,630		84		84
Repurchase and retirement of common stock	(358,500)		(3,016)		(3,016)
Net loss				(6,219)	(6,219)
	-----	---	-----	-----	-----
Balance at September 30, 1996	13,554,862	\$14	\$61,298	\$67,956	\$129,268
	=====	===	=====	=====	=====

</TABLE>

See notes to these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	Years ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
(Dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (6,219)	\$14,166	\$13,893
Adjustments to reconcile net income (loss) to net cash provided (used) in operating activities:			
Depreciation and amortization	9,456	9,387	8,485
Early retirement of assets	3,741	-	-
Allowance for doubtful accounts	352	88	(219)
Shareholders' equity tax benefits from stock options	29	56	132
Change in:			
Accounts receivable	(744)	(10,217)	2,134
Income taxes receivable	(8,372)	-	-
Merchandise inventories	(7,996)	(20,878)	(23,404)
Prepaid expenses and other assets	4,407	(2,827)	2,571
Accounts payable	20,027	12,266	15,510
Accrued expenses and other liabilities	1,901	9,677	6,990
	-----	-----	-----

Net cash provided by operating activities	16,582	11,718	26,092
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(12,487)	(17,797)	(19,577)
	-----	-----	-----
Net cash used in investing activities	(12,487)	(17,797)	(19,577)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of common stock	2,452	2,852	2,405
Repurchase and retirement of common stock	(3,016)	-	-
	-----	-----	-----
Net cash provided (used) in financing activities	(564)	2,852	2,405
Net increase (decrease) in cash	3,531	(3,227)	8,920
Cash at beginning of period	18,434	21,661	12,741
	-----	-----	-----
Cash at end of period	\$21,965	\$18,434	\$21,661
	=====	=====	=====

</TABLE>

See notes to these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BUSINESS:** The Good Guys, Inc., through its wholly owned subsidiary (together, the Company), is a retailer of consumer electronic products in California, Nevada, Oregon and Washington.

**BASIS OF PRESENTATION:** The consolidated financial statements include the accounts of the The Good Guys, Inc. and its wholly owned subsidiary. All significant intercompany transactions have been eliminated in consolidation.

**CASH EQUIVALENTS:** Cash equivalents represent short-term, highly liquid investments with original maturities of three months or less. Interest earned from these investments is included in interest income.

**MERCHANDISE INVENTORIES:** Inventories are stated at the lower of cost (first-in, first-out method) or market.

**PROPERTY AND EQUIPMENT:** Property and equipment are stated at cost. Depreciation and amortization are computed using the straight line method based on an estimated useful life of five years for furniture, fixtures and equipment, and the lesser of the estimated useful lives of assets or the remaining lease terms for leasehold improvements.

**ADVERTISING:** Advertising costs are charged to expense when incurred. Advertising costs for fiscal years ended 1996, 1995, and 1994 were \$60,665,000, \$58,786,000, and \$47,758,000, respectively.

**STORE PRE-OPENING COSTS:** Store pre-opening costs are expensed as incurred.

**INSURANCE RISK RETENTION:** The Company retains certain risks for workers' compensation, general liability and employee medical programs and accrues estimated liabilities on an undiscounted basis for known claims and claims incurred but not reported.

**USE OF ESTIMATES:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

**REVENUE RECOGNITION:** The Company recognizes revenue at the point of sale. Merchandise returns are recorded at the time of return, as the effect of returns is not significant to the Company's operating results.

**PREMIER PERFORMANCE GUARANTEE CONTRACTS:** The Company sells extended service contracts ("Premier Performance Guarantee contracts") on behalf of an unrelated company (the "Warrantor") that markets this product for merchandise sold by the Company. Commission revenue is recognized at the time of sale. The Company acts solely as an agent for the Warrantor and has no liability to the customer under the extended service contract nor any other material obligation to the customer or the Warrantor. Merchandise presented to the Company for servicing under extended service contracts is repaired by the Company on behalf of the Warrantor. The repairs are billed to the Warrantor at amounts customarily

charged by the Company for these services.

**INCOME TAXES:** The Company accounts for its income taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes." Under this standard, deferred income taxes reflect the tax effects, based on current tax law, of temporary differences resulting from differences between the amounts of assets and liabilities recognized for financial reporting and income tax purposes.

**FAIR VALUE OF FINANCIAL INSTRUMENTS:** The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their estimated fair values.

**NET INCOME PER COMMON SHARE:** Net income per share was computed based on the weighted average number of shares of common stock outstanding during the year.

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**NEW ACCOUNTING PRONOUNCEMENTS:** The Company will adopt the following Statements of Financial Accounting Standards ("SFAS") in the year ending September 30, 1997:

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" requires that long-lived assets, including identifiable intangible assets, used by an entity be reviewed for impairment whenever events or changes indicate that the carrying amount of the asset may not be recoverable. Management has not completed its review of this statement, but does not believe it will have a material impact on the Company's financial position or results of operations.

SFAS No. 123, "Accounting for Stock-Based Compensation" establishes financial accounting and reporting standards for stock-based employee compensation plans, including stock options and stock purchase plans. Under SFAS 123, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which is generally the vesting period. The new standard does not impact cash flows. Companies are encouraged, but not required, to adopt the fair value method of accounting for stock-based transactions. Companies are permitted to continue to account for such transactions under Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees. SFAS No. 123 is effective for transactions entered into in fiscal years that begin after December 15, 1995. The Company has determined that it will continue to use the method of accounting prescribed in APB 25 for measurement of employee stock based compensation, and will begin providing the required pro forma disclosures in its financial statements for the year ending September 30, 1997.

#### NOTE 2: BORROWING ARRANGEMENTS

The Company currently maintains a committed unsecured revolving line of credit which expires on February 28, 1998. The line of credit allows borrowings of up to \$75,000,000, which fluctuate with seasonal working capital requirements. The credit line also includes a standby letter of credit facility. There were no borrowings under the line of credit at September 30, 1996 and 1995.

The committed agreement provides the Company with several different borrowing alternatives with interest rates based on the prime rate and various domestic and international money market rates. The agreement requires maintenance of certain financial loan covenants, including minimum tangible net worth, debt to equity and fixed charge coverage ratios, restrictions on capital expenditures and prohibits payment of cash dividends. The Company was in compliance with, or had received waivers for, each of the covenants for the year ended September 30, 1996.

The Company also has demand line of credit facilities with various banks totaling \$30,000,000. These uncommitted facilities require bank approval for each advance and allows the Company to borrow at money market rates related to the banks' financing costs. The Company may use these facilities for working capital, construction costs and general corporate purposes. The maximum amount the Company can borrow under these uncommitted demand line of credit facilities is limited by its committed credit agreement.

Interest paid for the committed and demand credit facilities was \$652,000, \$606,000, and \$169,000 for the fiscal years ended September 30, 1996, 1995 and 1994, respectively. At September 30, 1996 and 1995, no portion of the commitment was reserved under the letter of credit facility.

The Company also purchases products from some vendors through finance companies under agreements which generally require payment in 30 days and provide for purchase discounts.

## NOTE 3: INCOME TAXES

Income tax expense (benefit) consists of the following:

	Years ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
(Dollars in thousands)			
CURRENTLY PAYABLE (RECEIVABLE):			
Federal	\$ (6,701)	\$ 8,870	\$7,650
State	--	2,174	1,902
	-----	-----	-----
Total currently payable	(6,701)	\$11,044	9,552
Deferred tax	2,930	(1,648)	99
	-----	-----	-----
Total	\$ (3,771)	\$ 9,396	\$9,651
	=====	=====	=====

&lt;/TABLE&gt;

For the years ended September 30, 1996, 1995 and 1994, the Company paid income taxes totaling \$2,615,000, \$9,485,000 and \$10,652,000, respectively.

The fiscal year 1996 tax provision reflects the benefit of a federal net operating loss carryback of \$15,312,000 which will be fully recouped through carryback to prior fiscal years. This amount is included in income taxes receivable with the amounts refundable from current year estimated payments.

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The provisions for income taxes as reported are different from the tax provisions computed by applying the statutory federal income tax rate. The differences are reconciled as follows:

	Years ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Federal income tax			
at the statutory rate	(35.0)%	35.0%	35.0%
State franchise tax,			
less federal tax effect	(3.7)	5.6	6.0
Other - net	1.0	(0.7)	--
	-----	-----	-----
Total	(37.7)%	39.9%	41.0%
	=====	=====	=====

&lt;/TABLE&gt;

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets as of September 30, 1996 and 1995 were as follows:

	Years ended September 30,	
	1996	1995
<S>	<C>	<C>
(Dollars in thousands)		
CURRENT		
Vacation accruals	\$ 937	\$1,088
Prepaid expenses	(1,271)	(891)
Reserves	2,276	1,186
State taxes	--	733
Inventory capitalization	(1,617)	1,001
Net operating loss	229	--
	-----	-----
Current assets - net	554	3,117
NONCURRENT		

Depreciation	1,351	2,127
Other - net	171	(238)
	-----	-----
Noncurrent assets - net	1,522	1,889
	-----	-----
Total	\$ 2,076	\$5,006
	=====	=====

</TABLE>

The deferred taxes include the benefit of state net operating loss carryforwards of \$2,520,000, which expire in the year 2001.

NOTE 4: LEASES

The Company's stores, distribution and administration facilities and certain equipment are leased under operating leases. The leases have remaining initial terms inclusive of renewal options, of one to forty-two years and generally provide for rent increases based on the consumer price index. Certain store leases require additional lease payments based on store sales.

The Company subleases a portion of one of its stores to a company whose president is also a member of the Company's Board of Directors. The lease expires on July 31, 2003 and provides for additional rent increases based on the consumer price index. Under the terms of the sublease agreement, the income received for each of the years ended September 30, 1996, 1995 and 1994 was \$318,938.

The future minimum annual payments for leases having noncancelable terms in excess of one year, net of sublease income, at September 30, 1996, are as follows:

<TABLE>

<CAPTION>

	Real Property	Equipment
<S>	<C>	<C>
(Dollars in thousands)		
1997	\$ 30,598	\$11,441
1998	30,587	9,063
1999	29,853	7,679
2000	27,284	4,693
2001	27,160	1,914
Later years through 2016	163,973	57
	-----	-----
Total	\$309,455	\$34,847
	=====	=====

</TABLE>

Lease expense for the years ended September 30, 1996, 1995 and 1994 was \$40,932,000, \$35,958,000 and \$28,149,000, respectively.

NOTE 5: EARLY RETIREMENT OF ASSETS

During the fourth quarter of 1996, the Company closed and remodeled its Redondo Beach store. On November 1, 1996, this store reopened under the Company's new Expo format. The Company also identified and began to initiate plans to renovate or relocate certain stores to reflect this new concept. The amounts expensed as early retirement of assets reflect the write off of the Redondo Beach store assets as well as amounts reserved for lease payment obligations and/or assets to be written off in relation to the stores noted above. Over the next several years, the Company expects to continue to identify and convert stores to the expo format.

NOTE 6: PROFIT SHARING PLAN

The Profit Sharing Plan (the Plan) is a defined contribution plan covering substantially all of the Company's employees. Contributions are made to the Plan at the discretion of the Company's Board of Directors in cash or shares of the Company's common stock. The profit sharing contributions for the years ended September 30, 1996, 1995 and 1994 were \$1,781,000, \$1,467,000 and \$602,000, respectively.

NOTE 7: STOCK OPTIONS

The Company's 1985 Stock Option Plan and 1994 Stock Incentive Plan authorize the issuance of incentive stock options and non-qualified stock options covering up to 2,715,000 shares of common stock. Although the 1985 Plan expired in 1995 and no further options may be granted under it, options granted prior to its expiration remain outstanding. Options granted under both Plans are exercisable at prices equal to the fair market value of the stock on the date of grant. Options vest ratably over four years and no option may be granted for a term exceeding ten years.

The following is a summary of stock option activity under the Plan for the years ended September 30, 1996, 1995, and 1994.

<TABLE>  
<CAPTION>

	Number of Shares	Price Range
<S>	<C>	<C>
Balance at September 30, 1993	823,755	\$ 2.37 - \$26.25
Granted	303,150	11.25 - 17.25
Exercised	(33,099)	2.94 - 13.12
Canceled	(43,851)	6.50 - 26.25
Balance at September 30, 1994	1,049,955	2.37 - 26.25
Granted	338,200	9.75 - 12.63
Exercised	(34,900)	2.94 - 11.25
Canceled	(143,275)	9.50 - 26.25
Balance at September 30, 1995	1,209,980	2.37 - 26.25
Granted	383,000	8.13 - 10.38
Exercised	(14,630)	2.94 - 6.50
Canceled	(225,900)	6.50 - 26.25
Balance at September 30, 1996	1,352,450	\$ 2.37 - \$26.25

</TABLE>

At September 30, 1996, options for 645,963 shares were exercisable at prices ranging from \$2.37 to \$26.25 per share and 557,150 shares were available for additional option grants.

The following is a summary of non-qualified stock options not covered under the 1985 Stock Option Plan or the 1994 Stock Incentive Plan for the years ended September 30, 1996, 1995 and 1994.

<TABLE>  
<CAPTION>

	Number of Shares	Price Range
<S>	<C>	<C>
Balance at September 30, 1993	40,000	\$6.50 - \$8.12
Exercised	0	6.50 - 8.12
Balance at September 30, 1994	40,000	6.50 - 8.12
Exercised	0	6.50 - 8.12
Balance at September 30, 1995	40,000	6.50 - 8.12
Exercised	0	6.50 - 8.12
Balance at September 30, 1996	40,000	\$6.50 - \$8.12

</TABLE>

At September 30, 1996, the options for 40,000 shares in the above table were exercisable at prices ranging from \$6.50 to \$8.12.

NOTE 8: EMPLOYEE STOCK PURCHASE PLAN

The Company established an employee stock purchase plan (Plan) in February 1986, which permits eligible employees to purchase the Company's common stock under terms specified by this Plan. Since inception a total of 1,900,000 shares of the Company's common stock has been reserved for issuance under this Plan, and 1,762,370 shares have been issued as of September 30, 1996.

NOTE 9: REPURCHASE AND RETIREMENT OF STOCK

In January 1996, the Company's Board of Directors authorized the purchase of up to 500,000 shares of the Company's common stock on the open-market or in private transactions. As of September 30, 1996, the Company had repurchased 358,500 shares on the open market for a total of \$3,016,000, all of which were retired as of that date.

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NOTE 10: LEGAL PROCEEDINGS

The Company is involved in a number of lawsuits, including lawsuits alleging unfair trade practices in connection with the sale of cellular telephones and computers. Management believes that the ultimate outcome of the lawsuits, individually and in the aggregate, will not have a material impact on the financial position or results of operations of the Company.

NOTE 11: QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data for the years ended September 30, 1996 and 1995 are summarized in the following table:

<TABLE>

<CAPTION>

	December 31, 1995	March 31, 1996	June 30, 1996	September 30, 1996
(Dollars in thousands, except per share amounts)				
<S>	<C>	<C>	<C>	<C>
Net sales	\$306,715	\$210,415	\$196,553	\$212,031
Gross profit	69,760	47,749	47,655	49,087
Net income (loss)	6,728	289	(3,434)	(9,802)
Net income (loss) per share	\$ 0.50	\$ 0.02	\$ (0.25)	\$ (0.72)

<CAPTION>

	December 31, 1994	March 31, 1995	June 30, 1995	September 30, 1995
(Dollars in thousands, except per share amounts)				
<S>	<C>	<C>	<C>	<C>
Net sales	\$281,658	\$195,745	\$198,315	\$213,488
Gross profit	67,956	47,327	49,259	50,485
Net income	8,601	2,300	2,222	1,043
Net income per share	\$ 0.65	\$ 0.17	\$ 0.17	\$ 0.08

</TABLE>

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders  
The Good Guys, Inc.  
Brisbane, California

We have audited the accompanying consolidated balance sheets of The Good Guys, Inc. as of September 30, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 1996. 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 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, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Good Guys, Inc. at September 30, 1996 and 1995, and the results of their operations and

their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

San Francisco, California  
November 20, 1996

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CORPORATE INFORMATION

OFFICERS

Robert A. Gunst  
President and Chief Executive Officer

Dennis C. Carroll  
Vice President and Chief Financial Officer

Thomas A. Hannah  
Senior Vice President, Operations

Brad S. Brame  
Vice President, Advertising

William C. Curley  
Vice President, MIS and Operations

John G. Duken  
Vice President, Store Operations

William B. Perlstein  
Vice President, Stores

Gregory L. Steele  
Vice President, Real Estate

Gera M. Vaz  
Vice President, Human Resources

DIRECTORS

Stanley R. Baker  
Director

Robert A. Gunst  
Director, President and  
Chief Executive Officer of the Company

W. Howard Lester  
Director and Chairman and Chief Executive Officer of Williams-Sonoma, Inc.

John E. Martin  
Director and Chairman and  
Chief Executive Officer of PepsiCo.  
Casual Restaurants International

Russell M. Solomon  
Director and Founder and  
President of MTS, Inc. (Tower Records)

ANNUAL MEETING

February 11, 1997, 10:30 AM  
Bank of America Building  
A.P. Giannini Auditorium  
555 California Street  
San Francisco, CA 94104

INDEPENDENT AUDITORS

Deloitte & Touche LLP  
50 Fremont Street San Francisco, CA 94105

TRANSFER AGENT

ChaseMellon Shareholder Services, L.L.C.  
Shareholder Relations  
P.O. Box 469  
Washington Bridge Station  
New York, NY 10033  
(800) 356-2017

A copy of the Company's Form 10-K Annual Report filed with the Securities and Exchange Commission may be obtained without charge by writing to Investor Relations at the address noted below.

QUARTERLY REPORTS

Shareholders can obtain a faxed copy of recent quarterly financial press releases by calling Company News On Call, a division of PR Newswire, at 1-800-758-5804. THE GOOD GUYS! news # is 108403.

Or visit THE GOOD GUYS! home page on the Internet @<http://www.thegoodguys.com>.

Or write to:

THE GOOD GUYS!  
 Attn: Investor Relations  
 7000 Marina Blvd.  
 Brisbane, CA 94005-1840

COMMON STOCK

The Good Guys, Inc. common stock is traded on the Nasdaq National Market under the symbol GGUY. The following table sets forth the quarterly high and low sales prices for the Company's common stock as quoted in the Nasdaq National Market for fiscal 1995 and 1996.

<TABLE>

<CAPTION>

Fiscal Quarter Ended	HIGH	LOW
<S>	<C>	<C>
December 31, 1994	13	11
March 31, 1995	13	11
June 30, 1995	11	9
September 30, 1995	13 7/8	10 7/8
December 31, 1995	11 5/8	8 5/8
March 31, 1996	9 1/8	7
June 30, 1996	10 7/8	8
September 30, 1996	9 1/8	7 5/8

As of November 26, 1996 there were 2,174 shareholders of record, excluding shareholders whose stock is held in nominee or street name by brokers.

The Company's present policy is to retain its earnings to finance future growth and, accordingly, it does not anticipate paying cash dividends in the foreseeable future.

## DELOITTE &amp; TOUCHE LLP

## INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-5935, 33-19342, 33-32986, 33-38749, 33-39421, 33-49960, 33-56524 and 33-60957 of The Good Guys, Inc. on Form S-8 of our report dated November 20, 1996, appearing in and incorporated by reference in the Annual Report on Form 10-K of The Good Guys, Inc. for the year ended September 30, 1996.

/s/ DELOITTE & TOUCHE LLP

December 30, 1996

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose signature appears below, being a member of the Board of Directors of The Good Guys, Inc. (the "Company"), hereby constitutes and appoints Robert A. Gunst and Dennis C. Carroll, and each of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for and in his name, place and stead, in any and all capacities, to sign on his behalf the Company's ANNUAL REPORT ON FORM 10-K for its fiscal year ended September 30, 1996, and to execute any amendments thereto, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, with the full power and authority to do and perform each and every act and thing necessary or advisable to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This power of attorney may be executed in any number of counterparts.

DATED: November 19, 1996

/s/ ROBERT A. GUNST  
-----

Robert A. Gunst

/s/ STANLEY R. BAKER  
-----

Stanley R. Baker

/s/ RUSSELL M. SOLOMON  
-----

Russell M. Solomon

/s/ W. HOWARD LESTER  
-----

W. Howard Lester

/s/ JOHN E. MARTIN

-----  
John E. Martin

-1-

<TABLE> <S> <C>

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