

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
SEC Accession No. **0000910117-96-000129**

([HTML Version](#) on secdatabase.com)

FILER

PHOENIX GOLD INTERNATIONAL INC

CIK: **943032** | IRS No.: **931066325** | State of Incorpor.: **OR** | Fiscal Year End: **0924**
Type: **10KSB** | Act: **34** | File No.: **000-25866** | Film No.: **96688270**
SIC: **3651** Household audio & video equipment

Mailing Address
9300 N DECATUR STREET
PORTLAND OR 97203

Business Address
9300 NORTH DECATUR ST
PORTLAND OR 97203
5032882008

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-KSB

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

For the fiscal year ended September 29, 1996, or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the transition period from _____ to _____

Commission file number 0-25866

PHOENIX GOLD INTERNATIONAL, INC.
(Name of small business issuer in its charter)

Oregon

93-1066325

(State or jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

9300 NORTH DECATUR STREET, PORTLAND, OREGON

97203

(Address of principal executive offices)

(Zip Code)

(Issuer's telephone number) (503) 288-2008

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, no
par value

Check whether the issuer (1) filed all reports required to be filed by Section
13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of
Regulation S-B contained in this form, and no disclosure will 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-KSB or any
amendment to this Form 10-KSB .

Issuer's revenues for the fiscal year ending September 29, 1996 were
\$26,563,142.

The aggregate market value of the voting common stock held by non-affiliates of
the issuer was \$8,484,970 as of November 30, 1996.

There were 3,454,605 shares of the issuer's common stock outstanding as of
November 30, 1996.

Transitional Small Business Disclosure Format: Yes No

Parts of Registrant's proxy statement dated on or about January 15, 1997
prepared in connection with the Annual Meeting of shareholders to be held on
February 18, 1997 are incorporated by reference into Part III of this Report.

PART I.

ITEM 1. DESCRIPTION OF BUSINESS

Phoenix Gold International, Inc. (the "Company") designs, markets and
sells innovative, high quality, high performance electronics and accessories for
the domestic and international car audio aftermarket, the professional sound
market and the custom audio/video and home theater markets. The Company also
designs, markets and sells innovative, high quality, high performance speakers
for the car audio aftermarket. The Company manufactures all of its electronics
and a portion of its accessories and speakers at its facility in Portland,
Oregon. The Company was incorporated in 1991 in Oregon.

The Company's car audio products encompass substantially all of the
components used in car audio systems (other than "head units" such as radios,
tape decks and CD players). The Company's car audio electronics include
amplifiers, equalizers, crossovers and line drivers. The Company's car audio

accessories include audio cables, speaker and power cables, connectors, clamps, capacitors and fuseblocks. The Company's speaker products include subwoofers, midranges and tweeters.

As the Company expanded its car audio product line from accessories to electronics and speakers, it initially targeted car audio enthusiasts and audiophiles with products that offer value by combining performance advantages, such as sonic excellence, system flexibility and reliability, with distinctive appearance and superior craftsmanship. The Company subsequently broadened its car audio product line to offer similar performance characteristics at lower price points. The Company's primary target market is car audio enthusiasts, typically 18 to 34 year old males who desire high quality, high performance systems. The Company also sells to other consumers who seek to increase the quality of their car audio systems either by upgrading existing components or installing new systems.

In November 1995, the Company acquired substantially all of the assets of the professional sound division of Carver Corporation. The Company, as licensee of the name "Carver Professional," designs, manufactures, markets and sells electronic amplifiers and accessories for the domestic and international professional sound market, including OEM customers.

Products -----

The Company has three product lines: electronics, accessories and speakers.

Electronics. The Company's amplifiers, signal processors and other electronics are designed to deliver sonic excellence, system flexibility and reliable performance. The Company sells car audio electronics designed for audiophiles, serious audio enthusiasts and sound competitors.

Amplifiers. The Company sells a total of 12 car audio amplifiers in the ZPA, ZX and Sapphire series at retail prices ranging from approximately \$200 to \$1,150. Amplifiers in the ZPA series, introduced in 1996, are the Company's reference amplifiers, designed to deliver maximum performance in expensive, high end systems capable of driving multiple speakers. The ZPA series replaced the Company's Mobile Series and Mobile Pro Series amplifiers. The ZX series, introduced in 1996, includes multi-channel amplifiers with built-in crossovers and offers the performance and sonic excellence of the reference series amplifiers except in the most demanding applications. The ZX series replaced the Company's M Class amplifiers. The Sapphire series, introduced in 1994, is designed to provide high performance at lower prices.

Additionally, the Company has periodically introduced limited edition theme amplifiers, such as "Frank Amp'n Stein," "Son of Frank Amp'n Stein," "Route 66," "Outlaw 1845" and "Bandit," at retail prices ranging from approximately \$500 to \$2,400

The Company sells a total of 10 Carver Professional amplifiers at retail prices ranging from approximately \$500 to \$2,400. The PM series was designed for multiple purposes, including instrument amplification, fixed installations and touring applications. The PT series was designed specifically for the touring sound industry for ease of transportability and use in a variety of settings. The CA series amplifiers were designed for fixed installation applications, including churches, warehouses and auditoriums.

Signal Processors. The Company sells a total of 19 car audio signal processors, including equalizers, line drivers, and active and passive crossovers. Signal processors, which are sold both as upgrade components and as parts of complete systems, are used to increase the flexibility and performance of audio systems. Retail prices of signal processors range from approximately \$130 to \$600.

Accessories. The Company is a manufacturer and distributor of innovative, high quality accessories. The Company sells over 900 accessories, many of which are manufactured to the Company's design specifications, for use primarily in car audio aftermarket applications. Car audio accessories include audio cables, speaker and power cables, connectors, clamps, adapters, capacitors, fuseblocks, distribution blocks, alternators, carpet, textiles and adhesives. The Company continually improves its existing accessories line and introduces new accessories. The Company is a single source from which its dealers and distributors can purchase all of the accessories necessary to install the full range of car audio systems. Accessories are available either as individual items or in complete installation kits.

The Company also offers accessories for use in professional sound and custom audio/video and home theater applications, including crossovers, attenuators, transformers, speaker selectors, video cables, connectors, UL/CSA approved cables, wall plates and volume controls. The Company also sells Smart Audio Management panels for the custom audio/video market offering speaker distribution and impedance matching.

Speakers. The Company began selling speakers in 1994. The Company offers a total of 26 speakers in the ZeroPoint, XMAX, XS and Sapphire series, including tweeters, midranges, subwoofers and coaxials. The ZeroPoint series is the Company's reference speaker series and is designed to achieve audiophile level sound quality, transparency and enhanced imaging in either the on or off axis listening position. The XMAX series features reproduction of tight, accurate bass in a small enclosure. The XS series features exceptional musicality, excursion and versatility at lower price points. The Sapphire series is the Company's lower price point speaker line. Retail prices of speakers range from approximately \$50 to \$400. Speakers are sold individually, in pairs and in component systems.

The Company has an exclusive license to utilize patented technology to produce a new speaker (the "Cyclone") for the car and home audio markets. This technology uses a moving magnet rotary motor and a composite vane, replacing the conventional motor magnet and cone of a typical loudspeaker. Compared to a typical high performance 12-inch subwoofer, the Cyclone car audio subwoofer will produce up to approximately three times more bass in a similar sized enclosure and offers improved sound quality and greater power handling capacity. The retail price of the Cyclone is approximately \$850. The Company had lower than expected sales of Cyclones in fiscal 1996 due to delayed receipt of subassemblies and components from its suppliers. The Company expects these shortages to continue through at least the end of the second quarter of fiscal 1997.

Sales, Distribution and Marketing -----

The Company sells its products through car audio and specialty retailers, principally in North America, Europe, Japan, Southeast Asia, Australia and New Zealand. The Company also sells certain of its car audio accessories through a mass merchandising chain of stores in the United States. As of September 30, 1996, the Company sold its car audio, professional sound and home products in the United States through 35 independent sales representatives and 30 distributors. As of that date, the Company sold car audio accessories in the United States through approximately 1,150 dealers, of which more than 450 also sell the Company's car audio electronics and speakers, and sold professional sound products through approximately 300 dealers. As of that date, the Company sold its products internationally through 91 distributors serving 46 countries. International sales accounted for 39.2%, 40.6% and 36.0% of net sales in fiscal years 1996, 1995 and 1994, respectively. International sales are denominated in United States dollars and are shipped f.o.b. the Company's facility in Portland, Oregon.

No customer accounted for 10% or more of the Company's net sales during fiscal 1996 or 1995. As of September 30, 1996, two customers accounted for approximately 12.1% and 10.4%, respectively, of total accounts receivable.

The Company offers its dealers and distributors complete product lines, excellent service and support, and high performance, reliable products. The Company believes these efforts enable it to attract and retain qualified dealers and distributors. The Company recruits on a selective basis new dealers and distributors for each of its product lines in specific geographic areas. Dealers and distributors are chosen based on location, financial stability, technical expertise, sales history, integrity and installation and service capabilities. The Company generally does not have written agreements with its car audio sales representatives, dealers or distributors or its professional sound distributors. The Company's written agreements with its professional sound representatives and dealers are generally terminable upon no more than 30 days notice.

The Company markets its car audio products by participating in consumer electronics trade shows and enthusiast events and by promoting its own demonstration vehicles. The Company offers incentives to "Team Phoenix Gold" competitors in regional, national and international car audio shows and competitions and provides technical assistance, training and support from Company engineers and technicians at "Tweek N Tune" workshops. The Company advertises in car audio consumer magazines and its products have been reviewed and profiled in national and international publications, including Car Audio and Electronics and Auto Sound & Security. The Company markets its professional sound, custom audio/video and home theater products by participating in trade shows, advertising in trade journals and magazines and providing dealer support.

Competition -----

The markets for the Company's products are highly competitive and are served by many United States and international manufacturers that market their own lines of electronics, accessories and speakers through specialty dealer networks and mass merchandise retail stores, as well as companies that market generic products through the same distribution channels. The Company's principal accessories competitors include Monster Cable Products, Inc., Esoteric Audio USA

Group of Companies and Recoton Corp. The Company's principal car audio electronics competitors include Rockford Fosgate, a division of Rockford Corp. ("Rockford"), Orion Industries, Inc. and Precision Power, Inc. The Company's principal professional sound competitors include Crown International, Inc., QSC Audio Products, Inc. and Crest Audio, Inc. The Company's principal speaker competitors include Rockford, MTX Corporation, Stillwater Design and Audio, Inc., JL Audio, Inc., MB Quart Electronics USA, Inc. and Boston Acoustics, Inc. Many competitors have greater financial and other resources than the Company.

The Company competes principally on the basis of innovation, breadth of product line, quality and reliability of products, name recognition, merchandising and distribution organization, and price. The Company believes it competes favorably with respect to each of these factors.

Manufacturing and Assembly

Manufactured Products. The Company manufactures all of its electronics products and a portion of its accessories at its facility in Portland, Oregon. Manufacturing processes include laser-cutting, computer controlled metal fabrication, powder coating, automatic insertion of components into and wave soldering of circuit boards, toroid winding, plastic injection molding, silk-screening graphics and quality control testing. For use in its manufacturing activities, the Company also purchases components manufactured by third parties according to design specifications developed by the Company. The Company purchases raw materials, components and subassemblies from approximately 300 suppliers located primarily in the United States and the Pacific Rim. Certain of these materials, components and subassemblies are obtained from a single supplier or a limited number of suppliers. The Company's principal supplier is Team Phoenix Co. Ltd., an unaffiliated company. In fiscal 1995 and 1996, the Company had lower than anticipated sales of speakers due to delayed receipt of speaker subassemblies from its suppliers. The Company expects shortages of speaker subassemblies to continue through at least the end of the second quarter of fiscal 1997.

Distributed Accessories. The Company distributes accessories, many of which are manufactured to its design specifications by third parties. Substantially all distributed accessories are subjected to quality control procedures at the Company's facility and are marketed under the Phoenix Gold or Carver Professional names.

Designed Speakers. The Company's speakers are manufactured by third parties in the United States and the Pacific Rim according to acoustical and electrical design specifications developed by the Company. Speakers are subjected to quality control procedures by the Company.

Customer Service

The Company believes two of the most important elements in its business are understanding consumers and their preferences, and manufacturing high quality, reliable products. The Company strives to understand the evolving needs and preferences of consumers by communicating with its representatives, dealers and distributors, sponsoring "Team Phoenix Gold" members and attending car audio competitions and car audio, professional sound and custom audio/video and home theater trade shows. Company representatives regularly seek suggestions from dealers for improved design and performance of the Company's products.

Proper installation is critical to achieving optimum performance of car audio systems. The Company offers an 18-month limited warranty on car audio electronics installed by an authorized dealer or installer and increases the warranty period to 36 months if the warranty card accompanying the product and a copy of the original sales receipt are returned to the Company. If the product is not installed by an authorized dealer or installer, the Company offers a 30-day limited warranty. The Company offers a five-year limited warranty on professional sound electronics and a one-year limited warranty on speakers.

Intellectual Property

Phoenix Gold(R), Carver Professional(TM), PowerFlow(TM), QuickSilver(TM), Sapphire(TM) and ZeroPoint(TM) are the principal trademarks of the Company. The Company believes that Phoenix Gold and Carver Professional have strong brand name recognition, an important competitive factor in its markets. The Company has no patents, but is a licensee of patented technology with respect to the Cyclone speaker. The Company has an exclusive, paid-up license to use the name Carver Professional through November 2000.

Government Approval of Products

The Company is subject to and is in compliance with certain European Community standards regarding electromagnetic and product safety compliance on

substantially all of its electronics sold in the European Community. The Company believes that additional similar regulations may be imposed in Europe. Any inability by the Company to comply with such similar regulations on a timely basis could have a material adverse effect on the Company.

Employees

As of September 30, 1996 the Company had 311 full-time employees, including 258 in manufacturing, engineering, warehousing and shipping, 20 in sales and marketing and 33 in administration. The Company considers its employee relations to be good.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's executive offices and manufacturing operations are located at 9300 North Decatur Street, Portland, Oregon in two adjacent leased buildings consisting of a total of approximately 15,000 square feet of office space and 130,000 square feet of manufacturing and warehouse space. Annual rent for the Company's facilities is approximately \$350,000. The lease expires June 30, 1999. The Company has an option to extend the lease for one five-year term and has the option to purchase the main building for \$3.1 million and the adjacent building for \$1.3 million at any time prior to June 30, 1999. The Company believes that its existing facilities are adequate to meet its needs for the foreseeable future and that, if needed, suitable additional or alternative space will be available on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

None

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

None

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock began trading on May 4, 1995 in the Nasdaq National Market under the symbol "PGLD". As reported by Nasdaq, the following table sets forth the range of high and low trading price information for the Company's Common Stock.

	Fiscal year ended September 30, 1995		Fiscal year ended September 30, 1996	
	High	Low	High	Low
Common Stock (PGLD) -----	----	---	----	---
First Quarter	N/A	N/A	\$10.75	\$8.50
Second Quarter	N/A	N/A	13.50	9.00
Third Quarter	\$ 8.625	\$6.625	13.25	8.50
Fourth Quarter	10.75	8.25	9.25	6.75

The closing price of the Common Stock on November 29, 1996 was \$6.50. At December 16, 1996, the approximate number of holders of record of Common Stock was 105.

The Company has never declared or paid any cash dividends on its Common Stock. The Company's existing credit agreements do not expressly limit or prohibit the Company's ability to declare and pay dividends, although covenants contained in such credit agreements related to the Company's debt to net worth ratio, minimum tangible net worth, minimum current ratio and minimum cash flow coverage may have such effect. The Company intends to retain all earnings for use in its business and therefore does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Comparison of Fiscal 1996 to Fiscal 1995

Net Sales. Net sales increased \$6.39 million, or 31.7%, to \$26.56 million for fiscal 1996 compared to \$20.17 million for fiscal 1995, due principally to the acquisition of the Company's professional sound division in November 1995 and increased unit sales of existing and newly introduced car audio electronics, accessories and speakers. In fiscal 1996, the Company had lower than anticipated sales of speakers due to delayed receipt of speaker subassemblies from its suppliers. The Company expects speaker subassembly shortages to continue through at least the end of the second quarter of fiscal

1997. Sales of electronics, speakers and accessories increased 50.4%, 27.8% and 7.6%, respectively, in fiscal 1996 compared to fiscal 1995. International sales increased \$2.21 million, or 27.0%, to \$10.40 million for fiscal 1996 compared to \$8.19 million for fiscal 1995. International sales accounted for 39.2% and 40.6% of net sales in fiscal 1996 and fiscal 1995, respectively.

Gross Profit. Gross profit decreased to 23.1% of net sales in fiscal 1996 from 35.4% in fiscal 1995, due principally to higher materials costs and decreased labor productivity relating to the Company's ZPA and ZX car audio amplifiers introduced in fiscal 1996, lower margins on professional sound products the Company began selling in December 1995 and increased reserves for potentially obsolete raw materials and slow moving finished goods inventories.

Operating Expenses. Operating expenses increased \$4.10 million, or 107.1%, to \$7.93 million in fiscal 1996 compared to \$3.83 million in fiscal 1995. Operating expenses were 29.8% and 19.0% of net sales in fiscal 1996 and fiscal 1995, respectively.

Selling expenses increased \$1.61 million, or 74.6%, to \$3.76 million in fiscal 1996 compared to \$2.15 million in fiscal 1995. Selling expenses were 14.1% and 10.7% of net sales in fiscal 1996 and fiscal 1995, respectively. The increase in dollar amount was primarily due to increased promotional and trade show expenses to support sales of existing products and the introduction of new products, including the Company's professional sound products, the addition of sales and marketing personnel and increased salary expense for existing sales and marketing personnel, and increased commissions to sales representatives reflecting increased sales volume.

General and administrative expenses increased \$1.37 million, or 82.1%, to \$3.05 million in fiscal 1996 compared to \$1.67 million in fiscal 1995. General and administrative expenses were 11.5% and 8.3% of net sales in fiscal 1996 and fiscal 1995, respectively. The increases in dollar amount and as a percentage of net sales were due principally to increased bad debt expenses, higher legal, accounting and investor relations costs and increased personnel costs. Historically, the Company has built infrastructure and added personnel on an as-needed basis, resulting in occasional increases in general and administrative expenses that are disproportionate to increases in net sales. This policy has resulted in and may continue to result in variations in general and administrative expenses as a percentage of sales from period to period.

In fiscal 1996, the Company took a one-time pretax charge of \$1.12 million related to in-process research and development costs associated with the purchase in November 1995 of Carver Corporation's professional sound division. This charge was equal to 4.2% of net sales in fiscal 1996.

Other Income (Expense). Other expenses, net of other income, decreased \$22,000, or 8.5%, to \$241,000 in fiscal 1996 from \$263,000 in fiscal 1995, primarily as a result of lower average debt levels during fiscal 1996 due to the reduction of debt subsequent to the Company's initial public offering in May 1995.

Net Earnings (Loss). The foregoing factors contributed to a net loss in fiscal 1996 of \$1.27 million, or \$0.37 per share (based on 3.45 million shares), compared to net earnings of \$1.88 million in fiscal 1995, or \$0.67 per share (based on 2.80 million shares). Net loss for fiscal 1996, before the one-time pretax charge of \$1.12 million related to the acquisition of the Carver professional sound division, was \$571,000, or \$0.17 per share.

Comparison of Fiscal 1995 to Fiscal 1994

Net Sales. Net sales increased \$3.95 million, or 24.4%, to \$20.17 million for fiscal 1995 compared to \$16.22 million for fiscal 1994, due principally to an expanded electronics product line, increased sales of accessories, the introduction in April 1994 of the Company's car audio speaker line and an increased dealer base. The increase in net sales also resulted from increased sales volume for existing products. In fiscal 1995, the Company had lower than anticipated sales of speakers due to delayed receipt of speaker subassemblies from its suppliers. International sales increased \$2.34 million, or 40.0%, to \$8.19 million for fiscal 1995 compared to \$5.85 million for fiscal 1994. International sales accounted for 40.6% and 36.0% of net sales in fiscal 1995 and fiscal 1994, respectively.

Gross Profit. Gross profit increased to 35.4% of net sales in fiscal 1995 from 33.4% in fiscal 1994, due principally to increased labor productivity resulting from investment in automated manufacturing equipment, continued refinements of manufacturing processes and a higher-margin product mix in fiscal 1995.

Operating Expenses. Operating expenses increased \$798,000, or 26.3%, to \$3.83 million in fiscal 1995 compared to \$3.03 million in fiscal 1994. Operating

expenses were 19.0% and 18.7% of net sales in fiscal 1995 and fiscal 1994, respectively.

Selling expenses increased \$232,000, or 12.1%, to \$2.15 million in fiscal 1995 compared to \$1.92 million in fiscal 1994. Selling expenses were 10.7% and 11.8% of net sales in fiscal 1995 and fiscal 1994, respectively. The increase in dollar amount was primarily due to increased trade show and promotional vehicle expenses to support sales of existing products and the introduction of new products, increased commissions to sales representatives, the addition of sales and marketing personnel and increased salary expense for existing sales and marketing personnel.

General and administrative expenses increased \$566,000, or 51.1%, to \$1.67 million in fiscal 1995 compared to \$1.11 million in fiscal 1994. General and administrative expenses were 8.3% and 6.8% of net sales in fiscal 1995 and fiscal 1994, respectively. The increases in dollar amount and as a percentage of net sales were due to additional management, accounting and other administrative personnel, higher management and employee compensation levels, and higher occupancy costs resulting from the Company's move to its new facility in early fiscal 1995.

Other Income (Expense). Other expenses, net of other income, decreased \$23,000, or 8.0%, to \$263,000, in fiscal 1995 from \$286,000 for fiscal 1994, primarily as a result of interest earnings on the proceeds from the Company's initial public offering in May 1995.

Liquidity and Capital Resources

The Company's principal needs for funds are working capital and, to a lesser extent, for capital expenditures. The Company financed its operations in fiscal 1996 principally from bank borrowings, increased accounts payable and proceeds from its initial public offering of Common Stock in May 1995. Net cash used in operating activities in fiscal 1996 was \$2.82 million. Cash and cash equivalents at the end of fiscal 1996 and fiscal 1995 were \$2,600 and \$2.10 million, respectively. Working capital was \$6.03 million and \$8.82 million at the end of fiscal 1996 and fiscal 1995, respectively.

Capital expenditures were \$1.35 million, \$1.53 million and \$1.40 million in fiscal years 1996, 1995 and 1994, respectively. These expenditures related primarily to the automation and the commencement of certain manufacturing processes in house, leasehold improvements to the Company's new facility and the acquisition of equipment for use by the Company's administration, engineering and marketing departments. The Company does not expect capital expenditures to exceed \$500,000 in fiscal 1997.

As of September 30, 1996, the Company had a \$6.0 million revolving bank operating line of credit. Borrowings under the line of credit are limited to 80% of eligible accounts receivable and 50% of eligible inventory, net of trade payables, and are subject to certain additional limits. Interest on the first \$4.0 million of borrowings under the line of credit equaled the bank's prime lending rate (8.25% at September 30, 1996). Interest on borrowings in excess of \$4.0 million under the line of credit equaled the bank's prime lending rate plus 0.25%. Borrowings under the line of credit are secured by substantially all of the assets of the Company. As of September 30, 1996, the Company was eligible to borrow \$5.34 million under the line of credit. Borrowings under the line of credit were \$3.93 million as of that date.

As of September 30, 1996, the Company was not in compliance with the cash flow coverage covenant under the line of credit. In December 1996, the bank agreed to forebear such noncompliance through March 15, 1997 and extend the termination date of the line of credit from December 31, 1996 to March 31, 1997. Effective January 1, 1997, the bank also will reduce the line of credit to \$5.5 million and increase the interest rate to the bank's prime lending rate (8.25% at December 16, 1996) plus 0.5%. As of November 30, 1996, the Company was eligible to borrow \$4.14 million under the line of credit. Borrowings under the line of credit were \$3.94 million as of that date. There can be no assurance that the bank will extend the line of credit beyond March 31, 1997 or that the Company will be able to obtain additional or alternative financing on acceptable terms, or at all.

The Company has a \$350,000 note payable to Carver Corporation related to the acquisition of the Carver professional sound division in November 1995 bearing interest at a rate of 6% per annum that was due on November 20, 1996. In November 1996 the Company renegotiated the payment terms of the note to provide for seven monthly installments of \$50,000 each, plus accrued interest, beginning in November 1996.

Due to seasonally lower sales levels in the first two fiscal quarters and the maintenance of inventory levels in anticipation of higher sales in the third and fourth fiscal quarters, the Company's cash requirements are usually greater during the first two fiscal quarters.

Accounts receivable increased \$1.29 million, or 33.8%, to \$5.12 million at September 30, 1996 compared to \$3.83 million at September 30, 1995, primarily due to significant shipments of products during the last month of fiscal 1996 and increased sales volume during fiscal 1996.

The Company's total inventories increased \$4.49 million, or 100.1%, to \$8.97 million as of September 30, 1996 compared to \$4.48 million as of September 30, 1995. The increase in inventories in fiscal 1996 was principally in raw materials and work in process related to the acquisition of the Carver professional sound division and the introduction of the Company's new ZPA and ZX car audio amplifier series. Inventory turnover ratios were 3.04 and 3.08 for fiscal 1996 and 1995, respectively.

As of September 30, 1996, the Company had a net deferred tax asset of \$756,000 compared to a net deferred tax liability of \$186,000 as of September 30, 1995. The change resulted primarily from differences in book and tax accounting treatments arising from the acquisition of the Carver professional sound division.

As of September 30, 1996, the Company's capital lease obligations totaled \$308,000, including a current portion of \$125,000, at annual interest rates ranging from 5.0% to 10.3%.

Forward-Looking Statements

This Report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements as to expectations, beliefs and future financial performance, that are based on current expectations and are subject to certain risks, trends and uncertainties that could cause actual results to vary from those projected, which variances may have a material adverse effect on the Company. Among the factors that could cause actual results to differ materially are the following: business conditions and growth in the car audio, professional sound and custom audio/video and home theater markets and the general economy; competitive factors such as rival products and price pressures; the failure of new products to compete successfully in existing or new markets; the failure to achieve timely improvement in the manufacturing ramp with respect to new products; changes in product mix; availability and price of components, subassemblies and products supplied by third-party vendors; and cost and yield issues associated with production at the Company's factory.

ITEM 7. FINANCIAL STATEMENTS

See pages 17 through 30.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Incorporated by reference to the information contained under the captions "Proposal 1: Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the Company's 1997 annual meeting of shareholders.

ITEM 10. EXECUTIVE COMPENSATION

Incorporated by reference to the information contained under the caption "Proposal 1: Election of Directors" of the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the Company's 1997 annual meeting of shareholders.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference to the information contained under the caption "Proposal 1: Election of Directors" of the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the Company's 1997 annual meeting of shareholders.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the information contained under the caption "Proposal 1: Election of Directors" of the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection

with the Company's 1997 annual meeting of shareholders.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

Articles of Incorporation and Bylaws

- 3(i) - 1995 Restated Articles of Incorporation and Articles of Amendment (Incorporated by reference to Exhibit 3(i) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 3(i)(a) - Articles of Amendment filed April 7, 1995 (Incorporated by reference to Exhibit 3(i)(a) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 3(ii) - Restated Bylaws (Incorporated by reference to Exhibit 3(ii) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))

Instruments Defining Rights of Security Holders

- 4 - See Articles 2, 5 and 6 of Exhibit 3(i) and Article 6 of Exhibit 3(ii)

Material Contracts

- *10.1 - Amended and Restated 1995 Stock Option Plan dated January 27, 1995, as amended July 16, 1996 and December 23, 1996
- *10.1 - Form of Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.1(a) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- *10.2 - Form of Nonstatutory Stock Option Agreement (Incorporated by reference to Exhibit 10.1(b) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 10.3 - Lease Agreement between the Company and BB&S Development Company dated February 2, 1994 (Incorporated by reference to Exhibit 10.2 to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 10.4 - Amendment dated January 12, 1996 to Lease Agreement between the Company and BB&S Development Company dated February 2, 1994 (Incorporated by reference to Exhibit 10.1 to Form 10-QSB filed with the Securities and Exchange Commission for the quarterly period ended December 31, 1995)
- 10.5 - Asset Purchase Agreement between the Company and Carver Corporation dated as of November 20, 1995 (Incorporated by reference to Exhibit 2.1 to Form 8-K filed with the Securities and Exchange Commission on December 1, 1995)
- 10.6 - Amendment No. 1 to Asset Purchase Agreement between the Company and Carver Corporation dated as of November 20, 1995 (Incorporated by reference to Exhibit 2.2 to Form 8-K filed with the Securities and Exchange Commission on December 1, 1995)
- 10.7 - License Agreement between the Company and Carver Corporation dated as of November 20, 1995 (Incorporated by reference to Exhibit 2.3 to Form 8-K filed with the Securities and Exchange Commission on December 1, 1995)
- 10.8 - License Agreement dated September 30, 1993 between the Company and Intersonics Technology Corporation, and amendments (Incorporated by reference to Exhibit 10.2 to Form 10-QSB/A (Amendment No. 1) filed with the Securities and Exchange Commission for the quarterly period ended December 31, 1995)**
- 10.9 - Forbearance letter between the Company and United States National Bank of Oregon ("USNB") dated December 27, 1996
- 10.10 - Commitment letter between the Company and United States National Bank of Oregon ("USNB") dated December 27, 1996
- 10.11 - Commercial Security Agreement between the Company and USNB

dated as of January 1, 1997.

- 10.12 - Promissory Note dated January 1, 1997 made by the Company in favor of USNB
- 10.13 - Form of Indemnity Agreement (Incorporated by reference to Exhibit 10.6 to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 23.1 - Consent of Deloitte & Touche LLP, Independent Auditors
- 27 - Financial Data Schedule

- * Management contract or compensatory plan or arrangement.
- ** Certain material contained in this exhibit and indicated with an asterisk has been omitted and filed separately with the Securities and Exchange Commission pursuant to an application for confidential treatment under Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

b) Reports on Form 8-K

None

INDEX TO FINANCIAL STATEMENTS

	Page

Independent Auditors' Report	17
Balance Sheets at September 30, 1996 and 1995	18
Statements of Operations for the Three Years Ended September 30, 1996	19
Statements of Shareholders' Equity for the Three Years Ended September 30, 1996	20
Statements of Cash Flows for the Three Years Ended September 30, 1996	21
Notes to Financial Statements	22

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
PHOENIX GOLD INTERNATIONAL, INC.

We have audited the accompanying balance sheets of PHOENIX GOLD INTERNATIONAL, INC. as of September 30, 1996 and 1995, and the related 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 financial statements present fairly, in all material respects, the financial position of PHOENIX GOLD INTERNATIONAL, INC. as of September 30, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

Portland, Oregon
December 27, 1996

PHOENIX GOLD INTERNATIONAL, INC.
BALANCE SHEETS

	September 30,	
	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,599	\$ 2,101,563
Accounts receivable, net	5,119,360	3,825,473
Inventories	8,971,560	4,482,442
Prepaid expenses	285,777	328,047
Deferred taxes	525,428	53,614
Total current assets	14,904,724	10,791,139
Property and equipment, net	3,938,790	3,386,714
Goodwill, net	296,946	201,396
Other assets	461,734	130,000
Deferred taxes	230,333	-
Total assets	\$ 19,832,527	\$ 14,509,249
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,529,450	\$ 1,322,083
Notes payable	4,278,983	-
Accrued expenses	830,411	503,996
Income taxes payable	102,356	29,993
Current portion of long-term obligations	130,334	113,800
Total current liabilities	8,871,534	1,969,872
Long-term obligations, net of current portion	171,995	286,189
Deferred taxes	-	240,000
Shareholders' equity:		
Preferred stock;		
Authorized - 5,000,000 shares at September 30, 1996; none outstanding	-	-
Common stock, no par value;		
Authorized - 20,000,000 shares		
Issued and outstanding - 3,454,605 at September 30, 1996, 3,445,000 at September 30, 1995	7,477,939	7,432,987
Retained earnings	3,311,059	4,580,201
Total shareholders' equity	10,788,998	12,013,188
Total liabilities and shareholders' equity	\$ 19,832,527	\$ 14,509,249

See Notes to Financial Statements

PHOENIX GOLD INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS

	Year Ended September 30,		
	1996	1995	1994
Net sales	\$26,563,142	\$20,173,822	\$16,222,183
Cost of sales	20,432,478	13,039,022	10,801,630

Gross profit	6,130,664	7,134,800	5,420,553
Operating expenses:			
Selling	3,757,981	2,152,931	1,921,055
General and administrative	3,048,573	1,674,587	1,108,520
In-process research and development expenses	1,120,500	-	-
	-----	-----	-----
Total operating expenses	7,927,054	3,827,518	3,029,575
	-----	-----	-----
Income (loss) from operations	(1,796,390)	3,307,282	2,390,978
	-----	-----	-----
Other income (expense):			
Interest expense	(260,233)	(300,526)	(269,998)
Other, net	19,495	37,423	(16,040)
	-----	-----	-----
Total other expense	(240,738)	(263,103)	(286,038)
	-----	-----	-----
Earnings (loss) before taxes	(2,037,128)	3,044,179	2,104,940
Income tax expense (benefit)	(767,986)	1,162,902	801,000
	-----	-----	-----
Net earnings (loss)	\$ (1,269,142)	\$ 1,881,277	\$ 1,303,940
	=====	=====	=====
Net earnings (loss) per share	\$ (0.37)	\$ 0.67	\$ 0.57
	=====	=====	=====
Shares used in per share calculation	3,449,068	2,798,877	2,270,207
	=====	=====	=====

See Notes to Financial Statements

PHOENIX GOLD INTERNATIONAL, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY

	Series A Redeemable Nonvoting Preferred Stock		Common Stock		Retained Earnings	Total
	Shares	Amount	Shares	Amount		
Balances, September 30, 1993	2,500	\$250,000	2,180,000	\$ 200,000	\$1,294,984	\$1,744,984
Redemption of preferred stock	(2,500)	(250,000)	-	-	100,000	(150,000)
Net earnings	-	-	-	-	1,303,940	1,303,940
	-----	-----	-----	-----	-----	-----
Balances, September 30, 1994	-	-	2,180,000	200,000	2,698,924	2,898,924
Issuance of stock for initial public offering	-	-	1,265,000	7,232,987	-	7,232,987
Net earnings	-	-	-	-	1,881,277	1,881,277
	-----	-----	-----	-----	-----	-----
Balances, September 30, 1995	-	-	3,445,000	7,432,987	4,580,201	12,013,188
Issuance of common stock upon exercise of options	-	-	9,605	44,952	-	44,952
Net loss	-	-	-	-	(1,269,142)	(1,269,142)

Balance,						
September 30, 1996	-	\$	-	3,454,605	\$7,477,939	\$3,311,059 \$10,788,998

See Notes to Financial Statements

PHOENIX GOLD INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net earnings (loss)	\$ (1,269,142)	\$ 1,881,277	\$ 1,303,940
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	850,696	603,938	378,493
Loss on sale of equipment	-	4,608	-
Deferred taxes	(942,147)	68,386	33,000
In-process research and development expenses	1,120,500	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(1,293,887)	(1,363,296)	(925,196)
Inventories	(3,709,016)	(496,283)	(1,382,835)
Prepaid expenses	42,270	(83,485)	(174,370)
Other assets	(223,612)	(130,000)	-
Accounts payable	2,207,367	(136,734)	594,155
Accrued expenses	326,415	99,429	173,172
Income taxes payable	72,363	(398,485)	243,993
Net cash provided by (used in) operating activities	(2,818,193)	49,355	244,352
Cash flows from investing activities:			
Capital expenditures, net	(1,348,286)	(1,525,007)	(1,403,772)
Acquisition of Carver professional sound division	(1,792,616)	-	-
Net cash used in investing activities	(3,140,902)	(1,525,007)	(1,403,772)
Cash flows from financing activities:			
Proceeds from long-term obligations	-	2,092,563	2,097,836
Repayment of long-term obligations	(113,804)	(3,780,611)	(892,626)
Notes payable, net	3,928,983	(1,885,762)	10,714
Proceeds from notes payable to shareholders	-	37,431	100,000
Repayment of notes payable to shareholders	-	(137,431)	-
Redemption of preferred stock	-	-	(150,000)
Issuance of common stock upon exercise of options	44,952	-	-
Proceeds from initial public offering, net of expenses	-	7,232,987	-
Net cash provided by financing activities	3,860,131	3,559,177	1,165,924
Increase (decrease) in cash	(2,098,964)	2,083,525	6,504
Cash and cash equivalents, beginning of year	2,101,563	18,038	11,534
Cash and cash equivalents, end of year	\$ 2,559	\$ 2,101,563	\$ 18,038
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	\$ 215,280	\$ 320,508	\$ 261,648
Cash paid during the year for income taxes	102,000	1,493,000	524,000
Supplemental disclosure of non-cash and investing activities:			
Equipment financed by capital leases	16,145	-	589,463
Increase in retained earnings arising from redemption of Series A preferred stock	-	-	100,000
Note payable incurred for acquisition of Carver professional sound division	350,000	-	-

</TABLE>

See Notes to Financial Statements

PHOENIX GOLD INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
Three Years Ended September 30, 1996

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business. The Company designs and sells electronics and accessories for the domestic and international car audio aftermarket, the professional sound market and custom audio/video and home theater markets. The Company also designs and sells speakers for the car audio aftermarket. The Company manufactures all of its electronics and certain accessories at its facility in Portland, Oregon.

Reporting Period. The Company's fiscal year is the 52- or 53-week period ending the last Sunday in September. Fiscal years 1994 and 1995 were 52-week years and fiscal 1996 was a 53-week year. For presentation convenience, the Company has indicated in these financial statements that its fiscal years end on September 30.

Revenue Recognition. Revenue is recognized upon shipment of the product.

Cash and Cash Equivalents. The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined by the average cost method. Raw materials inventories generally consist of component parts. Finished goods and work-in-process inventories include labor and manufacturing overhead.

Property and Equipment. Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives (generally 3 to 10 years) of the related assets. Leasehold improvements and equipment under capital leases are amortized over the estimated useful lives of the assets or the terms of the lease, whichever is shorter.

Goodwill. Goodwill arising from the excess of purchase price over fair value of net assets acquired at the Company's inception is amortized using the straight-line method over a period of twenty years. Goodwill arising from the excess of purchase price over fair value of net assets acquired in the Company's acquisition of the Carver professional sound division is amortized using the straight-line method over a period of five years. The Company monitors events and changes in circumstances that could indicate that the carrying amount of goodwill may not be fully recoverable. When events and changes are present that indicate that the carrying amount of goodwill may not be fully recoverable, the Company assesses the recoverability of goodwill by determining whether the carrying value of such goodwill can be recovered through undiscounted cash flows from operations associated with the business acquired. Accumulated amortization was \$77,772 and \$50,349 as of September 30, 1996 and 1995, respectively.

Income Taxes. The Company provides for deferred income taxes based upon an asset and liability approach. Deferred taxes have been provided for differences between tax expense on the financial statements and that which is expected to be paid currently. See Note 8.

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments. Statements of Financial Accounting Standards ("SFAS") No. 107, Disclosures About Fair Value of Financial Instruments, requires disclosure of the estimated fair value of financial instruments. The carrying value of the Company's cash, accounts receivable, accounts payable, accrued expenses and notes payable approximates their estimated fair values because of the short maturities of those instruments.

Net Earnings (Loss) Per Share. Net earnings (loss) per share is computed on the basis of the weighted average number of common and common equivalent shares outstanding. When dilutive, outstanding options for common stock are included in the calculation of common and common equivalent shares outstanding using the treasury stock method. Also in accordance with the accounting rules of the Securities and Exchange Commission (SEC), shares issued or options granted within one year prior to the filing date of the registration statement for the Company's initial public offering have been included in the calculation of common and common equivalent shares as if they were outstanding for all periods presented using the treasury stock method.

Prospective Accounting Change. The Company has not elected early adoption of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123

will have no effect on the financial position or results of operations of the Company because the Company will continue to account for compensation expense for its stock-based employee compensation plans as measured using the method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. Upon adoption of SFAS No. 123 in 1997, pro forma disclosures of net earnings and earnings per share will be provided as if the method prescribed by SFAS No. 123 had been applied in measuring compensation expense.

Note 2 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	September 30, 1996	September 30, 1995
	-----	-----
Accounts receivable	\$5,394,326	\$3,875,473
Allowance for doubtful accounts	(274,966)	(50,000)
	=====	=====
Total accounts receivable	\$5,119,360	\$3,825,473
	=====	=====

Note 3 INVENTORIES

Inventories consist of the following:

	September 30, 1996	September 30, 1995
	-----	-----
Raw materials	\$4,288,206	\$1,161,666
Work-in-process	1,101,414	346,055
Finished goods	3,411,342	2,874,923
Supplies	170,598	99,798
	=====	=====
Total inventories	\$8,971,560	\$4,482,442
	=====	=====

Note 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 1996	September 30, 1995
	-----	-----
Machinery, equipment, and vehicles	\$4,144,651	\$3,043,170
Leasehold improvements	1,425,816	1,324,350
Construction in progress	193,685	55,315
	-----	-----
	5,764,152	4,422,835
Less accumulated depreciation and amortization	(1,825,362)	(1,036,121)
	-----	-----
Total property and equipment, net	\$3,938,790	\$3,386,714
	=====	=====

Note 5 NOTES PAYABLE

As of September 30, 1996, the Company had a \$6.0 million revolving bank operating line of credit. Borrowings under the line of credit are limited to 80% of eligible accounts receivable and 50% of eligible inventory, net of trade payables, and are subject to certain additional limits. Interest on the first \$4.0 million of borrowings under the line of credit equaled the bank's prime lending rate (8.25% at September 30, 1996). Interest on borrowings in excess of \$4.0 million under the line of credit equaled the bank's prime lending rate plus 0.25%. Borrowings under the line of credit are secured by substantially all of the assets of the Company. As of September 30, 1996, the Company was eligible to borrow \$5.34 million under the line of credit. Borrowings under the line of credit were \$3.93 million as of that date.

Bank Covenant Default. As of September 30, 1996, the Company was not in compliance with the cash flow coverage covenant under the line of credit. In December 1996, the bank agreed to forebear such noncompliance through March 15, 1997 and extend the termination date of the line of credit from December 31, 1996 to March 31, 1997. Effective January 1, 1997, the bank also will reduce the line of credit to \$5.5 million and increase the interest rate to the bank's prime lending rate (8.25% at December 16, 1996) plus 0.5%. There can be no assurance that the bank will extend the line of credit beyond March 31, 1997 or that the Company will be able to obtain additional or alternative financing on acceptable terms, or at all.

The Company has a \$350,000 note payable to Carver Corporation related to the acquisition of the Carver professional sound division in November 1995 bearing interest at a rate of 6% per annum that was due on November 20, 1996. In November 1996 the Company renegotiated the payment terms of the note to provide for seven monthly installments of \$50,000 each, plus accrued interest, beginning in November 1996.

Note 6 LONG-TERM DEBT

Long-term debt consists of the following:

	1996 -----	1995 -----
Equipment term note, due August 26, 1999, payable in monthly installments, including interest at 9.00%, collateralized by equipment.	\$16,145	\$ -
Less current portion	(5,332)	-
	-----	-----
Total long-term debt	\$10,813 =====	\$ - =====

Maturities on long-term debt are as follows:

September 30,

1997.....	\$ 5,334
1998.....	5,408
1999.....	5,403
Thereafter.....	-

Total.....	\$16,145

Note 7 LEASE COMMITMENTS

The Company leases its office, warehouse and manufacturing facility under a five-year operating lease agreement. Terms of the lease include an option to purchase the facility and an option to extend the length of the lease for five additional years. The Company also leases manufacturing equipment under capital lease agreements.

Minimum future rentals under capital and operating leases having initial or remaining terms of one year or more are as follows:

	Capital Leases -----	Operating Leases -----
September 30, -----		
1997.....	\$ 145,940	\$ 352,313
1998.....	141,188	367,500
1999.....	21,121	275,625
Thereafter.....	-	-
	-----	-----
Total.....	308,249	\$ 995,438 =====
Less amount representing interest....	(22,065)	

Present value of minimum lease payments	286,184	
Less current portion of capital lease obligations.....	(125,000)	

Total noncurrent portion of capital lease obligations.....	\$ 161,184 =====	

Rent expense under operating leases for the three years ended September 30, 1996, 1995 and 1994 was \$348,147, \$228,913 and \$200,292, respectively.

Income tax expense (benefit):

	Year Ended September 30,		
	1996	1995	1994
Current:			
Federal	\$ 155,831	\$ 906,000	\$ 631,000
State	18,330	188,516	137,000
Total current	174,161	1,094,516	768,000
Deferred:			
Federal	(842,974)	61,000	29,000
State	(99,173)	7,386	4,000
Total deferred	(942,147)	68,386	33,000
Total	\$ (767,986)	\$ 1,162,902	\$ 801,000
	=====	=====	=====

Effective income tax rates are as follows:

	Year Ended September 30,					
	1996		1995		1994	
	Amount	Rate	Amount	Rate	Amount	Rate
Taxes at statutory federal income tax rate	\$ (692,000)	(34.0%)	\$ 1,035,000	34.0%	\$ 716,000	34.0%
State taxes, net of federal benefit	(90,000)	(4.4)	134,000	4.4	92,000	4.4
Other, net	14,014	.7	(6,098)	(.2)	(7,000)	(0.4)
Total	\$ (767,986)	(37.7%)	\$ 1,162,902	38.2%	\$ 801,000	38.0%
	=====	=====	=====	=====	=====	=====

The tax effects of temporary differences which give rise to deferred tax assets and deferred tax liabilities are as follows:

	September 30,	
	1996	1995
Deferred tax liabilities:		
Depreciation	\$ (182,000)	\$ (163,000)
Goodwill and other intangible assets	-	(77,000)
Total deferred tax liabilities	(182,000)	(240,000)
Deferred tax assets:		
Accrued expenses	350,000	44,000
Goodwill and other assets	412,333	-
Other	175,428	9,614
Total deferred tax assets	937,761	53,614
Net deferred taxes	\$ 755,761	\$ (186,386)
Current deferred tax asset	\$ 525,428	\$ 53,614
Long-term deferred tax asset	230,333	-
Long-term deferred tax liability	-	(240,000)
Net deferred taxes	\$ 755,761	\$ (186,386)
	=====	=====

Note 9 STOCK OPTION PLAN

The Company's Board of Directors and shareholders adopted and approved a stock option plan (the "Stock Option Plan") on January 27, 1995. Under the Stock Option Plan, the Board of Directors may grant incentive and nonqualified options to employees, directors and consultants to purchase up to 315,000 shares

of common stock. The Stock Option Plan was amended on July 16, 1996 by the Company's Board of Directors, subject to shareholder approval, to reserve an additional 200,000 shares for issuance.

In general, options to purchase common stock shall not be granted at less than the fair market value at the date of grant. The exercise price for options granted to employees possessing more than 10 percent of the total combined voting power of all classes of stock of the Company must be at least 110 percent of the fair market value at the date of grant. The Stock Option Plan expires in 2005. The Stock Option Plan can also be terminated by the Board of Directors at any time without shareholder approval with respect to shares of common stock not subject to outstanding options. Options generally become exercisable ratably over a four or five year period and expire five to ten years after the date of grant. Options to purchase a total of 209,530 shares of common stock remained available for grant as of September 30, 1996 under the Stock Option Plan.

The following table summarizes information relating to shares under option and shares available for grant under the Stock Option Plan.

	Number of Shares	Option Price Per Share
	-----	-----
Outstanding at September 30, 1994	-	-
Granted	297,675	\$ 4.69 - 8.22
Exercised	-	-
Canceled	-	-
	-----	-----
Outstanding at September 30, 1995	297,675	4.68 - 8.22
Granted	10,295	8.75 - 11.75
Exercised	(9,605)	4.68
Canceled	(2,500)	8.22
	-----	-----
Outstanding at September 30, 1996	295,865	\$ 4.68 - 11.75
	=====	=====

There were 161,764 options exercisable at September 30, 1996 at exercise prices ranging from \$4.68 to \$11.75.

At September 30, 1996, there were outstanding warrants to purchase up to 110,000 shares of Common Stock at \$8.10 per share. Such warrants became exercisable on May 4, 1996 and expire on May 3, 2000.

Note 10 INTERNATIONAL AND DOMESTIC SALES

The Company operates in a single industry segment: the manufacturing and sales of electronics, accessories and speaker products for use in car and professional sound audio and custom home audio and video applications. Net sales by geographic region are as follows:

	Year Ended September 30,		
	1996	1995	1994
	-----	-----	-----
United States	\$16,161,385	\$11,985,542	\$10,374,586
International:			
Europe	5,578,371	3,899,981	2,474,623
Asia	2,054,498	1,625,771	1,347,226
Other	2,768,888	2,662,528	2,025,748
	-----	-----	-----
Total international	10,401,757	8,188,280	5,847,597
	-----	-----	-----
Total	\$26,563,142	\$20,173,822	\$16,222,183
	=====	=====	=====

Note 11 ACQUISITION

Effective November 20, 1995, the Company acquired substantially all of the assets of the professional sound division of Carver Corporation. The purchase price for the assets was \$2.14 million, of which the Company paid \$1.79 million in cash and issued a \$350,000 note payable due on November 20, 1996. The Company accounted for the acquisition under the purchase method of accounting and recorded in-process research and development expenses of \$1.12 million, finished goods of \$780,000, other intangibles of \$110,000 and goodwill of \$132,000.

The following unaudited pro forma combined results of operations accounts for the acquisition as if it had occurred at the beginning of fiscal

1995 or at the beginning of fiscal 1996. The pro forma results give effect to cost of goods sold, amortization of goodwill and the effects on interest expense, interest income and taxes. However, a one-time, nonrecurring, pretax charge of \$1.12 million relating to the purchase price allocated to in-process research and development expenses has not been included in the following pro forma results.

	Year Ended September 30,	
	1996	1995
	-----	-----
Net sales	\$26,991,519	\$26,590,822
Net earnings (loss)	\$ (657,791)	\$ 1,283,952
Earnings (loss) per share	\$ (0.19)	\$ 0.46

The pro forma statements may not be indicative of the results that would have occurred if the acquisition had been effective on the date indicated, or the results that may be obtained in the future.

Note 12 MAJOR CUSTOMERS AND SALES CONCENTRATION RISK

No customer accounted for 10% or more of the Company's net sales during fiscal 1996, 1995 or 1994. As of September 30, 1996, two customers accounted for approximately 12.1% and 10.4%, respectively, of total accounts receivable.

SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHOENIX GOLD INTERNATIONAL, INC.

By: /s/ Keith A. Peterson

 Keith A. Peterson
 Chairman, President, Chief Executive
 Officer and Director

Date: December 30, 1996

In accordance with the Exchange Act, this report has been signed below by the following persons and in the capacities and on the dates indicated.

Signature	Capacities	Date
-----	-----	----
/s/ Keith A. Peterson ----- Keith A. Peterson	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	December 30, 1996
/s/ Timothy G. Johnson ----- Timothy G. Johnson	Executive Vice President, Chief Operating Officer, Secretary and Director	December 30, 1996
/s/ David D. Bills ----- David D. Bills	Vice President - Finance (Principal Financial and Accounting Officer)	December 30, 1996
/s/ Frank G. Magdlen ----- Frank G. Magdlen	Director	December 30, 1996
/s/ Matthew W. Chapman ----- Matthew W. Chapman	Director	December 30, 1996

EXHIBIT INDEX

Articles of Incorporation and Bylaws

- 3(i) - 1995 Restated Articles of Incorporation and Articles of Amendment (Incorporated by reference to Exhibit 3(i) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 3(i)(a) - Articles of Amendment filed April 7, 1995 (Incorporated by reference to Exhibit 3(i)(a) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 3(ii) - Restated Bylaws (Incorporated by reference to Exhibit 3(ii) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))

Instruments Defining Rights of Security Holders

- 4 - See Articles 2, 5 and 6 of Exhibit 3(i) and Article 6 of Exhibit 3(ii)

Material Contracts

- *10.1 - Amended and Restated 1995 Stock Option Plan dated January 27, 1995, as amended July 16, 1996 and December 23, 1996
- *10.1 - Form of Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.1(a) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- *10.2 - Form of Nonstatutory Stock Option Agreement (Incorporated by reference to Exhibit 10.1(b) to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 10.3 - Lease Agreement between the Company and BB&S Development Company dated February 2, 1994 (Incorporated by reference to Exhibit 10.2 to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 10.4 - Amendment dated January 12, 1996 to Lease Agreement between the Company and BB&S Development Company dated February 2, 1994 (Incorporated by reference to Exhibit 10.1 to Form 10-QSB filed with the Securities and Exchange Commission for the quarterly period ended December 31, 1995)
- 10.5 - Asset Purchase Agreement between the Company and Carver Corporation dated as of November 20, 1995 (Incorporated by reference to Exhibit 2.1 to Form 8-K filed with the Securities and Exchange Commission on December 1, 1995)
- 10.6 - Amendment No. 1 to Asset Purchase Agreement between the Company and Carver Corporation dated as of November 20, 1995 (Incorporated by reference to Exhibit 2.2 to Form 8-K filed with the Securities and Exchange Commission on December 1, 1995)
- 10.7 - License Agreement between the Company and Carver Corporation dated as of November 20, 1995 (Incorporated by reference to Exhibit 2.3 to Form 8-K filed with the Securities and Exchange Commission on December 1, 1995)
- 10.8 - License Agreement dated September 30, 1993 between the Company and Intersonics Technology Corporation, and amendments (Incorporated by reference to Exhibit 10.2 to Form 10-QSB/A (Amendment No. 1) filed with the Securities and Exchange Commission for the quarterly period ended December 31, 1995)**
- 10.9 - Forbearance letter between the Company and United States National Bank of Oregon ("USNB") dated December 27, 1996
- 10.10 - Commitment letter between the Company and United States National Bank of Oregon ("USNB") dated December 27, 1996
- 10.11 - Commercial Security Agreement between the Company and USNB dated as of January 1, 1997.

- 10.12 - Promissory Note dated January 1, 1997 made by the Company in favor of USNB
- 10.13 - Form of Indemnity Agreement (Incorporated by reference to Exhibit 10.6 to Registration Statement on Form SB-2 effective May 3, 1995 (Registration No. 93-90588))
- 23.1 - Consent of Deloitte & Touche LLP, Independent Auditors
- 27 - Financial Data Schedule

* Management contract or compensatory plan or arrangement.

** Certain material contained in this exhibit and indicated with an asterisk has been omitted and filed separately with the Securities and Exchange Commission pursuant to an application for confidential treatment under Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

PHOENIX GOLD INTERNATIONAL, INC.
(formerly, JISHUDOKURITSU, INC.)
AMENDED AND RESTATED 1995 STOCK OPTION PLAN

I. PURPOSE

The purpose of the Plan is to provide a means by which selected Employees, Nonemployee Directors and Consultants may be given an opportunity to acquire stock of the Company. The Company, by means of the Plan, seeks to retain the services of persons who are currently Employees, Nonemployee Directors or Consultants, to secure and retain the services of new Employees, Nonemployee Directors and Consultants, and to provide incentives for such persons to exert maximum efforts for the success of the Company. Accordingly, the Plan provides for granting Incentive Stock Options, Nonstatutory Stock Options and Restricted Stock Awards, or any combination of the foregoing, as is best suited to the circumstances of the particular person as provided herein.

II. DEFINITIONS

The following definitions shall be applicable throughout the Plan unless specifically modified by any paragraph:

- a. "1934 Act" means the Securities Exchange Act of 1934, as amended and in effect from time to time, or any successor statute.
- b. "Award" means, individually or collectively, any Option, Restricted Stock Award or Nonemployee Director Option.
- c. "Board" means the Board of Directors of the Company.
- d. "Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time, or any successor statute. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to any such section.
- e. "Committee" means not less than two members of the Board who are selected by the Board as provided in Paragraph A of Article IV.
- f. "Common Stock" means the Common Stock, without par value, of the Company.
- g. "Company" means Phoenix Gold International, Inc., an Oregon corporation.
- h. "Consultant" means any person, including an adviser, engaged by the Company to render services and who does not render such services as an Employee or Nonemployee Director.

i. "Director" means an individual elected to the Board by the shareholders of the Company or by the Board under applicable corporate law who is serving on the Board on the date the Plan is adopted by the Board or is elected to the Board after such date.

j. "Disability" means the condition of being permanently "disabled" within the meaning of Section 22(e)(3) of the Code, namely being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

k. "Employee" means any person (including a Director) in an employment relationship with the Company.

l. "Fair Market Value" means, as of any specified date, the reported closing sale price of the Common Stock on the composite tape on that date, or if no such price is reported on that date, on the last preceding date on which such price of the Common Stock is so reported. If the Common Stock is traded over the counter at the time a determination of its fair market value is required to be made hereunder, its fair market value shall be deemed to be equal to the closing sale price of Common Stock on that date, or if no such price is reported on that date, on the last preceding date on which such price of Common Stock is so reported. In the event Common Stock is not publicly traded at the time a determination of its value is required to be made hereunder, the determination of its fair market value shall be made by the Committee in such manner as it deems appropriate.

m. "Holder" means an Employee, Consultant or a Nonemployee Director who has been granted an Award.

n. "Incentive Stock Option" means an incentive stock option within the meaning of Section 422 of the Code.

o. "Nonemployee Director" means a Nonemployee Director as defined in Rule 16b-3, as such Rule may be amended from time to time.

p. "Nonemployee Director Option" means an Award described in Article IX of the Plan.

q. "Nonemployee Director Option Agreement" means a written agreement between the Company and a Holder with respect to a Nonemployee Director Option.

r. "Nonstatutory Stock Option" means a stock option other than an Incentive Stock Option.

s. "Option" means an Award described in Article VII of the Plan.

t. "Option Agreement" means a written agreement between the Company and a Holder with respect to an Option.

u. "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

v. "Plan" means the Amended and Restated 1995 Stock Option Plan of the Company, as set forth herein and as may be hereafter amended from time to time.

w. "Restricted Stock Agreement" means a written agreement between the Company and a Holder with respect to a Restricted Stock Award.

x. "Restricted Stock Award" means an Award described in Article VIII of the Plan.

y. "Rule 16b-3" means Rule 16b-3 promulgated by the Securities and Exchange Commission under the 1934 Act, as such may be amended from time to time, and any successor rule, regulation or statute fulfilling the same or similar function.

z. "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code; namely, any corporation in which the Company directly or indirectly controls 50 percent or more of the total combined voting power of all classes of stock having voting power.

III. EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan shall be effective as of January 27, 1995, the date of its adoption by the Board and the shareholders of the Company. No further Awards may be granted under the Plan after January 26, 2005. The Plan shall remain in effect until all Awards granted under the Plan have been satisfied or expired.

IV. ADMINISTRATION

A. Composition of Committee. The Plan shall be administered by a committee which shall (i) be appointed by the Board and (ii) consist of Nonemployee Directors.

B. Authority of the Committee. Subject to the provisions of the Plan, the Committee shall have sole authority, in its discretion, to determine (i) which Employees, Nonemployee Directors and Consultants shall receive Awards, (ii) the time or times when Awards shall be granted, (iii) the type or types of Awards to be granted, and (iv) the number of shares of Common Stock which may be issued under each Award. In making such determinations the Committee may take into account the nature of the services rendered by the respective individuals, their present and potential contribution to the success of the Company, and such other factors as the Committee in its discretion shall deem relevant. The Committee shall also have such additional powers as are delegated to it by the Plan. Subject to the express provisions of the Plan, the Committee is authorized to construe the Plan and the respective agreements executed thereunder, to prescribe such rules and regulations relating to the Plan as it may deem

advisable to carry out the Plan, and to determine the terms, restrictions and provisions of each Award, including such terms, restrictions and provisions as shall be requisite in the judgment of the Committee to cause designated Options to qualify as Incentive Stock Options, and to make all other determinations necessary or advisable for administering the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in any agreement relating to an Award in the manner and to the extent it shall deem expedient to carry it into effect. The determinations of the Committee on the matters referred to in this Article IV shall be conclusive.

C. Liability of Committee Members. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

D. Costs of Plan. The costs and expenses of administering the Plan shall be borne by the Company.

V. ELIGIBILITY

Employees, Nonemployee Directors and Consultants are eligible to receive Options and Restricted Stock Awards; provided, however, only Employees are eligible to receive Incentive Stock Options. Only Nonemployee Directors are eligible to receive Nonemployee Director Options. Any Award may be granted on more than one occasion to the same person, and may include an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, or any combination thereof. No employee may be granted options or Restated Stock Awards under the Plan for more than an aggregate of 100,000 shares of Common Stock in connection with the hiring of the employee or 50,000 shares of Common Stock in any calendar year otherwise.

VI. SHARES SUBJECT TO THE PLAN

A. Aggregate Number of Shares. Subject to Article X, the aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 515,000 shares, after giving effect to a 109-to-one stock split declared by the Board on January 27, 1995. Shares shall be deemed to have been issued under the Plan only (i) to the extent actually issued and delivered pursuant to an Award, or (ii) to the extent an Award is settled in cash. To the extent that an Award lapses or the rights of its Holder terminate, any shares of Common Stock subject to such Award shall again be available for the grant of an Award.

B. Stock Offered. The stock to be offered pursuant to the grant of any Award may be authorized but unissued Common Stock or Common Stock previously issued and outstanding and reacquired by the Company.

VII. OPTIONS

A. Option Period. The term of each Option shall be as specified by the Committee at the date of grant, except that no Incentive Stock Option shall be

exercisable after the expiration of ten years from the date of grant of such Incentive Stock Option.

B. Limitations on Exercise of Option. An Option shall be exercisable in whole or in such installments and at such times as determined by the Committee.

C. Special Limitations on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined at the time the respective Incentive Stock Option is granted) of Common Stock with respect to which Incentive Stock Options granted are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company exceeds \$100,000, such Incentive Stock Options shall be treated as options which do not constitute Incentive Stock Options. The Committee shall determine, in accordance with applicable provisions of the Code, Treasury Regulations and other administrative pronouncements, which of a Holder's Options will not constitute Incentive Stock Options because of such limitation and shall notify the Holder of such determination as soon as practicable after such determination. No Incentive Stock Option shall be granted to an individual if, at the time the Option is granted, such individual owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company, unless (i) at the time such Option is granted the exercise price is at least 110 percent of the Fair Market Value of the Common Stock subject to the Option and (ii) such Option by its terms is not exercisable after the expiration of five years from the date of grant.

D. Separate Stock Certificates. Separate stock certificates shall be issued by the Company for those shares acquired pursuant to the exercise of an Incentive Stock Option and for those shares acquired pursuant to the exercise of a Nonstatutory Stock Option.

E. Option Agreement. Each Option shall be evidenced by an Option Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, without limitation, provisions to qualify an Incentive Stock Option under Section 422 of the Code. An Option Agreement may provide for the payment of the exercise price, in whole or in part, by the delivery of a number of shares of Common Stock (plus cash if necessary) having a Fair Market Value (as of the exercise date of the Option) equal to such exercise price. Moreover, an Option Agreement may provide for a "cashless exercise" of the Option by establishing procedures whereby the Holder, by a properly executed written notice, directs (i) an immediate market sale or margin loan respecting all or a part of the shares of Common Stock to which the Holder is entitled upon exercise of the Option, (ii) the delivery of the shares of Common Stock from the Company directly to a brokerage firm and (iii) the delivery of the exercise price from sale or margin loan proceeds from the brokerage firm directly to the Company. Such Option Agreement may also include, without limitation, provisions relating to (a) vesting of Options, (b) tax matters (including provisions covering any applicable employee wage withholding requirements), and (c) any other matters not inconsistent with the terms and provisions of this Plan that the Committee shall in its sole

discretion determine. The terms and conditions of the respective Option Agreements need not be identical.

F. Exercise Price and Payment. The price at which a share of Common Stock may be purchased upon exercise of an Option shall be determined by the Committee, but such exercise price (i) shall not be less than the Fair Market Value of a share of Common Stock on the date such Option is granted if the Option is an Incentive Stock Option and (ii) shall be subject to adjustment as provided in Article X. An Option or portion thereof may be exercised by delivery of an irrevocable notice of exercise to the Company. The exercise price of an Option or portion thereof shall be paid in full in the manner prescribed by the Committee.

G. Termination of Employment or Service.

1. In the event the employment or service of a Holder of an Option by the Company terminates for any reason other than because of Disability or death, such Option may be exercised at any time prior to the expiration date of the Option or the expiration of three months after the date of such termination, whichever is the shorter period, but only if and to the extent the Holder was entitled to exercise the Option at the date of such termination.

2. In the event the employment or service of a Holder of an Option by the Company terminates because of Disability, such Option may be exercised at any time prior to the expiration date of the Option or the expiration of one year after the date of such termination, whichever is the shorter period, but only if and to the extent the Holder was entitled to exercise the Option at the date of such termination.

3. In the event of the death of a Holder of an Option while employed by or providing service to the Company, such Option may be exercised at any time prior to the expiration date of the Option or the expiration of one year after the date of such death, whichever is the shorter period, but only if and to the extent the Holder was entitled to exercise the Option on the date of death, and only by the person or persons to whom such Holder's rights under the Option shall pass by the Holder's will or by the laws of descent and distribution of the state or country of domicile at the time of death.

4. The Committee, at the time of grant or at any time thereafter, may extend the three-month and one-year expiration periods any length of time not later than the original expiration date of the Option, and may increase the portion of the Option that is exercisable, subject to such terms and conditions as the Committee may determine.

5. To the extent that the Option of any deceased Holder or of any Holder whose employment or service terminates is not exercised within the applicable period, all further rights to purchase Common Stock pursuant to

such Option shall cease and terminate.

H. Rights As a Shareholder. The Holder of an Option under the Plan shall have no rights as a shareholder with respect to the Common Stock subject to such Option until the date of issue to the Holder of a stock certificate for such shares. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date occurs prior to the date such stock certificate is issued.

I. Options in Substitution for Stock Options Granted by Other Corporations. Options may be granted under the Plan from time to time in substitution for stock options held by individuals employed by corporations who become Employees as a result of a merger or consolidation of the employing corporation with the Company, or the acquisition by the Company of the assets of the employing corporation, or the acquisition by the Company of stock of the employing corporation with the result that such employing corporation becomes a Subsidiary.

VIII. RESTRICTED STOCK AWARDS

A. Restriction Period. At the time a Restricted Stock Award is granted, the Committee shall establish a period of time (the "Restriction Period") applicable to such Award. Each Restricted Stock Award may have a different Restriction Period, in the discretion of the Committee. The Restriction Period applicable to a particular Restricted Stock Award shall not be changed except as permitted by Paragraph B of this Article VIII or Article X.

B. Other Terms and Conditions. Common Stock awarded pursuant to a Restricted Stock Award shall be represented by a stock certificate registered in the name of the Holder of such Restricted Stock Award. The Holder shall have the right to receive dividends during the Restriction Period, to vote Common Stock subject thereto and to enjoy all other shareholder rights, except that (i) the Holder shall not be entitled to delivery of the stock certificate until the Restriction Period shall have expired, (ii) the Company shall retain custody of the stock certificate during the Restriction Period, (iii) the Holder may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the stock during the Restriction Period, and (iv) a breach of the terms and conditions established by the Committee pursuant to the Restricted Stock Agreement shall cause a forfeiture of the Restricted Stock Award. Stock dividends issued with respect to Common Stock awarded pursuant to a Restricted Stock Award shall be treated as additional Common Stock covered by the Restricted Stock Award. At the time of such Award, the Committee may, in its sole discretion, prescribe additional terms, conditions or restrictions relating to Restricted Stock Awards, including, but not limited to, rules pertaining to the termination of employment or service (by retirement, Disability, death or otherwise) of a Holder prior to expiration of the Restriction Period. Such additional terms, conditions or restrictions shall be set forth in a Restricted Stock Agreement made in conjunction with the Award. Such Restricted Stock Agreement may also include, without limitation, provisions relating to (i) vesting of Awards, (ii)

tax matters (including provisions (x) covering any applicable employee wage withholding requirements and (y) prohibiting an election by the Holder under Section 83(b) of the Code), and (iii) any other matters not inconsistent with the terms and provisions of this Plan that the Committee shall in its sole discretion determine.

C. Exercise Price and Payment. The Committee shall determine the amount and form of any payment for Common Stock received pursuant to a Restricted Stock Award, provided that in the absence of such a determination, a Holder shall not be required to make any payment for Common Stock received pursuant to a Restricted Stock Award, except to the extent otherwise required by law.

D. Restricted Stock Agreement. At the time any Award is granted under this Article VIII, the Company and the Holder shall enter into a Restricted Stock Agreement setting forth each of the matters contemplated hereby and such other matters as the Committee may determine to be appropriate. The terms and provisions of the respective Restricted Stock Agreements need not be identical.

IX. NONEMPLOYEE DIRECTOR OPTIONS

A. Exercise Price. The price at which a share of Common Stock may be purchased upon exercise of a Nonemployee Director Option shall be the Fair Market Value of a share of Common Stock on the date such Nonemployee Director Option is granted.

B. Term and Limitations on Exercise. Each Nonemployee Director Option shall be a Nonstatutory Stock Option and shall have a five-year term from the date of grant, unless earlier terminated as provided in Paragraph G of Article VII or Article X. Each Nonemployee Director Option shall become exercisable at the rate of one-third per year on each of the first three anniversaries of the date of grant, subject to earlier exercise pursuant to Article X. If a Holder ceases to be a Director for any reason, including death or Disability, the exercise of the Option shall be subject to Paragraph G of Article VII.

C. General Rules. Nonemployee Director Options shall be governed by the provisions of Article VII to the extent such provisions are not inconsistent with this Article IX. Each Nonemployee Director Option shall be evidenced by a Nonemployee Director Option Agreement.

D. Automatic Grants. Immediately after the close of each shareholder meeting at which a Nonemployee Director is first elected to the Board, such Nonemployee Director shall automatically be granted a Nonemployee Director Option to purchase 5,775 shares of Common Stock. Immediately after the close of each shareholder meeting thereafter at which such Nonemployee Director is re-elected to the Board, such Nonemployee Director shall automatically be granted a Nonemployee Director Option to purchase 1,400 shares of Common Stock. Notwithstanding the foregoing, no Nonemployee Director shall be granted Nonemployee Director Options covering, in the aggregate, more than 8,575 shares

X. CHANGES IN CAPITAL STRUCTURE

A. If the outstanding Common Stock is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any reorganization, merger, consolidation, plan of exchange, recapitalization, reclassification, stock split-up, combination of shares or dividend payable in shares, appropriate adjustment shall be made by the Committee in the number and kind of shares available for Awards. In addition, the Committee shall make appropriate adjustment in the number and kind of shares as to which outstanding Options, or portions thereof then unexercised, shall be exercisable, the option price of outstanding Options and any and all other matters deemed appropriate by the Committee, so that the Holder's proportionate interest and economic value before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Committee shall have no obligation to effect any adjustment that would or might result in the issuance of fractional shares, and any fractional shares resulting from any adjustment may be disregarded or provided for in any manner determined by the Committee. Any such adjustments made by the Committee shall be conclusive. Any adjustment provided for in this Paragraph A of Article X shall be subject to any required shareholder action. In the event of dissolution of the Company or a merger, consolidation or plan of exchange affecting the Company, in lieu of providing for Options as provided above in this Paragraph A of Article X or in lieu of having the Options continue unchanged, the Committee may, in its sole discretion, provide a 30-day period prior to such event during which Holders shall have the right to exercise Options in whole or in part without any limitation on exercisability and upon the expiration of which 30-day period all unexercised Options shall immediately terminate.

B. The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company, or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

C. Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to Awards theretofore granted or the exercise

price per share, if applicable.

XI. AMENDMENT AND TERMINATION OF THE PLAN

The Board in its discretion may terminate the Plan at any time with respect to any shares for which Awards have not theretofore been granted. The Board shall have the right to alter or amend the Plan or any part thereof from time to time; provided, that no change in any Award theretofore granted may be made which would impair the rights of the Holder without the consent of the Holder; provided further, that the provisions of Article IX shall not be amended more than once during any period of six calendar months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder; and provided further, that the Board may not, without approval of the shareholders, amend the Plan:

- (a) to increase the maximum number of shares which may be issued on grant or exercise of an Award, except as provided in Article X;
- (b) to change the price at which an Award may be granted or exercised, except as provided in Article X;
- (c) to change the class of individuals eligible to receive Awards; or
- (d) to extend the maximum period during which Awards may be granted under the Plan.

XII. MISCELLANEOUS

A. No Right To An Award. Neither the adoption of the Plan by the Company nor any action of the Board or the Committee shall be deemed to give an Employee, a Consultant or a Nonemployee Director any right to be granted an Award or any of the rights hereunder except as may be evidenced by an Award or by an Option Agreement, Restricted Stock Agreement or Nonemployee Director Option Agreement duly executed on behalf of the Company, and then only to the extent and on the terms and conditions expressly set forth therein.

B. No Employment Rights Conferred. Nothing in the Plan shall (i) confer upon any Employee any right with respect to continuation of employment with the Company or (ii) interfere in any way with the right of the Company to terminate the Employee's employment (or service as a Director, in accordance with applicable corporate law, or service as a Consultant) at any time for any reason, with or without cause.

C. Other Laws; Withholding. The Company shall not be obligated to issue any Common Stock pursuant to any Award granted under the Plan at any time when the shares covered by such Award have not been registered under the Securities Act of 1933, as amended, and such other state and federal laws, rules or regulations as the Company or the Committee deems applicable and, in the opinion of legal counsel for the Company, there is no exemption from the registration

requirements of such laws, rules or regulations available for the issuance and sale of such shares. No fractional shares of Common Stock shall be delivered, nor shall any cash in lieu of fractional shares be paid. The Company shall have the right to deduct in connection with all Awards any taxes required by law to be withheld and to require any payments required to enable it to satisfy its withholding obligations.

D. No Restriction on Corporate Action. Nothing contained in the Plan shall be construed to prevent the Company from taking any corporate action which is deemed by the Company to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award granted under the Plan. No Employee, Consultant, Director, beneficiary or other person shall have any claim against the Company as a result of any such action.

E. Restrictions on Transfer. An Award shall not be transferable otherwise than by will or the laws of descent and distribution; provided, however, that with the consent of the Committee, Nonstatutory Stock Options may be assigned or transferred pursuant to a qualified domestic relations order (a "QDRO") as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder. An Award may be exercisable during the lifetime of the Holder only by such Holder, the Holder's guardian or legal representative or the Holder's permitted assignee or transferee under a QDRO.

F. Governing Law. To the extent that federal laws (such as the Code and the federal securities laws) do not otherwise control, the Plan shall be construed in accordance with the laws of the state of Oregon.

H. Headings. Headings contained in the Plan are for reference purposes and shall not affect the meaning or interpretation of the Plan.

U.S. Bank
 Daniel A. Rice
 Vice President
 Oregon Corporate Banking

111 S.W. Fifth Avenue, Suite 400
 Post Office Box 4412
 Portland, OR 97204
 503-275-5175

December 27, 1996

Mr. David Bills
 Vice President - Finance
 Phoenix Gold International, Inc.
 9300 North Decatur
 Portland, OR 97203

Re: Account 4503617482

Dear David:

Reference is made to the indebtedness owed by Phoenix Gold International, Inc. to U.S. National Bank of Oregon, as outlined below:

Obligation Number -----	Principal Balance -----	Principal Owing -----	Interest Owing -----	Maturity Date -----
166	\$ 601,997.26	On Demand	\$ 3,694.38	2/28/97
174	\$ 50,100.00	On Demand	\$ -0-	5/31/97
208	\$3,300,000.00	On Demand	\$19,891.67	2/28/97
224	\$ 127,345.35	On Demand	\$ 1,529.60	2/28/97

This letter supersedes our letter of December 5, 1996 and is to inform you that Phoenix Gold International, Inc. is in default with its Loan Agreement dated October 2, 1995, which was subsequently amended by the Loan Agreements dated May 29, 1996 and December 27, 1996. Specifically, as of September 30, 1996, Phoenix Gold failed to maintain a cash flow cover ratio of 1.20 to 1.00 or greater. The actual covenant calculation was -0.20 to 1.00. We recognize that the one-time charges related to the Carver Professional acquisition and receivable/inventory reserve significantly impacted the calculation and if excluded from the calculation would have resulted in a cash flow cover ratio of 1.07 to 1.00.

We are in receipt of a draft operating plan for fiscal year 1997 which indicates that Phoenix Gold will return to compliance with the cash flow cover covenant by September 30, 1997. U.S. Bank will grant temporary forbearance of the event of default as set forth in the Loan Agreement dated October 2, 1995. This forbearance will continue through March 15, 1997. Decisions regarding any further forbearance beyond March 15, 1997 will be made by Bank in the exercise of its sole discretion. Bank shall have no duty to extend the existing credit facilities or make any other or future loans of any kind or nature in any amount.

Phoenix Gold International, Inc.
Forbearance Letter
December 27, 1996

The actions requested herein are in addition to any remedies the Bank may have under any of its loan documents. No action taken or not taken at this time acts as a waiver of any rights the Bank may presently have under the loan documents, including acceleration of the entire outstanding balance. Please sign and return the acknowledgment copy of this letter by December 31, 1996. If you have any questions you may contact me at 275-5175.

Sincerely,

/s/ Brian A. Oliver, Vice President
for Daniel A. Rice, Vice President

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY LENDERS AFTER OCTOBER 3, 1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDER TO BE ENFORCEABLE.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

In consideration of the above Forebearance, Phoenix Gold International, Inc. ("PGII") hereby unconditionally releases United States National Bank of Oregon ("USBO"), its officers, agents, employees, attorneys, directors, subsidiaries, and affiliates from all liability of whatever nature known or unknown in any way related to the handling and administration by USBO of PGII's past and current banking and credit transactions with USBO, including but not limited to PGII's revolving line of credit. This release includes a complete release of any and all claims under any and all federal and state laws and regulations. PGII hereby acknowledges and agrees that USBO shall have no obligation to extend any other or future loans of any kind or nature in any amount to it, nor to alter, revise, amend, or extend the maturity or other terms of the obligations described on page one above.

PGII reaffirms the terms, obligations, representations, and warranties set forth in PGII's security agreements, notes, and all other loan documentation delivered to USBO and acknowledges that such loan documentation remains in full force and effect and is and shall remain valid and enforceable in accordance with its terms, subject to no defenses, setoffs, counterclaims or recoupments whatsoever.

BORROWER:

By: /s/ Timothy G. Johnson
Title: Executive Vice President
Date: December 27, 1996

U.S. Bank
Daniel A. Rice
Vice President
Oregon Corporate Banking

111 S.W. Fifth Avenue, Suite 400
Post Office Box 4412
Portland, OR 97204
503-275-5175

December 27, 1996

Mr. David Bills
Vice President - Finance
Phoenix Gold International, Inc.
9300 North Decatur
Portland, OR 97203

This letter sets forth the terms and conditions of your credit facility with United States National Bank of Oregon and supersedes our letter of December 9, 1996.

Borrower: Phoenix Gold International, Inc.

Guarantor(s): None.

REVOLVING LINE OF CREDIT:

Maximum Loan Amount: \$5,500,000.

Purpose: Operating funds.

Interest Rate: Fully floating variable interest rate equal to U.S. Bank's prime rate plus 0.50%. All interest shall be computed on the basis of a 360-day year and the actual number of days elapsed.

Maturity Date: Payable on demand.

Review Date: March 31, 1997.

Repayment: Optional advance note with principal and

interest payable on demand. Interest payable monthly in absence of demand.

Loan Fee:

Non-refundable upfront annual loan fee of 1/4th of 1% prorated to \$1,145.83 due upon acceptance of this commitment for the extension to March 31, 1997.

Page 2

Phoenix Gold International, Inc.
December 27, 1996

Collateral:

Perfected first priority security interest in all of Borrower's now owned and hereafter acquired accounts receivable, inventory and equipment.

Costs:

Borrower shall be responsible for all of the Banks costs, expenses, fees, including attorneys fees, associated with the negotiation and documentation of these credit facilities.

LETTERS OF CREDIT:

Maximum Loan Amount:

\$500,000. Issued letters of credit reduce both the credit and collateral availability under the revolving line of credit.

Purpose:

Issuance of stand-by, commercial, or import letters of credit.

Review Date:

March 31, 1997.

Maturity Date:

June 30, 1997.

Repayment:

Vary depending upon type of letter of credit issued.

Pricing:

Standard issuance fees, which vary depending upon type of letter of credit issued.

Collateral:

Cross-collateralized to revolving line of credit.

FINANCIAL REPORTING

1. Annual CPA audited financial statement to be provided within 90 days of the end of each fiscal year.
2. Monthly company prepared financial statements to be provided within 30 days of the end of each month.
3. Quarterly compliance certificate to be provided within 30 days of the end of each quarter.

Page 3

Phoenix Gold International, Inc.

December 27, 1996

FINANCIAL COVENANTS

As long as indebted to Bank, Borrower is to be in compliance with the following financial benchmarks, as described below:

- Current Ratio: Maintain a ratio of Current Assets to Current Liabilities equal to or greater than 1.50:1. Current Ratio is defined as Current Assets divided by Current Liabilities.
- Tangible Net Worth: Maintain a Tangible Net Worth in excess of \$10,000,000. Tangible Net Worth is defined as Net Worth minus any intangible assets.
- Debt-to-Worth Ratio: Debt-to-Worth Ratio not to exceed 1.00:1. Debt-to-Worth Ratio is defined as total liabilities divided by net worth minus any intangible assets.
- Cash Flow Cover: Cash Flow Cover in excess of 1.20:1. Cash Flow Cover is defined as (net profit after tax plus non cash items such as depreciation and amortization) divided by (the required term debt payments plus cash funded fixed asset purchases plus dividends/withdrawals).

All computations made to determine compliance with the covenant requirements shall be made in accordance with generally accepted accounting principals, applied on a consistent basis and certified by Borrower as being true and correct on a quarterly basis (except the cash flow cover which is tested on an annual basis) beginning December 31, 1996.

As of September 30, 1996, the Borrower was out of compliance with the Cash Flow Cover covenant. The Lender has elected to forebear through March 15, 1997, subject to the terms outlined in the Forbearance Letter dated December 27, 1996.

GENERAL TERMS AND CONDITIONS

1. Prime Rate: U.S. Bank's prime rate is the rate of interest which Lender from time to time establishes as its prime rate and is not, for example, the lowest rate of interest which Lender collects from any borrower or class of borrowers.

2. Loan Advances: Advances may be requested by Borrower from time to time in accordance with the terms of the promissory note. All advances shall be made at the sole option of Lender. Lender may decline to make any advance and may terminate the availability of advances at any time.

3. Insurance: Borrower shall maintain insurance in such amounts and covering such risks as Lender shall require.

Page 4

Phoenix Gold International, Inc.

December 27, 1996

4. Financial Reporting: At any time requested by Lender, Borrower shall furnish any additional information regarding Borrower's financial condition and business operations that Lender reasonably requests. This information may include, but is not limited to, financial statements, tax returns, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets and forecasts.

5. Loan Documentation: Borrower shall deliver to Lender duly executed promissory notes, deeds of trust, mortgages, security agreements, financing statements, loan agreements, guaranties, borrower authorizations, attorney opinion letters and other documents ("Loan Documents") as required by Lender in form and substance satisfactory to Lender and its counsel.

6. Non-Assignable: This credit accommodation may not be assigned by Borrower. No guarantor or any third party is intended as a third-party beneficiary or has any right to rely hereon.

7. Arbitration: Borrower and Lender hereby agree to be bound by the terms of the Arbitration clause attached hereto as Exhibit A.

8. Expenses: Borrower shall reimburse Lender for all out-of-pocket expenses incurred in connection with this credit accommodation upon demand, whether or not this transaction closes or is funded. Such expenses shall include, without limitation, attorney fees, title insurance fees, travel costs, examination

expenses, and filing fees.

9. Expiration Date: This offer will expire on December 31, 1996 and the revolving credit facility contemplated by this letter must be documented and closed on or before December 31, 1996.

10. Access Laws: Without limiting the generality of any provision of this agreement requiring Borrower to comply with applicable laws, rules, and regulations, Borrower agrees that it will at all times comply with applicable laws relating to disabled access including, but not limited to, all applicable titles of the Americans with Disabilities Act of 1990.

This letter summarizes certain principal terms and conditions relating to the loan and supersedes all prior oral or written negotiations, understandings, representations and agreements with respect to the loan. However, the Loan Documents will include additional terms, conditions, covenants, representations, warranties and other provisions which Lender customarily includes in similar transactions or which Lender determines to be appropriate to this transaction. Except to the extent modified by any other agreement, all terms, condition, covenants and other provisions of this letter shall remain in effect until the revolving line of credit (including any renewals, extensions or modifications) is terminated and the loan balance is paid in full, and by signing below, Borrower agrees to comply with all such provisions.

In addition to the events of default in any Loan Document, any failure to comply with any term, condition or obligation in this letter shall constitute an event of default under each of the Loan Documents. The provisions of this letter shall survive the closing of the loan and the execution and delivery of the Loan Documents. In the event of a conflict between this letter and the Loan Documents, the terms of the Loan Documents shall control.

Page 5

Phoenix Gold International, Inc.

December 27, 1996

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY LENDERS AFTER OCTOBER 3, 1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDER TO BE ENFORCEABLE.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

If the above terms and conditions are acceptable to you, please sign, date and return the acknowledgment copy of this letter on or before the Expiration Date.

Sincerely,

/s/ Brian A. Oliver, VP
for Daniel A. Rice
Vice President
275-5175

Borrower hereby accepts Lender's offer to extend credit on terms and conditions stated above. Borrower hereby agrees to the Arbitration clause set forth in Exhibit A attached hereto.

By: /s/ Timothy G. Johnson
Title: Executive Vice President
Date: December 27, 1996

Page 6
Phoenix Gold International, Inc.
December 27, 1996

EXHIBIT A

ARBITRATION. Lender and Borrower agree that all disputes, claims and controversies between them, whether individual, joint, or class in nature, arising from this letter or the revolving line of credit or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association, upon request of either party. No act to take or dispose of any collateral securing any loan shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation, obtaining injunctive relief or a temporary restraining order; foreclosing by notice and sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness or any act, or exercise of any right, concerning any collateral securing any loan, including any claim to rescind, reform, or otherwise modify any agreement relating to the collateral securing any loan, shall also be arbitrated, provided however that no arbitrator shall have the right or other power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing herein shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The stature of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of any action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Loan Maturity	Loan No.	Call	Collateral	Account	Officer	Initials
\$5,500,000	1-1-97			19	365	4503617482	47440	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: Phoenix Gold International, Inc.
9300 N. Decatur
Portland, OR 97203

Lender: UNITED STATES NATIONAL BANK OF OREGON
CORPORATE BANKING DIVISION
PL-7 OREGON COMMERCIAL LOAN SERVICING
555 S.W. OAK
PORTLAND, OR 97204

=====

THIS COMMERCIAL SECURITY AGREEMENT is entered into between Phoenix Gold International, Inc. (referred to below as "Grantor"); and UNITED STATES NATIONAL BANK OF OREGON (referred to below as "Lender"). For valuable consideration, Grantor grants to Lender a security interest In the Collateral to secure the Indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Collateral. The word "Collateral" means the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

All accounts, chattel paper, general intangibles, inventory and equipment

In addition, the word "Collateral" includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (a) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.
- (b) All products and produce of any of the property described in this Collateral section.
- (c) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.
- (d) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.
- (e) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

Grantor. The word "Grantor" means Phoenix Gold International, Inc., its successors and assigns.

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with the Indebtedness.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note, including all principal and interest, together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents. In addition, the word "Indebtedness" includes all other obligations, debts and liabilities, plus interest thereon, of Grantor, or any one or more of them, to Lender, as well as all claims by Lender against Grantor, or any one or more of them, whether existing now or later; whether they are voluntary or involuntary, due or not due, direct or indirect, absolute or contingent, liquidated or unliquidated; whether Grantor may be liable individually or jointly with others; whether Grantor may be obligated as guarantor, surety, accommodation party or otherwise; whether recovery upon such indebtedness may be or hereafter may become barred by any statute of limitations; and whether such indebtedness may be or hereafter may become otherwise unenforceable.

Lender. The word "Lender" means UNITED STATES NATIONAL BANK OF OREGON, its successors and assigns.

Note. The word "Note" means the note or credit agreement dated January 1, 1997, in the principal amount of \$5,500,000.00 from Phoenix Gold International, Inc. to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the note or credit agreement.

Related Documents. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

RIGHT OF SETOFF. Grantor hereby grants Lender a contractual possessory security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of Grantor's right, title and interest in and to Grantor's accounts with Lender (whether checking, savings, or some other account), including all accounts held jointly with someone else and all accounts Grantor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all Indebtedness against any and all such accounts.

OBLIGATIONS OF GRANTOR. Grantor warrants and covenants to Lender as follows:

Organization. Grantor is a corporation which is duly organized, validly existing, and in good standing under the laws of the state of Grantor's incorporation. Grantor has its chief executive office at 9300 N. Decatur, Portland, OR 97203. Grantor will notify Lender of any change in the location of Grantor's chief executive office.

Authorization. The execution, delivery, and performance of this Agreement by Grantor have been duly authorized by all necessary action by Grantor and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its articles of incorporation or organization, or bylaws, or any agreement or other instrument binding upon Grantor or (b) any law, governmental regulation, court decree, or order applicable to Grantor.

Perfection of Security Interest. Grantor agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Grantor hereby appoints Lender as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the

security interest granted in this Agreement. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral. Grantor promptly will notify Lender before any change in Grantor's name including any change to the assumed business names of Grantor. This is a continuing Security Agreement and will continue in effect even though all or any part of the Indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or theretofore shipped or delivered pursuant to a contract of sale, or for services theretofore performed by Grantor with or for the account debtor; there shall be no setoffs or counterclaims against any such account; and no agreement under which any deductions or discounts may be claimed shall have been made with the account debtor except those disclosed to Lender in writing.

Location of the Collateral. Grantor, upon request of Lender, will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (a) all real property owned or being purchased by Grantor; (b) all real property being rented or leased by Grantor; (e) all storage facilities owned, rented, leased, or being used by Grantor; and (d) all other properties where Collateral is or may be located. Except in the ordinary course of its business, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender.

Removal of Collateral. Grantor shall keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Grantor's address shown above, or at such other locations as are acceptable to Lender. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender. To the extent that the Collateral consists of vehicles, or other titled

property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Oregon, without the prior written consent of Lender.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Collateral Schedules and Locations. As often as Lender shall require, and insofar as the Collateral consists of accounts and general intangibles, Grantor shall deliver to Lender schedules of such Collateral, including such information as Lender may require, including without limitation names and addresses of account debtors and agings of accounts and general intangibles. Insofar as the Collateral consists of inventory and equipment, Grantor shall deliver to Lender, as often as Lender shall require, such lists, descriptions, and designations of such Collateral as Lender may require to identify the nature, extent, and location of such Collateral. Such information shall be submitted for Grantor and each of its subsidiaries or related companies.

Maintenance and Inspection of Collateral. Grantor shall maintain all tangible Collateral in good condition and repair. Grantor will not commit or permit damage to or destruction of the Collateral or any part of the Collateral. Lender and its designated representatives and agents shall have the right at all reasonable times to examine, inspect, and audit the Collateral wherever located. Grantor shall immediately notify Lender of all cases involving the return, rejection, repossession, loss or damage of or to any Collateral; of any request

for credit or adjustment or of any other dispute arising with respect to the Collateral; and generally of all happenings and events affecting the Collateral or the value or the amount of the Collateral.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

Compliance With Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any hazardous waste or substance, as those terms are defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing or intended to protect human health or the environment ("Environmental Laws"). The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for hazardous wastes and substances. Grantor hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims and losses resulting from a breach of

this provision of this Agreement, or as a result of a violation of any Environmental Laws. This obligation to indemnify shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if it so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums

required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts and above in the paragraph titled "Transactions Involving Collateral" , Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

EXPENDITURES BY LENDER. If not discharged or paid when due, Lender may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Grantor under this Agreement, including without limitation all taxes, liens, security interests, encumbrances, and other claims, at any time levied or placed on the Collateral. Lender also may (but shall not be obligated to) pay all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses shall become a part of the Indebtedness and, at Lender's option, will (a) be payable on demand, (b) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be

due and payable at the Note's maturity. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of an Event of Default.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Grantor to make any payment when due on the Indebtedness.

Other Defaults. Failure of Grantor to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in any other agreement between Lender and Grantor.

False Statements. Any warranty, representation or statement made or furnished to Lender by or on behalf of Grantor under this Agreement, the Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against the Collateral or any other collateral securing the Indebtedness. This includes a garnishment of any of Grantor's deposit accounts with Lender.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or such Guarantor dies or becomes incompetent.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender, in good faith, deems itself insecure.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured

party under the Oregon Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made unless Grantor has signed, after an Event of Default occurs, a statement renouncing or modifying Grantor's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. To the extent permitted by applicable law, Lender shall have the following rights and remedies regarding the appointment of a receiver: (a) Lender may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Lender and may serve without bond, and (c) all fees of the receiver and his or her attorney shall become part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the

Collateral. Lender may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of

preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Cumulative Remedies. All of Lender's rights and remedies, whether evidenced by this Agreement or the Related Documents or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and to exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Applicable Law. This Agreement has been delivered to Lender and accepted by Lender in the State of Oregon. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of Multnomah County, the State of Oregon. Subject to the provisions on arbitration, this Agreement shall be governed by and construed in accordance with the laws of the State of Oregon.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Grantor, notice to any Grantor will constitute notice to all Grantors. For notice purposes, Grantor will keep Lender informed at all times of Grantor's current addressees).

Power of Attorney. Grantor hereby appoints Lender as its true and lawful attorney-in-fact, irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and, in the place and stead of Grantor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable. This power is given as security for the Indebtedness, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until renounced by Lender.

Preference Payments. Any monies Lender pays because of an asserted preference claim in Borrower's bankruptcy will become a part of the Indebtedness and, at Lender's option, shall be payable by Borrower as provided above in the "EXPENDITURES BY LENDER" paragraph.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance,

such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Successor Interests. Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Waiver of Co-Obligor's Rights. If more than one person is obligated for the Indebtedness, Borrower irrevocably waives, disclaims and relinquishes all claims against such other person which Borrower has or would otherwise have by virtue of payment of the Indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT, AND GRANTOR AGREES TO ITS TERMS. THIS AGREEMENT IS DATED JANUARY 1, 1997.

GRANTOR:

Phoenix Gold International, Inc.

/s/ David D. Bills - VP Finance

Authorized Officer

PROMISSORY NOTE

EXHIBIT 10.12

	Loan		Loan					
Principal	Date	Maturity	No.	Call	Collateral	Account	Officer	Initials
\$5,500,000	1-1-97			19	365	4503617482	47440	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower:	Phoenix Gold International, Inc. 9300 N. Decatur Portland, OR 97203	Lender:	UNITED STATES NATIONAL BANK OF OREGON CORPORATE BANKING DIVISION PL-7 OREGON COMMERCIAL LOAN SERVICING 555 S.W. OAK PORTLAND, OR 97204
-----------	---	---------	--

=====
Principal Amount: \$5,500,000.00
Initial Rate: 8.750%
Date of Note: January 1, 1997

PROMISE TO PAY. Phoenix Gold International, Inc. ("Borrower") promises to pay to UNITED STATES NATIONAL BANK OF OREGON ("Lender"), or order, in lawful money of the United States of America, on demand, the principal amount of Five Million Five Hundred Thousand & 00/100 Dollars (\$5,500,000.00) or so much as may be outstanding, together with Interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

PAYMENT. Borrower will pay this loan immediately upon Lender's demand. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date, beginning February 1, 1997, with all subsequent interest payments to be due on the same day of each month after that. Interest on this Note is computed on a 365/360 simple interest basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from

time to time based on changes in an index which is the Lender's Prime Rate. This is the rate of interest which Lender from time to time establishes as its Prime Rate and is not, for example, the lowest rate of interest which Lender collects from any borrower or class of borrowers (the "Index"). The interest rate shall be adjusted without notice effective on the day Lender's prime rate changes. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each Day. The Index currently is 8.250% per annum. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate of 0.500 percentage points over the Index, resulting in an initial rate of 8.750% per annum.

PREPAYMENT. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, they will reduce the principal balance due. DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Any representation or statement made or furnished to Lender by Borrower or on borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (d) Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (e) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (f) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note. (g) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the indebtedness is impaired. lb) Lender in good faith deems itself insecure.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the variable interest rate on this Note to 5.500 percentage points over the Index. The interest rate will not exceed the maximum rate permitted by applicable law. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. If not

prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law. This Note has been delivered to Lender and accepted by Lender in the State of Oregon. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Multnomah County, the State of Oregon. Subject to the provisions on arbitration, this Note shall be governed by and construed in accordance with the laws of the State of Oregon.

RIGHT OF SETOFF. Borrower grants to Lender a contractual possessory security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts held jointly with someone else and all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on this Note against any and all such accounts.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. Borrower agrees to be liable for all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrower's accounts with Lender, regardless of the fact that persons other than those authorized to borrow have authority to draw against the accounts. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; (d) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender; or (e) Lender in good faith deems itself insecure under this Note or any other agreement between Lender and Borrower.

ARBITRATION. Lender and Borrower agree that all disputes, claims and controversies between them, whether individual, joint, or class in nature, arising from this Note or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association, upon request of either party. No act to take or dispose of any collateral securing this Note shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation, obtaining injunctive relief or a temporary restraining order; foreclosing by notice and sale under any deed of trust or

mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any collateral securing this Note, including any claim to rescind, reform, or otherwise modify any agreement relating to the collateral securing this Note, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Note shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

LATE CHARGE. If a payment is 19 days or more past due, Borrower will be charged a late charge of 5% of the delinquent payment.

PERIODIC REVIEW. Lender will review the loan periodically. At the time of the review, Borrower will furnish Lender with any additional information regarding Borrower's financial condition and business operations that Lender requests. This information may include, but is not limited to, financial statements, tax returns, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets and forecasts. If upon review, Lender, in its sole discretion, determines that there has been a material adverse change in Borrower's financial condition, Borrower will be in default. Upon default, Lender shall have all rights specified herein.

DEMAND NOTE. BORROWER ACKNOWLEDGES AND AGREES THAT (A) THIS NOTE IS A DEMAND NOTE, AND LENDER IS ENTITLED TO DEMAND BORROWER'S IMMEDIATE PAYMENT IN FULL OF ALL AMOUNTS OWING HEREUNDER, (B) NEITHER ANYTHING TO THE CONTRARY CONTAINED HEREIN OR IN ANY OTHER LOAN DOCUMENTS (INCLUDING BUT NOT LIMITED TO, PROVISIONS RELATING TO DEFAULTS, RIGHTS OF CURE, DEFAULT RATE OF INTEREST, INSTALLMENT PAYMENTS, LATE CHARGES, PERIODIC REVIEW OF BORROWER'S FINANCIAL CONDITIONS, AND COVENANTS) NOR ANY ACT OF LENDER PURSUANT TO ANY SUCH PROVISIONS SHALL LIMIT OR IMPAIR LENDER'S RIGHT OR ABILITY TO REQUIRE BORROWER'S PAYMENT IN FULL OF ALL AMOUNTS OWING HEREUNDER IMMEDIATELY UPON LENDER'S DEMAND, AND (C) UPON LENDER MAKING ANY SUCH DEMAND, LENDER SHALL HAVE NO OBLIGATION TO MAKE ANY ADVANCE UNDER THIS NOTE OR UNDER THE LOAN DOCUMENTS.

PRIOR NOTE. The Promissory Notes from Borrower to Lender dated June 5, 1996 in the amount of \$2,000,000.00 and dated October 5, 1995 in the amount of \$4,000,000.00.

GENERAL PROVISIONS. This Note is payable on demand. The inclusion of specific

default provisions or rights of Lender shall not preclude Lender's right to declare payment of this Note on its demand. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY US (LENDER) AFTER OCTOBER 3, 1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY US TO BE ENFORCEABLE.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

Phoenix Gold International, Inc.

/s/ David D. Bills - VP Finance

Authorized Officer

LENDER:

UNITED STATES NATIONAL BANK OF OREGON

By: /s/

Authorized Officer

DELOITTE & TOUCHE LLP
3900 US Bancorp Tower
111 SW Fifth Avenue
Portland, Oregon 97204-3698

Telephone: (503) 222-1341
Facsimile: (503) 224-2172

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-98648 on Form S-8 of our report dated December 27, 1996 appearing in this Annual Report on Form 10-KSB of Phoenix Gold International, Inc. for the year ended September 30, 1996.

/s/ DELOITTE & TOUCHE LLP

Portland, Oregon
December 30, 1996

Deloitte Touche
Tohmatsu
International

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PHOENIX GOLD INTERNATIONAL, INC.'S FINANCIAL STATEMENTS CONTAINED IN ITS ANNUAL REPORT ON FORM 10-KSB FOR THE PERIOD ENDING SEPTEMBER 29, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

</LEGEND>

<MULTIPLIER> 1

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	SEP-29-1996
<PERIOD-END>	SEP-29-1996
<CASH>	2,599
<SECURITIES>	0
<RECEIVABLES>	5,119,360
<ALLOWANCES>	0
<INVENTORY>	8,971,560
<CURRENT-ASSETS>	14,904,724
<PP&E>	5,764,152
<DEPRECIATION>	1,825,362
<TOTAL-ASSETS>	19,832,527
<CURRENT-LIABILITIES>	8,871,534
<BONDS>	171,995
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	7,477,939
<OTHER-SE>	3,311,059
<TOTAL-LIABILITY-AND-EQUITY>	19,832,527
<SALES>	26,563,142
<TOTAL-REVENUES>	26,563,142
<CGS>	20,432,478
<TOTAL-COSTS>	28,359,532
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	(260,233)
<INCOME-PRETAX>	(2,037,128)
<INCOME-TAX>	767,986
<INCOME-CONTINUING>	(1,269,142)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(1,269,142)
<EPS-PRIMARY>	(0.37)
<EPS-DILUTED>	(0.37)

</TABLE>