

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-05-17** | Period of Report: **2004-03-31**
SEC Accession No. [0001193125-04-089964](#)

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

FILER

CATALINA LIGHTING INC

CIK: **822665** | IRS No.: **591548266** | State of Incorpor.: **FL** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **000-49881** | Film No.: **04812110**
SIC: **3640** Electric lighting & wiring equipment

Mailing Address
*18191 NW 68TH AVE
MIAMI FL 33015*

Business Address
*18191 NW 68TH AVE
MIAMI FL 33015
3055584777*

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from _____ to _____

Commission File Number 0-49881

**Catalina
Lighting,
Inc.**

(Exact Name of Registrant
as Specified in Its Charter)

Florida
(State or Other Jurisdiction of
Incorporation or Organization)

59-1548266
(I.R.S. Employer
Identification No.)

18191 N.W. 68th Avenue
Miami, Florida
(Address of Principal Executive Offices)

33015
(Zip Code)

Registrant's Telephone Number, Including Area Code: (305) 558-4777

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

Indicate by checkmark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act).
Yes No .

The number of shares of the registrant's common stock, \$.01 par value, outstanding as of the close of business on May 3, 2004 was 4,316,059.

INDEX

PART I FINANCIAL INFORMATION

PAGE NO.

ITEM 1—Financial Statements:

[Condensed Consolidated Balance Sheets—March 31, 2004 \(unaudited\) and September 30, 2003](#)

1

[Condensed Consolidated Statements of Operations \(unaudited\)—Three and six months ended March 31, 2004 and 2003](#)

3

[Condensed Consolidated Statements of Cash Flows \(unaudited\)—Six months ended March 31, 2004 and 2003](#)

4

[Notes to Condensed Consolidated Financial Statements](#)

6

[ITEM 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations](#)

18

[ITEM 3—Quantitative and Qualitative Disclosures About Market Risk](#)

34

[ITEM 4—Controls and Procedures](#)

34

PART II OTHER INFORMATION

[ITEM 1—Legal Proceedings](#)

35

[ITEM 4—Submission of Matters to a Vote of Security Holders](#)

35

[ITEM 6—Exhibits and Reports on Form 8-K](#)

35

[Signatures](#)

37

CATALINA LIGHTING, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands)

	<u>March 31,</u> <u>2004</u>	<u>September 30,</u> <u>2003</u>
	<u>(Unaudited)</u>	
Assets		
Current assets		
Cash and cash equivalents	\$ 6,563	\$ 2,899
Restricted cash equivalents and short-term investments	1,332	–
Accounts receivable, net of allowance for doubtful accounts of \$918 and \$880, respectively	31,427	29,273
Inventories	35,531	34,392
Other current assets	5,380	5,032
Total current assets	<u>80,233</u>	<u>71,596</u>
Property and equipment, net	15,631	16,665
Goodwill	28,282	28,282
Other assets, net	15,436	10,732
Total assets	<u>\$ 139,582</u>	<u>\$ 127,275</u>

(Continues on Page 2)

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (continued)
(In thousands, except share data)

	March 31, 2004 (Unaudited)	September 30, 2003
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 28,250	\$ 27,416
Revolving credit facilities	3,427	-
Term loans	5,085	-
Current maturities of other long-term debt	22	702
Other current liabilities	14,845	14,648
Total current liabilities	51,629	42,766
Revolving credit facilities	22,081	11,747
Term loans	474	12,284
Subordinated notes	2,726	3,038
Accrued pension and other liabilities	10,106	8,434
Total liabilities	87,016	78,269

Minority interest	1,015	1,211
Stockholders' equity		
Preferred stock, \$.01 par value; authorized 1,000,000 shares; none issued	—	—
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 4,441,496 shares and 4,420,760 shares, respectively; outstanding 4,313,109 shares and 4,292,373 shares, respectively	44	44
Additional paid-in capital	39,146	38,604
Retained earnings	13,836	12,613
Deferred compensation	(76)	(262)
Accumulated other comprehensive income (loss)	1,062	(743)
Treasury stock, at cost, 128,387 shares	(2,461)	(2,461)
Total stockholders' equity	51,551	47,795
Total liabilities and stockholders' equity	\$ 139,582	\$ 127,275

See accompanying notes to condensed consolidated financial statements.

CATALINA LIGHTING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2004	2003	2004	2003
Net sales	\$51,496	\$49,942	\$107,723	\$106,112
Cost of sales	42,271	39,079	86,189	83,538
Gross profit	9,225	10,863	21,534	22,574
Selling, general and administrative expenses	8,445	7,941	16,949	15,208
Operating income	780	2,922	4,585	7,366
Other expenses:				
Interest expense	(1,198)	(1,039)	(1,957)	(2,072)
Net foreign currency (loss) gain	(599)	207	(658)	75
Other expenses	(79)	(29)	(89)	(4)
Total other expenses	(1,876)	(861)	(2,704)	(2,001)
(Loss) income before income taxes	(1,096)	2,061	1,881	5,365
Income tax (benefit) provision	(384)	721	658	1,878

Net (loss) income		\$ (712)	\$ 1,340	\$ 1,223	\$ 3,487
Weighted average number of shares outstanding					
Basic		5,577	5,555	5,574	5,555
Diluted		5,577	5,787	5,897	5,799
(Loss) earnings per share					
Basic		\$ (0.13)	\$ 0.24	\$ 0.22	\$ 0.63
Diluted		\$ (0.13)	\$ 0.23	\$ 0.21	\$ 0.60

See accompanying notes to condensed consolidated financial statements.

CATALINA LIGHTING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended	
	March 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$1,223	\$3,487
Adjustments for non-cash items:		
Exchange loss (gain)	731	(182)
Amortization to interest expense	846	645
Depreciation and other amortization	1,307	1,665
Deferred income tax benefit	(2,292)	(1,105)
Gain on disposition of property and equipment	(53)	(19)
Non-cash compensation	251	100
Change in assets and liabilities	(888)	(927)
Net cash provided by operating activities	1,125	3,664
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,212)	(678)
Proceeds from sale of property and equipment, net	2,231	217

Net cash provided by (used in) investing activities	1,019	(461)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on other long-term debt	(1,194)	(244)
Net borrowings (payments) on revolving credit facilities	12,795	(3,850)
Net payments on term loans	(6,985)	(1,597)
Payment of financing fees	(2,298)	–
Changes in restricted cash	(1,103)	–
Proceeds from exercise of stock options	92	–
Net cash provided by (used in) financing activities	1,307	(5,691)
Effect of exchange rate changes on cash	213	193
Net increase (decrease) in cash and cash equivalents	3,664	(2,295)
Cash and cash equivalents at beginning of period	2,899	2,657
Cash and cash equivalents at end of period	\$6,563	\$362

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)
(In thousands)

Supplemental Disclosure of Cash Flow Information

	Six Months Ended March 31,	
	2004	2003
Cash paid for:		
Interest	\$1,291	\$1,479
Income taxes	\$2,507	\$730

In March 2004, warrants to purchase 5,486 shares at \$0.05 per share were exercised and warrants to purchase 23 shares were canceled in a cashless exercise.

Effective January 1, 2004, the Company amended the terms of stock options previously granted to the individual who formerly served as its Chief Financial Officer, and as a result recorded compensation expense of \$64,500 during the three months ended March 31, 2004.

Effective December 1, 2002, the Company entered into a two-year consulting agreement with the individual who served as its Chief Executive Officer from July 2001 through November 2002. Concurrently with entering into this agreement, the Company amended the terms of the stock options previously granted and as a result was to incur compensation expense of approximately \$295,000 during the term of the consulting agreement on a straight-line basis. During the quarter ended December 31, 2003 the Company determined that the consultant had delivered all the anticipated benefit from the agreement. Consequently the remaining deferred compensation was expensed in full. Compensation expense for the three months ended March 31, 2004 and 2003 amounted to \$0 and \$36,000, respectively. Compensation expense for the six months ended March 31, 2004 and 2003 amounted to \$172,000 and \$49,000, respectively.

In November 2002, the Company issued 50,000 options to purchase shares of common stock to its new Chief Executive Officer at an exercise price of \$2.31 per share below the market price on the date of grant, resulting in compensation of \$116,000 that will be recognized over the four-year vesting period. Compensation expense for the three months ended March 31, 2004 and 2003 amounted to \$7,000. Compensation expense for the six months ended March 31, 2004 and 2003 amounted to \$14,000 and \$11,000, respectively.

Effective November 1, 2002, the Company amended the terms of stock options previously granted to the individual who formerly served as its Chief Financial Officer, and as a result recorded compensation expense of \$40,000 during the three months ended December 31, 2002.

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Catalina Lighting, Inc. and Subsidiaries (the “Company”) have been prepared in accordance with the accounting policies described in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2003 and should be read in conjunction with the consolidated financial statements and notes which appear in that report. These statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

In the opinion of management, the condensed consolidated financial statements include all adjustments (which consist of normal recurring accruals) considered necessary for a fair presentation. The results of operations for the three and six months ended March 31, 2004 may not necessarily be indicative of operating results to be expected for any subsequent quarter or for the full fiscal year due to seasonal fluctuations in the Company’s business, changes in economic conditions and other factors.

Restricted Cash Equivalents and Short-Term Investments

At March 31, 2004, the Company had \$1.3 million of restricted cash which collateralized trade letters of credit. At September 30, 2003, there was no restricted cash on hand.

Risks and Concentrations

The United Kingdom segment has two significant customers, which comprise the following percentages of consolidated net sales, as described below:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Customer of both UK and China segments	15.2%	16.2%	15.8%	16.8%
Customer of UK segment	10.1%	7.7 %	10.9%	8.5 %
	25.3%	23.9%	26.7%	25.3%

Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

Stock-Based Compensation

The Company accounts for stock-based compensation issued to its employees using the intrinsic value method. Accordingly, compensation for stock options granted is measured as the excess, if any, of the fair value of the Company's common stock at the date of grant over the exercise price of the options. Had the compensation cost been determined based on the fair value at the grant date, the Company's net (loss) income and basic and diluted (loss) earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amounts):

	Three Months Ended	
	March 31,	
	2004	2003
Net (loss) income—as reported	\$ (712)	\$ 1,340
Add: stock-based employee compensation expense included in reported net income, net of income tax effect	5	5
Less: stock-based employee compensation determined under the fair value method, net of income tax effect	(79)	(82)
Net (loss) income—pro forma	\$ (786)	\$ 1,263
Basic (loss) earnings per share—as reported	\$ (0.13)	\$ 0.24
Basic (loss) earnings per share—pro forma	\$ (0.14)	\$ 0.23
Diluted (loss) earnings per share—as reported	\$ (0.13)	\$ 0.23
Diluted (loss) earnings per share—pro forma	\$ (0.14)	\$ 0.22

For purposes of the above pro forma disclosures, the weighted-average fair value of options has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants for the three months ended March 31, 2003 (there were no grants during the three months ended March 31, 2004): no dividend yield; expected volatility of 87%; risk-free interest rate of 3.0%; and an expected five-year holding period for options granted. The weighted average fair value at date of grant of options granted during 2003 was \$6.60 per option.

CATALINA LIGHTING, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)**

	<u>Six Months Ended March 31,</u>	
	<u>2004</u>	<u>2003</u>
Net income—as reported	\$ 1,223	\$ 3,487
Add: stock-based employee compensation expense included in reported net income, net of income tax effect	10	6
Less: stock-based employee compensation determined under the fair value method, net of income tax effect	(163)	(158)
Net income—pro forma	\$ 1,070	\$ 3,335
Basic earnings per share—as reported	\$ 0.22	\$ 0.63
Basic earnings per share—pro forma	\$ 0.19	\$ 0.60
Diluted earnings per share—as reported	\$ 0.21	\$ 0.60
Diluted earnings per share—pro forma	\$ 0.18	\$ 0.58

For purposes of the above pro forma disclosures, the weighted-average fair value of options has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants for the six months ended March 31, 2004 and 2003, respectively: no dividend yield; expected volatility of 87% and 88%; risk-free interest rate of 3.1% and 3.0%; and an expected five-year holding period for options granted. The weighted average fair value at date of grant of options granted during 2004 and 2003 was \$8.38 and \$6.24 per option, respectively.

Comprehensive (Loss) Income (in thousands)

Total comprehensive (loss) income consisted of the following:

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net (loss) income	\$ (712)	\$ 1,340	\$ 1,223	\$ 3,487
Foreign currency translation gain (loss)	613	(211)	1,805	12

Total comprehensive (loss) income	\$ (99)	\$ 1,129	\$ 3,028	\$ 3,499
-----------------------------------	----------	----------	----------	----------

Components of Accumulated Other Comprehensive Income (Loss) are:

	March 31, 2004	September 30, 2003
Foreign currency exchange gain	\$ 3,756	\$ 1,951
Pension liability adjustment	(2,694)	(2,694)
Total accumulated other comprehensive income (loss)	\$ 1,062	\$ (743)

Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

New Accounting Pronouncements

On March 31, 2004, the Financial Accounting Standards Board (“FASB”) issued a proposed statement, *Share-Based Payment*, that addresses the accounting for share-based payment transactions (for example, stock options and awards of restricted stock) in which an employer receives employee-services in exchange for equity securities of the company or liabilities that are based on the fair value of the company’s equity securities. This proposal, if finalized as proposed, would eliminate use of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally would require such transactions be accounted for using a fair-value-based method and recording compensation expense rather than optional pro forma disclosure of what expense amounts might be. The proposal, if approved, would substantially amend FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Because of the timing of the proposal and the uncertainty of whether it will be adopted substantially as proposed, management has not completed its review of the proposal or assessed its potential impact on the Company.

In December 2003, the FASB issued Statements of Financial Accounting Standards (“SFAS”) No. 132 revised (“SFAS No. 132R”), “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” The provisions of SFAS No.132R do not change the measurement and recognition provisions of SFAS No. 87, “Employers’ Accounting for Pensions” or SFAS No.88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Plans and Termination Benefits.” During the three months ended March 31, 2004 the Company adopted the provisions of SFAS No. 132R (see Note 5), which did not have a material effect on the Company’s consolidated financial statements.

In January 2003, the FASB issued Interpretation No. (“FIN”) 46, “Consolidation of Variable Interest Entities,” which establishes criteria to identify variable interest entities (“VIE”) and the primary beneficiary of such entities. An entity that qualifies as a VIE must be consolidated by its primary beneficiary. All other holders of interests in a VIE must disclose the nature, purpose, size and activity of the VIE as well as their maximum exposure to losses as a result of involvement with the VIE. FIN 46 was revised in December 2003 and is effective for financial statements of public entities that have special-purpose entities, as defined, for periods ending after December 15, 2003. For public entities without special-purpose entities, it is effective for financial statements for periods ending after March 15, 2004. The Company does not have any special-purpose entities, as defined and accordingly the adoption of FIN 46 did not have a material effect on the Company’s consolidated financial statements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, management has not determined whether implementation of such proposed standards would be material to the Company’s consolidated financial statements.

Reclassifications

Certain amounts presented in the financial statements of prior periods have been reclassified to conform to the current year presentation.

Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

2. Inventories

Inventories consisted of the following (in thousands):

	March 31, 2004	September 30, 2003
Raw materials	\$ 1,106	\$ 2,142
Work-in-progress	510	377
Finished goods	33,915	31,873
Total inventories	\$ 35,531	\$ 34,392

3. Revolving Credit Facilities

On December 23, 2003, the Company entered into a new asset-based credit facility with a syndicate of lenders to refinance its indebtedness under its former \$75 million credit facility. The new facility matures June 30, 2006. The facility consists of two term loans in the amount of GBP 305,000 (\$561,000) and \$5.0 million and two revolving facilities in the amount of GBP 22.0 million (\$40.5 million) and \$6.0 million for loans, acceptances, and trade and stand-by letters of credit for the Company's ongoing operations in the United States and United Kingdom. Amounts outstanding under each revolving facility are limited under separate U.S. and U.K. borrowing bases that are defined as percentages of eligible accounts receivable and inventory. Obligations under the facility are secured by substantially all of the Company's U.S. and U.K. assets. The facility prohibits the payment of cash dividends or other distribution on any shares of the Company's common stock. The Company pays a monthly commitment fee of .375% per annum based on the unused portion of the revolving facilities as well as a monthly servicing fee of \$7,500. If the \$5.0 million term loan is not repaid by the first anniversary of the loan, a fee of \$500,000 is due. Borrowings under the revolving facilities and the GBP 305,000 term loan bear interest, payable monthly, at LIBOR plus a margin of 2.25%. Borrowings under the \$5.0 million term loan bear interest at 9% per annum, payable monthly. The Company is required to meet monthly minimum levels of adjusted earnings and adjusted net worth, as defined in the facility, as well as a maximum debt to adjusted earnings ratio. Capital expenditures are limited to \$3.8 million per year. The Company owes a \$450,000 investment-banking fee to an affiliate of its majority shareholder for services provided in connection with the refinancing. One-half of this fee was paid on April 1, 2004 and the remaining one-half of this fee will be paid on June 1, 2004, subject to certain minimum levels of availability as set forth in the credit facility. Total fees incurred in connection with the refinancing were approximately \$2.3 million, of which \$1.8 million is being amortized over the term of the facility and \$550,000 is being amortized over 12 months starting January 1, 2004.

CATALINA LIGHTING, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

4. Segment Information

Information on operating segments and a reconciliation to income before income taxes for the three and six months ended March 31, 2004 and 2003 are as follows (in thousands):

Net Sales by Business Segment:

	Three Months Ended March 31,					
	2004			2003		
	External customers	Intersegment	Total	External customers	Intersegment	Total
North America	\$11,970	\$ –	\$11,970	\$14,864	\$ –	\$14,864
United Kingdom	36,155	–	36,155	31,542	–	31,542
China Manufacturing and Distribution	3,371	2,833	6,204	3,536	1,823	5,359
Eliminations		(2,833)	(2,833)		(1,823)	(1,823)
Total	\$51,496	\$ –	\$51,496	\$49,942	\$ –	\$49,942

	Six Months Ended March 31,					
	2004			2003		
	External customers	Intersegment	Total	External customers	Intersegment	Total
North America	\$24,879	\$ –	\$24,879	\$32,844	\$ –	\$32,844
United Kingdom	75,819	–	75,819	65,400	–	65,400
China Manufacturing and Distribution	7,025	6,283	13,308	7,868	5,179	13,047
Eliminations	–	(6,283)	(6,283)	–	(5,179)	(5,179)
Total	\$107,723	\$ –	\$107,723	\$106,112	\$ –	\$106,112

CATALINA LIGHTING, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)**

Segment Contribution (Loss):

	<u>Three Months Ended March 31,</u>	
	<u>2004</u>	<u>2003</u>
North America	\$ (2,022)	\$ (791)
United Kingdom	2,688	3,155
China Manufacturing and Distribution	(357)	317
Subtotal for segments	309	2,681
Parent/administrative expenses and other	(1,405)	(620)
Income (loss) before income taxes	\$ (1,096)	\$ 2,061
	<u>2004</u>	<u>2003</u>
North America	\$ (3,294)	\$ (1,510)
United Kingdom	8,237	7,186
China Manufacturing and Distribution	(559)	1,057
Subtotal for segments	4,384	6,733
Parent/administrative expenses and other	(2,503)	(1,368)

Income before income taxes	\$ 1,881	\$ 5,365
Interest Expense (1):		
	Three Months Ended March 31,	
	2004	2003
North America	\$ 80	\$ 91
United Kingdom	867	765
China Manufacturing and Distribution	6	1
Subtotal for segments	953	857
Parent	245	182
Total interest expense	\$ 1,198	\$ 1,039
	Six Months Ended March 31,	
	2004	2003
North America	\$ 130	\$ 212
United Kingdom	1,335	1,519
China Manufacturing and Distribution	7	1
Subtotal for segments	1,472	1,732
Parent	485	340
Total interest expense	\$ 1,957	\$ 2,072

CATALINA LIGHTING, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Total Assets by asset location :

	<u>March 31,</u> <u>2004</u>	<u>September 30,</u> <u>2003</u>
North America (2)	\$29,369	\$ 30,036
United Kingdom	107,389	74,585
China (3)	27,592	27,283
Eliminations	(24,768)	(4,629)
Total assets	\$139,582	\$ 127,275

Property and Equipment, net:

	<u>March 31,</u> <u>2004</u>	<u>September 30,</u> <u>2003</u>
North America (2)	\$ 529	\$ 1,729
United Kingdom	2,068	2,056
China (3)	13,034	12,880
Property and equipment, net	\$ 15,631	\$ 16,665

Expenditures for Additions to Property and Equipment:

<u>Six Months Ended March 31,</u>
<u>2004</u> <u>2003</u>

North America	\$ 176	\$ 212
United Kingdom	211	299
China (4)	825	167
Total expenditures	\$ 1,212	\$ 678

(1) The interest expense shown for each segment includes interest incurred on inter-segment advances.

(2) Total assets for North America include parent assets.

(3) China assets include assets related to both the North America and the China Manufacturing and Distribution segments that are physically located in China. Accounts receivables from the China Manufacturing and Distribution segment included in the China assets amounted to \$2.0 million and \$1.7 million at March 31, 2004 and September 30, 2003, respectively.

(4) China additions include expenditures for property and equipment used by both the North America and the China Manufacturing and Distribution segments.

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

5. Commitments and Contingencies

Litigation

During the past few years, the Company has received a number of claims relating to halogen torchieres sold by the Company to various retailers. The number of such claims has decreased significantly since the applicable Underwriters Laboratories Inc. (UL) standard was changed and the halogen torchieres produced complied with such new standard. Through January 7, 2003, the Company maintained primary product liability insurance coverage of \$1 million per occurrence and \$2 million in the aggregate, as well as umbrella insurance policies providing an aggregate of \$75 million in insurance coverage. The primary insurance policy required the Company to self-insure for up to \$10,000 per incident. Effective January 8, 2003, the umbrella coverage was decreased to \$50 million and the deductible was increased to \$150,000 per incident involving halogen light products and \$75,000 for all other incidents. All other material terms of the policy remain unchanged. Effective January 9, 2004, the Company renewed its insurance coverage at the same limits; however, the deductible was established at \$100,000 per incident. Based on historical experience, the Company has a related accrual of \$620,000 as of March 31, 2004. No assurance can be given that the number of claims will not exceed historical experience, that claims will not exceed available insurance coverage or that the Company will be able to maintain the same level of insurance.

The Company is also a defendant in other legal proceedings arising in the ordinary course of its business. In the opinion of management the ultimate resolution of these other legal proceedings will not have a material adverse effect on the Company's financial position or results of operations.

Sale and Lease Back of Miami Facility

On February 27, 2004, the Company sold its Miami facility for \$2.5 million, which resulted in a gain of \$872,000. Simultaneously with this sale, the Company leased back the facility for a period of 10 years at an annual rental of approximately \$250,000. This gain has been deferred and is being amortized over the life of the lease on a straight-line basis commencing on March 1, 2004. At March 31, 2004, the deferred gain totaled approximately \$865,000, 12 months of which is included in "Other Current Liabilities" and the remainder is included in "Accrued Pension and Other Liabilities" in the accompanying balance sheet.

Closing of Mexican Distribution Facility

All of the Company's warehousing and distribution activities in Mexico will end in May 2004. The Company has accrued \$283,000 and expensed \$182,000 as of March 31, 2004 for severance and payroll termination costs based on each employee's scheduled termination date. Since the involuntarily terminated employees were notified of their terminations in January 2004 and are required to work through their termination date in order to receive severance, the Company has \$101,000 of deferred severance expenses included in "Other Current Assets" in the accompanying balance sheet at March 31, 2004, pursuant to SFAS No.146. The remaining deferred amount will be amortized to expense through each employee's scheduled termination date through May 2004. The Company has also provided \$327,000 for estimated inventory liquidation reserves and uncollectible accounts receivable based on management's estimates of future cash collections related to these assets. Additional provisions for inventory and accounts receivable may be necessary if future collections realized are less than our estimates.

Accrued liabilities relating to the closure of the Mexico distribution facility are as follows:

	September 30, 2003	Provisions	Payments	March 31, 2004
Severance cost	\$ -	\$283,000	\$ 39,000	\$244,000



Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Pension Plan

Ring Limited, one of the Company's United Kingdom subsidiaries ("Ring"), has a defined benefit pension plan ("Ring pension plan") that covers approximately 750 members formerly associated with Ring. There are no active members in the Ring pension plan. The Ring pension plan is administered externally and professional investment managers hold the assets separately. The Ring pension plan is funded by contributions at rates recommended by an actuary based on the "Minimum Funding Requirement" ("MFR"). The U.K. government has announced that it intends to abolish the MFR and to replace it with funding standards individually tailored to the circumstances of plans and employers. In June 2003, the U.K. government announced that (i) solvent employers who choose to terminate their defined benefit pension plans are expected to meet the full buyout costs of all member's benefits and (ii) a pension protection fund is to be introduced to guarantee members a specified minimum level of pension when the employer becomes insolvent. All employers with defined benefit pension plans will pay a flat rate levy and those employers with plans that are under funded, such as Ring, will have to pay a higher premium to the protection fund. The amount of the levy has not been determined. The full buyout cost is considerably higher than the MFR cost. The Company does not intend to terminate the Ring pension plan in the foreseeable future. In conjunction with the changes announced by the U.K. government in June 2003, the Company recorded a net equity charge of \$2.7 million to other comprehensive income (pretax charge of \$3.9 million net of income taxes of \$1.2 million) to increase the accrued pension cost recorded in the September 30, 2003 balance sheet to the unfunded accumulated benefit obligation as of such date of \$8.9 million. As a result of the change in U.K. law, at some time in the future, the Company must negotiate with the Ring pension plan trustees the amount of cash funded into the plan. The Company has not begun these negotiations but expects that future funding will increase.

The net pension cost for the Ring pension plan are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2004	2003	2004	2003
Service cost	\$ -	\$ 26	\$ -	\$ 53
Interest cost	365	299	703	592
Expected return on plan assets	(267)	(205)	(516)	(405)
Amortization of unrecognized net loss	24	76	47	150
Net periodic pension cost	\$ 122	\$ 196	\$ 234	\$ 390

During the three and six months ended March 31, 2004 and 2003, the Company contributed \$148,000 and \$285,000, and \$180,000 and \$357,000, respectively, to the Ring pension plan.

6. Stock Options and Stock Warrants

During the six months ended March 31, 2004, the Company granted to directors' options to purchase 50,000 shares of common stock of the Company at a price of \$12.49 per share, options to purchase 13,650 shares were canceled and options to purchase 13,650 shares were exercised. Options outstanding increased from 691,067 at September 30, 2003 to 713,767 at March 31, 2004.

In March 2004, warrants to purchase 5,486 shares at \$0.05 per share were exercised and warrants to purchase 23 shares were canceled in a cashless exercise.

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

7. Earnings (Loss) Per Share

The computations of basic and diluted earnings per common share (EPS) are as follows (in thousands except per share data):

	Three Months Ended March 31,	
	2004	2003
Earnings (Loss) Per Share—Basic		
Numerator:		
Net (loss) income attributable to common stockholders	\$ (712)	\$ 1,340
Denominator:		
Weighted average shares outstanding for the period	4,307	4,286
Effect of warrants	1,270	1,269
Weighted average shares used for basic EPS	5,577	5,555
Earnings (Loss) Per Share—Basic	\$ (0.13)	\$ 0.24
Earnings (Loss) Per Share—Diluted		
Numerator:		
Net (loss) income available to common stockholders	\$ (712)	\$ 1,340

Denominator:		
Weighted average shares outstanding for the period	4,307	4,286
Effect of stock options*	–	183
Effect of warrants	1,270	1,318
Weighted average shares used for diluted EPS	5,577	5,787
Earnings (Loss) Per Share–Diluted	\$ (0.13)	\$0.23

*Weighted average shares issuable upon the exercise of stock options that are excluded in the calculation because such options were anti-dilutive as a result of the loss in the quarter. Such options aggregated 717,000 (at prices ranging from \$1.75 to \$26.90) and 222,000 (at prices ranging from \$8.29 to \$26.90) for the three months ended March 31, 2004 and 2003, respectively.

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

	Six Months Ended March 31,	
	2004	2003
Earnings Per Share—Basic		
Numerator:		
Net income attributable to common stockholders	\$1,223	\$3,487
Denominator:		
Weighted average shares outstanding for the period	4,303	4,286
Effect of warrants	1,271	1,269
Weighted average shares used for basic EPS	5,574	5,555
Earnings Per Share—Basic	\$0.22	\$0.63

	Six Months Ended March 31,	
	2004	2003
Earnings Per Share—Diluted		
Numerator:		
Net income available to common stockholders	\$1,223	\$3,487
Denominator:		

Weighted average shares outstanding for the period	4,303	4,286
Effect of stock options*	270	195
Effect of warrants	1,324	1,318
Weighted average shares used for diluted EPS	5,897	5,799
Earnings Per Share–Diluted	\$0.21	\$0.60

*Weighted average shares issuable upon the exercise of stock options that are excluded in the calculation because such options were anti-dilutive were 157,000 (at prices ranging from \$12.49 to \$26.90) and 198,000 (at prices ranging from \$8.29 to \$26.90) for the six months ended March 31, 2004 and 2003, respectively.

8. Minority Interest

On January 1, 2004, approximately 2.5 million convertible preference shares of Ring held by third parties automatically converted into approximately 1.0 million fully paid common shares of Ring, representing a 2.27 % interest in Ring. As a result of the conversion, minority interest decreased \$385,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

As used in this Quarterly Report on Form 10-Q (this "Form 10-Q"), "we", "our", "us", the "Company", and "Catalina" refer to Catalina Lighting, Inc., unless the context otherwise requires. Certain statements in this Form 10-Q constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements concerning the following: our expectation of an increase in our future funding of the Ring pension plan; our estimate of severance expenses; our sales to Home Depot in fiscal 2004; our estimates of ocean freight rates; the effects of our refinancing in December 2003 on our weighted average interest rate; our future compliance with the terms and covenants of our asset-based credit facility; the costs of our support programs for a new customer during the third quarter of 2004; the impact on the operations of the Company's factory in China if Chinese authorities confiscate adjoining land; the effect of the resolution of any routine litigation on our financial position or results of operations; and our liquidity to meet our needs for fiscal 2004. In some cases, you can identify "forward-looking statements" by words such as "expects", "anticipates", "believes", "plans", "intends", "estimates", and variations of such words and similar expressions. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that would cause or contribute to the inability to obtain the results or to fulfill the other forward-looking statements include, but are not limited to, the following: the highly competitive nature of the lighting industry; our reliance on large customers who may delay, cancel or fail to place orders; consumer demand for lighting products; dependence on third-party vendors and imports from China which may limit our margins or affect the timing of revenue and sales recognition; general domestic and international economic conditions which may affect consumer spending; brand awareness, the existence or absence of adverse publicity, continued acceptance of our products in the marketplace, new products and technological changes, and changing trends in customer tastes, each of which can affect demand and pricing for our products; pressures on product pricing and pricing inventories; cost of labor and raw materials; the availability of capital; the ability to satisfy the terms of, and covenants under, credit and loan agreements and the impact of increases in borrowing costs, each of which affect our short-term and long-term liquidity; the costs and other effects of legal and administrative proceedings; foreign currency exchange rates; changes in our effective tax rate (which is dependent on our U.S. and foreign source income); and other factors referenced in this Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended September 30, 2003. We will not undertake and specifically decline any obligation to update or correct any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated events.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period. Future events and their effects cannot be determined with absolute certainty; therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to our financial statements. We continually evaluate our estimates and assumptions, which are based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the following may involve a higher degree of judgment or complexity:

Collectibility of Accounts Receivable - Our allowance for doubtful accounts is based on our estimates of the creditworthiness of our customers, current economic conditions and historical information, and, in our opinion, is believed to be set in an amount sufficient to respond to normal business conditions. We set specific reserves for customers whose accounts have aged significantly beyond our historical collection experience. Should business conditions deteriorate or any major credit customer default on its obligations to the Company, this allowance may need to be significantly increased, which would have a negative impact upon our operations.

Reserves on Inventories - Reserves on inventories result in a charge to operations when the estimated net realizable value of inventory items declines below cost. Reserves are recorded as a component of cost of sales. We regularly review our investment in inventories for declines in value. We establish reserves based on historical experience and specific reserves when it is apparent that the expected realizable value of an inventory item falls below its original cost.

Income Taxes - Significant judgment is required in developing our provision for income taxes, including the determination of foreign tax liabilities, deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets. We evaluate quarterly the realizability of our deferred tax assets and adjust the amount of our valuation allowance, if necessary. We operate within multiple taxing jurisdictions, and we are subject to audit in those jurisdictions. We regularly assess the likelihood of an adverse outcome resulting from these audits to determine the adequacy of our provision for income taxes. Because of the complex issues involved, any claims can require an extended period to resolve. In our opinion, adequate provisions for income taxes have been made.

Goodwill - In September 2003, we began to perform an annual test for impairment of goodwill. This test is performed by comparing, at the reporting unit level, the carrying value of goodwill to its fair value. We assess fair value based upon a combination of valuation methodologies applied to each reporting unit. The tests performed for 2003 did not identify any instances of impairment. However, changes in expectations as to the fair values of the reporting units might impact subsequent years' assessments of impairment.

Accrual for Sales Incentives - Our accrual for sales incentives is usually based on certain stated percentages of gross sales and is recognized as a reduction of gross sales at the time the related sales are recorded. If the customer agreement does not provide for the deduction of the allowance amount directly from the amount invoiced, we record an accrual for the amounts due. We set specific reserves for customers based on contracted amounts and other reserves for the non-contractual amounts. Should we underestimate the reserve for the non-contractual allowances, this reserve may need to be significantly increased, which would have a negative impact upon our operations.

Reserves for Product Liability Claims and Litigation - We are subject to various legal proceedings, product liability claims and other claims in the ordinary course of business. We estimate the amount of ultimate liability, if any, with respect to such matters in excess of applicable insurance coverage based on historical claims experience and current claim amounts, as well as other available facts and circumstances. As the outcome of litigation is difficult to predict and significant estimates are made with regard to future events, significant changes from estimated amounts could occur.

Comparison of Q2 2004 and Q2 2003

In the following comparison of the results of operations, the three months ended March 31, 2004 and 2003 are referred to as "Q2 2004" and "Q2 2003", respectively. Unless otherwise noted, U.S. dollar equivalents of foreign currency amounts are based upon the exchange rates prevailing at March 31, 2004.

Consolidated Results

Summary - Operating income decreased \$2.1 million to \$780,000 in Q2 2004 compared to \$2.9 million in Q2 2003, a decrease of 73.3%. The decrease resulted from a \$504,000 increase in selling, general and administrative expenses ("SG&A") and a \$1.7 million decrease in gross profit. Net income decreased \$2.1 million to a net loss of \$712,000 or \$(0.13) per diluted share in Q2 2004, compared to net income of \$1.3 million, or \$0.23 per diluted share, in Q2 2003.

Net Sales - Net sales increased \$1.6 million to \$51.5 million for Q2 2004 from \$49.9 million for Q2 2003, an increase of 3.1%. The increase was associated with a \$4.6 million increase in net sales in the United Kingdom segment that was partially offset by lower sales in the North America and China Manufacturing and Distribution

segments. Increased sales in the United Kingdom segment (“UK segment”) are almost entirely attributable to the effect of currency translation that resulted from a decrease in the average value of the United States dollar (“USD”) relative to the Great British Pound (“GBP”) to 1.84 during Q2 2004 from 1.60 during Q2 2003.

Lighting, automotive after-market products and industrial consumables accounted for 70.3%, 22.3% and 7.4%, respectively, of net sales in Q2 2004, compared to 73.8%, 19.5% and 6.7%, respectively, in Q2 2003. Sales made from warehouses constituted 76.6% and 68.9% of our consolidated net sales in Q2 2004 and Q2 2003, respectively. One of the UK segment’s large customer accounted for \$7.8 million (15.2%) in Q2 2004 and \$8.1 million (16.2%) in Q2 2003, of our consolidated net sales. Another UK segment large customer accounted for \$5.2 million (10.1%) in Q2 2004 and \$3.9 million (7.7%) in Q2 2003, of our consolidated net sales.

Gross Profit - Gross profit decreased \$1.7 million to \$9.2 million in Q2 2004 compared to \$10.9 million in Q2 2003, a decrease of 15.1%. Gross profit as a percentage of sales decreased 3.9 percentage points to 17.9% in Q2 2004 from 21.8% in Q2 2003. The decrease in the gross profit is primarily attributable to:

- (i) changes in customer allowances and downward pricing pressure, particularly the UK segment;
- (ii) increased material costs, decrease China VAT rebate and a change in the mix of manufactured versus sourced product; and
- (iii) decrease in Mexico profitability due to anticipated closing.

The effect of currency exchange rates resulted in a \$932,000 increase in gross profit reported in USD, which partially offset the effect of increased costs.

Our annual ocean freight contract for North America expired on April 30, 2004. Based on the current market environment, subsequent to the close of the quarter we anticipate a nominal change in ocean freight rate. Beginning April 1, 2004, we estimate that the UK segment will incur an annualized rate increase of approximately \$220,000. Given the volatile and competitive nature of the ocean freight market, actual rates could significantly vary either favorably or unfavorably from our current estimates.

SG&A - SG&A increased \$504,000 to \$8.4 million for Q2 2004 compared to \$7.9 million for Q2 2003, an increase of 6.3%. The following individual increases in consolidated SG&A include the currency translation effects of the weakening dollar relative to the GBP of \$470,000 related to our UK segment. A \$239,000 reduction in SG&A in the United States operating subsidiary was insufficient to overcome increases in SG&A for the rest of the Company. Company-wide areas where SG&A costs were reduced were: a \$109,000 decrease in legal settlements, a \$91,000 decrease in depreciation due to reduced capital expenditures and a \$85,000 decrease in fees and communications costs. These reductions were over shadowed by a \$219,000 increase in payroll and benefits, a \$26,000 increase in commission expenses, a \$95,000 increase in auto and travel expenses to expand our customer base, a \$127,000 increase in legal and professional fees and a \$322,000 increase in other SG&A expenses, of which \$182,000 is related to severance expenses in connection with exiting the Mexican distribution facility. We expect an additional \$101,000 of these severance expenses in Q3 2004.

Interest Expense - Interest expense increased \$159,000 to \$1.2 million in Q2 2004 from \$1.0 million in Q2 2003, an increase of 15.3%. The increased expense is attributable to a higher weighted average interest rate that was only partially offset by a reduction in average outstanding borrowings. Average outstanding borrowings decreased \$1.5 million to \$37.3 million in Q2 2004 from \$38.8 million in Q2 2003, as a result of solid cash flow generated from the UK segment operations and the sale of the Miami Facility, which we used to pay down debt. Our weighted average effective interest rate increased primarily as a result of refinancing our credit facility in December 2003.

Foreign Currency - The net foreign currency loss of \$599,000 for Q2 2004 included net foreign currency losses from operational transactions in our Canada, Mexico, United Kingdom and China operations of \$79,000. In addition, the net loss also included a \$520,000 currency translation loss in the United States related to certain United States borrowings from its UK subsidiary, which is denominated in GBP.

Income Taxes - The effective income tax rate was 35% for Q2 2004 and Q2 2003. Through September 30, 2003, we have not provided for possible U.S. income taxes on \$35.2 million in undistributed earnings of foreign subsidiaries that were considered to be permanently

reinvested. During the year ending September 30, 2004, we have begun to repatriate a portion of the earnings of our UK segment to the United States. Our effective income tax

rate is dependent on the total amount of pretax income generated, the source of such income (i.e., domestic or foreign), and the amount and source of earnings repatriated. Consequently, our effective tax rate may vary in future periods.

Results By Segment

See Note 4 of Notes to Condensed Consolidated Financial Statements for the financial tables for each business segment.

North America

Summary - The North America segment loss increased \$1.2 million to \$2.0 million in Q2 2004 from \$791,000 in Q2 2003.

Net Sales - Net sales for North America decreased \$2.9 million to \$12.0 million in Q2 2004, from \$14.9 million in Q2 2003, a decrease of 19.5%. The decrease in net sales volume is primarily attributable to the loss of our previously largest customer, Home Depot. Our net sales to Home Depot decreased \$3.9 million to \$327,000 (2.7% of net sales) in Q2 2004 from \$4.2 million (28.4% of net sales) in Q2 2003. Excluding sales to Home Depot, our current customer base generated a net sales increase of \$996,000.

Gross Profit - Gross profit decreased \$852,000 to \$1.3 million in Q2 2004 from \$2.2 million in Q2 2003, a decrease of 38.9%. Gross profit as a percentage of sales decreased 3.5 percentage points to 11.2% in Q2 2004 from 14.7% in Q2 2003. The decrease in gross profit dollars is primarily attributable to:

- (i) the \$2.9 million decrease in net sales volume; and
- (ii) increased product costs.

Improvement in inventory provisions partially offset the effect of the above factors. In Q2 2004, we recorded estimated inventory provisions of \$184,000 compared to \$443,000 in Q2 2003. Inventory provisions are made based upon management's evaluation of the amount of stock on hand relative to sales during the year, the age of the stock based on purchase date, the historical amount received when slow moving goods are sold and other factors. The inventory provisions in Q2 2003 reflected our U.S. operating company's move into a smaller distribution facility coupled with our program to market slow moving inventory at reduced prices. The process of evaluating the adequacy of our inventory allowance is subject to significant estimation.

SG&A - SG&A was \$2.7 million for both Q2 2003 and Q2 2004. SG&A in the United States decreased \$239,000 but was partially offset by a \$211,000 increase in Mexico, primarily associated with payroll and related costs due to severance expenses related to closing the Mexican distribution center. Combined net increases in payroll and related costs, along with other SG&A were offset by an equivalent amount of combined net decreases in bank fees, depreciation, telephone, legal fees and settlements.

Foreign Currency - Net foreign currency losses increased \$299,000 to an \$82,000 loss for Q2 2004 from a \$217,000 gain for Q2 2003, primarily due to the deterioration of the Canadian dollar relative to the U.S. dollar.

Mexico Distribution - All of the Company's warehousing and distribution activities in Mexico will end in May 2004. The Company has accrued \$283,000 and expensed \$182,000 as of March 31, 2004 for severance and payroll termination costs based on each employee's scheduled termination date. Since the involuntarily terminated employees were notified of their terminations in January 2004 and are required to work through their termination date in order to receive severance, the Company has \$101,000 of deferred severance expenses included in "Other Current Assets" in the accompanying balance sheet at March 31, 2004, pursuant to SFAS No. 146. The remaining deferred amount will be amortized to expense through each employee's scheduled termination date through May 2004. The Company has also provided \$327,000 for estimated inventory liquidation reserves and uncollectible accounts receivable based on management's estimates of future cash collections related to these assets. Additional provisions for inventory and accounts receivable may be necessary if future collections realized are less than our estimates.

New Customer Expansion Programs - We have completed negotiations with one customer to significantly expand our retail presence in their stores. The customer is a national DIY retailer operating over 1,000 store locations in the US market. In exchange for this expanded relationship, which includes dedicated shelf space for private label track lighting in over 800 of their locations, we are expected to provide support programs for product displays, product buybacks, store reset costs and markdown reimbursements during the third quarter of 2004, which management estimates to be \$3.2 million. These support program expenditures, once completed, will be recorded as a period cost and will reduce our margins in the short term.

United Kingdom

Summary - The United Kingdom segment ("UK segment") contribution decreased \$467,000 to \$2.7 million in Q2 2004 from \$3.2 million in Q2 2003, a decrease of 14.6%.

Exchange rate fluctuations can have a significant translation and economic impact on the UK segment's results. The UK segment purchases a significant portion of its products in U.S. dollars ("USD") and sells primarily in Great British Pound ("GBP"). Therefore, a weakening of the GBP relative to the USD can result in a decrease in the UK segment's gross profit, due to its inability in the U.K. marketplace to increase prices sufficiently to offset the higher effective cost of purchasing goods from China. Conversely, an increase in the GBP relative to the USD results in a lower cost of product and higher margin and subjects the UK segment to pricing pressures as customers seek to gain the benefit of the currency movement. We engage in hedging activities which partially minimize the effect of changes in exchange rates as discussed more fully in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2003, as filed with the Securities and Exchange Commission (the "SEC") on December 24, 2003. In Q2 2004, the GBP increased in value relative to the USD. The average exchange rate for Q2 2004 was 1.84 USD per GBP compared to an average of 1.60 USD per GBP for Q2 2003.

Net Sales - Net sales increased \$4.6 million to \$36.1 million in Q2 2004 compared to \$31.5 million in Q2 2003, an increase of 14.6%. The \$4.6 million increase in net sales is attributable to the change in the average currency exchange rate used to translate the UK segment results from GBP to USD. When viewed in its home currency GBP, the UK segment's net sales were GBP 19.7 million for both Q2 2004 with Q2 2003.

Gross Profit - The UK segment's gross profit decreased \$131,000 to \$7.4 million for Q2 2004 compared to \$7.5 million in Q2 2003, a decrease of 1.7%. Gross profit as a percentage of sales decreased 3.4 percentage points to 20.5% in Q2 2004 from 23.9% in Q2 2003. The decline in gross profit is due to:

- (i) the effect of currency exchange rates, as discussed below;
- (ii) increased customer allowances and downward pricing pressure;
- (iii) increased freight and warehousing costs.

When viewed in GBP, gross profit declined GBP 664,000 for Q2 2004 compared to Q2 2003. The effect of currency exchange rates resulted in a \$932,000 benefit in results reported in USD, which partially offset the effect of increased costs.

SG&A - SG&A increased \$115,000 to \$3.6 million in Q2 2004 from \$3.5 million in Q2 2003, an increase of 3.3%. The increase is primarily a result of a currency translation effects offsetting a \$355,000 net decrease in payroll, payroll related costs and other costs.

Interest Expense - Interest expense increased \$102,000 to \$867,000 in Q2 2004 from \$765,000 in Q2 2003. The increase was attributable to a higher weighted average interest rate due to refinancing, which was partially offset by lower average outstanding borrowings. As a result of refinancing our credit facility in December 2003, the weighted average interest rate increased as a result of: (i) a 0.25% increase in the margin over base rate, (ii) the use of a different and currently higher base rate and (iii) a \$5.0 million term loan at a fixed rate of 9%. In addition, the UK segment has paid all refinancing fees. Weighted average borrowings dropped to \$30.2 million for Q2 2004 from \$36.2 million for Q2 2003.

Summary—The China Manufacturing and Distribution segment loss increased \$838,000 to a \$361,000 loss in Q2 2004 compared to a \$477,000 contribution in Q2 2003.

The China Manufacturing and Distribution segment consists of products manufactured or sourced primarily for distributors and retailers in Europe and Asia and to a lesser extent the UK segment. In addition, the segment provides manufacturing and sourcing support to the North American segment. The China Manufacturing and Distribution Segment had combined net sales in Q2 2004 and Q2 2003 as shown in the following table (in thousands):

Description	Net Sales	
	Q2 2004	Q2 2003
Support of North America segment	\$ 8,091	\$ 9,632
Third party customers in Europe and Asia	\$ 3,371	\$ 3,536
Distribution to the UK segment	2,833	1,823
Total China Manufacturing and Distribution Segment	\$ 6,204	\$ 5,359

Net Sales—Net sales increased \$845,000 to \$6.2 million in Q2 2004 compared to \$5.4 million in Q2 2003, an increase of 15.8%. The increase in net sales is a result of increased distribution to the UK segment, which was partially offset by a decrease in third party sales to customers in continental Europe and Asia. The decreases in sales to continental Europe were a result of one major customer shifting purchases to alternate suppliers.

Gross Profit—Gross profit decreased \$655,000 to \$470,000 in Q2 2004 compared to \$1.1 million in Q2 2003, a decrease of 58.2%. Gross profit as a percentage of sales decreased 12.4 percentage points to 7.6% in Q2 2004 compared to 20.0% in Q2 2003. The decrease in gross profit is attributable to (i) competitive pressures in the European market, (ii) reduced pricing to the UK segment, (iii) decrease in VAT rebate on export sales, (iv) a change in the mix of manufactured versus sourced products, and (v) increased materials cost.

SG&A—SG&A increased \$165,000 to \$749,000 in Q2 2004 compared to \$584,000 in Q2 2003, an increase of 28.3% reflecting overall increased costs. Specifically, (i) depreciation due to asset additions, (ii) travel and selling expenses for European sales, and (iii) samples and courier charges have increased.

Comparison of YTD 2004 and YTD 2003

In the following comparison of the results of operations, the three months ended March 31, 2004 and 2003 are referred to as “Q2 2004” and “Q2 2003”, respectively, and the six months ended March 31, 2004 and 2003 are referred to as “YTD 2004” and “YTD 2003”, respectively. Unless otherwise noted, U.S. dollar equivalents of foreign currency amounts are based upon the exchange rates prevailing at March 31, 2004.

Consolidated Results

Summary—Operating income decreased \$2.8 million to \$4.6 million in YTD 2004 compared to \$7.4 million in YTD 2003, a decrease of 37.8%. The decrease in operating income resulted from a \$1.7 million increase in SG&A and a \$1.1 million decrease in gross profit. Net income decreased \$2.3 million to \$1.2 million, or \$0.21 per diluted share, in YTD 2004 compared to \$3.4 million, or \$0.60 per diluted share in YTD 2003.

Net Sales—Net sales increased \$1.6 million to \$107.7 million in YTD 2004 compared to \$106.1 million YTD 2003, an increase of 1.5%. During YTD 2004, lower sales in the North America and China Manufacturing and Distribution segments were offset by increased sales in the UK segment. The decrease in the North America

segment is primarily attributable to the loss of a large account in the prior year. The increased sales in the UK segment is primarily attributable to the effect of currency translation due to the decrease in the average value of the USD relative to the GBP to 1.77 during YTD 2004 from 1.59 during YTD 2003.

Lighting, automotive after-market products and industrial consumables accounted for 71.6%, 21.8% and 6.5%, respectively, of net sales in YTD 2004 compared to 75.6%, 18.5% and 5.9%, respectively, in YTD 2003. Sales made from warehouses constituted 76.4% and 67.6% of our consolidated net sales in YTD 2004 and YTD 2003, respectively. One of the UK segment's large customer accounted for \$17.0 million (15.8%) in YTD 2004 and \$17.9 million (16.8%) in YTD 2003 of our consolidated net sales. In YTD 2004 and YTD 2003, another UK segment large customer accounted for \$11.8 million (10.9%) and \$9.0 million (8.5%), respectively, of our consolidated net sales. In YTD 2004 and YTD 2003, Home Depot, previously the North America segment's largest customer, accounted for \$0.7 million (.7%) and \$10.4 million (9.8%), respectively, of our consolidated net sales. Home Depot has shifted purchases of all core program items to alternate suppliers. We anticipate that our sales to Home Depot for the year ending September 30, 2004 will be significantly less than our sales to Home Depot of \$14.1 million for the year ended September 30, 2003.

Gross Profit—Gross profit decreased \$1.0 million to \$21.5 million in YTD 2004 compared to \$22.6 million in YTD 2003, a decrease of 4.6%, and gross profit as a percentage of sales decreased 1.3 percentage points to 20.0% in YTD 2004 from 21.3% in YTD 2003. The decrease in gross profit is primarily attributable to:

- (i) increased customer allowances and downward pricing pressure;
- (ii) increased material costs, decrease in China VAT rebate and a change in the mix of manufactured versus sourced product; and
- (iii) decrease in Mexico profitability due to anticipated closing.

The effect of currency exchange rates resulted in a \$1.7 million increase in gross profit reported in USD, which partially offset the effect of increased costs. Improvement in inventory provisions, which were increased in YTD 2003 to effect a relocation of the US warehouse and distribution facilities into a smaller facility, also partially offset the decrease in gross profits.

SG&A—SG&A increased \$1.7 million to \$16.9 million for YTD 2004 compared to \$15.2 million for YTD 2003, an increase 11.4%. A \$190,000 reduction in SG&A in the United States operating subsidiary was insufficient to overcome SG&A increases in the rest of the Company. Company-wide costs were reduced in (i) depreciation due to reduced capital expenditures, (ii) fees and communications costs and (iii) bank fees and charges. These reductions were overshadowed by increases in legal settlements, auto and travel expenses to expand our customer base, legal and professional fees and an increase in other SG&A expenses, which includes severance for exiting the Mexican distribution facility. We expect to expense an additional \$101,000 in Q3 2004 relative to terminating Mexican warehouse and distribution operations. The above individual increases in consolidated SG&A include the currency translation effects of the weakening dollar relative to the GBP of \$768,000 related to our UK segment.

Interest Expense—Interest expense decreased \$115,000 to \$2.0 million in YTD 2004 compared to \$2.1 million in YTD 2003, a decrease of 5.6%. The decrease is attributable to lower average outstanding borrowings. Average outstanding borrowings decreased \$2.1 million to \$37.4 million in YTD 2004 compared to \$39.5 million for YTD 2003, as a result of cash generated primarily by the UK segment and the sale of the Miami facility, which was used to pay down debt. The weighted average effective interest rate remained stable when comparing YTD 2004 and YTD 2003, because the refinancing of our credit facility occurred in December 2003. We anticipate that the weighted average interest rate will increase as a result of: (i) a 0.25% increase in the margin over base rate, (ii) the use of a different and currently higher base rate and (iii) a \$5.0 million term loan at a fixed rate of 9%.

Foreign Currency—The net foreign currency loss of \$658,000 for YTD 2004 included a foreign currency net gain from operational transactions in our Canada, Mexico, United Kingdom and China operations of \$94,000. Offsetting the net gain from operational transactions was a \$752,000 currency translation loss in the United States related to certain US borrowings from its UK subsidiary, which is denominated in GBP.

Income Taxes—The effective income tax rates were 35% for YTD 2004 and YTD 2003. Through September 30, 2003, we have not provided for possible U.S. income taxes on \$35.2 million in undistributed earnings of foreign subsidiaries that were considered to be permanently reinvested. During the year ending September 30, 2004, we have begun to repatriate a portion of the earnings of our UK segment to the United States. Our effective income tax rate is dependent on the total amount of pretax income generated, the source of such income (i.e., domestic or foreign), and the amount and source of earnings repatriated. Consequently, our effective tax rate may vary in future periods.

Results By Segment

See Note 4 of Notes to Condensed Consolidated Financial Statements for the financial tables for each business segment.

North America

Summary—The North America segment loss increased \$1.8 million to \$3.3 million in YTD 2004 from \$1.5 million in YTD 2003.

Net Sales—Net sales for North America decreased \$8.0 million to \$24.9 million in YTD 2004 compared to \$32.8 million in YTD 2003, a decrease of 24.3%. The decrease in net sales volume is primarily attributable to the loss of our previously largest customer, Home Depot. Net sales to Home Depot decreased \$9.6 million to \$749,000 (3.0% of net sales) in YTD 2004 from \$10.4 million (31.6% of net sales) in YTD 2003. Excluding Home Depot, our current customer base generated a net sales increase of \$1.7 million. Home Depot has shifted purchases of all core program items to alternate suppliers. We believe that sales to Home Depot for the year ending September 30, 2004 will be significantly less than our sales to Home Depot of \$14.1 million for the year ended September 30, 2003.

Gross Profit—Gross profit decreased \$1.5 million to \$3.0 million in YTD 2004 compared to \$4.5 million in YTD 2003, a decrease of 33.4%. Gross profit as a percentage of sales decreased 1.7 percentage points to 11.9% in YTD 2004 from 13.6% in YTD 2003. The decrease in gross profit dollars is primarily attributable to:

- (i) the \$8.0 million decrease in net sales volume; and
- (ii) increased product costs.

Improvement in inventory provisions partially offset the effect of the above factors. In YTD 2004, we recorded estimated inventory provisions of \$480,000 of which \$225,000 pertained to Mexico, compared to \$1.5 million in YTD 2003. Inventory provisions are made based upon management's evaluation of the amount of stock on hand relative to sales during the year, the age of the stock based on purchase date, the historical amount received when slow moving goods are sold and other factors. The increased inventory provisions in YTD 2003 reflected our U.S. operating company's move into a smaller distribution facility coupled with our program to market such inventory at reduced prices. The process of evaluating the adequacy of our inventory allowance is subject to significant estimation.

SG&A—SG&A increased \$267,000 to \$5.3 million in YTD 2004 from \$5.0 million in YTD 2003, an increase of 5.3%. The increase was primarily the result of an unusual credit in YTD 2003 that did not repeat in YTD 2004. In YTD 2003, we reduced our accrual for a preferential payment claim by \$330,000, with a corresponding reduction in SG&A as a result of the claim being settled for less than originally estimated. In addition, in the current period, we recorded severance expense of \$182,000 related to the closure of the Mexican distribution center. These increases were partially offset by a reduction in depreciation expense resulting from an increase in fully depreciated assets still in service of \$164,000, a decrease of bank fees and other charges and telephone and data expense net decreases of \$159,000.

Foreign Currency—Net foreign currency gain decreased \$24,000 to \$79,000 in YTD 2004 compared to \$103,000 in YTD 2003, primarily due to the deterioration of the Canadian dollar relative to the USD.

Mexico Distribution—All of the Company's warehousing and distribution activities in Mexico will end in May 2004. The Company has accrued \$283,000 and expensed \$182,000 as of March 31, 2004 for severance and payroll termination costs based on each employee's scheduled termination date. Since the involuntarily terminated employees were notified of their terminations in January 2004 and are required to work through their termination date in order to receive severance, the Company has \$101,000 of deferred severance expenses included in "Other Current Assets" in the accompanying balance sheet at March 31, 2004, pursuant to SFAS No.146. The remaining deferred amount will be amortized to expense through each employee's scheduled termination date through May 2004. The Company has also provided \$327,000 for estimated inventory liquidation reserves and uncollectible accounts receivable based on management's estimates of future cash collections related to these assets. Additional provisions for inventory and accounts receivable may be necessary if future collections realized are less than our estimates.

New Customer Expansion Programs—We have completed negotiations with one customer to significantly expand our retail presence in their stores. The customer is a national DIY retailer operating over 1,000 store locations in the US market. In exchange for this expanded relationship, which includes dedicated shelf space for private label track lighting in over 800 of their locations, we are expected to provide support programs for product displays, product buybacks, store reset costs and markdown reimbursements during the third quarter of 2004, which management estimates to be \$3.2 million. These support program expenditures, once completed, will be recorded as a period cost and will reduce our margins in the short term.

United Kingdom

Summary—The UK segment contribution increased \$1.0 million to \$8.2 million in YTD 2004 compared to \$7.2 million in YTD 2003, an increase of 14.6%.

Exchange rate fluctuations can have a significant translation and economic impact on the UK segment's results. The UK segment purchases a significant portion of its products in USD and sells primarily in GBP. Therefore, a weakening of the GBP relative to the USD can result in a decrease in UK segment's gross profit, due to its inability in the U.K. marketplace to increase prices sufficiently to offset the higher effective cost of purchasing goods from China. Conversely, an increase in the GBP relative to the USD results in a lower cost of product and higher margin and subjects the UK segment to pricing pressures as customers seek to gain the benefit of the currency movement. We engage in hedging activities to partially minimize the effect of changes in exchange rates as discussed more fully in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2003, as filed with the SEC on December 24, 2003. In YTD 2004, the GBP increased in value relative to the USD. The average exchange rate for YTD 2004 was 1.77 USD per GBP compared to an average of 1.59 for YTD 2003.

Net Sales—Net sales increased \$10.4 million to \$75.8 million in YTD 2004 compared to \$65.4 million in YTD 2003, an increase of 15.9%. The \$10.4 million increase is primarily attributable to the change in the average currency exchange rate used to translate the UK segment results from GBP to USD. The remaining portion of increased net sales is attributable to improved penetration with existing customers in its core markets, in particular increased volume with its second and third largest customers. When viewed in its home currency GBP, the UK segment's net sales increased GBP 1.7 million to GBP 42.9 million in YTD 2004 compared to GBP 41.2 million in YTD 2003, an increase of 4.1%.

Gross Profit—Gross profit increased \$1.9 million to \$17.4 million in YTD 2004 compared to \$15.5 million in YTD 2003, an increase of 12.2%. Gross profit as a percentage of sales decreased 0.8 percentage points to 22.9% in YTD 2004 from 23.7% in YTD 2003. The net \$1.9 million increase in gross profit is attributable to:

- (i) the effect of currency exchange rates, as discussed below;
- (ii) the \$10.4 million increase in net sales volume;
- (iii) increased customer allowances and downward pricing pressure in Q2; and
- (iv) increased freight and warehousing costs.

When viewed in GBP, gross profit increased GBP 112,000 for YTD 2004 compared to YTD 2003. The effect of changes in the currency exchange rates resulted in a \$1.7 million benefit in results reported in USD, which supplemented the net increase in the other factors affecting gross profit translated and reported in USD, listed above.

SG&A—SG&A increased \$866,000 to \$7.4 million in YTD 2004 compared to \$6.5 million in YTD 2003, an increase of 13.3%. The increase is primarily a result of currency translation effects.

Interest Expense—Interest expense decreased \$184,000 to \$1.3 million in YTD 2004 compared to \$1.5 million in YTD 2003. This decrease was attributable to a lower average outstanding borrowings offset by increase in the effective rate to 8.5% from 8.0%. As a result of refinancing our credit facility in December 2003, we anticipate the weighted average interest rate will increase as a result of: (i) a 0.25% increase in the margin over base rate, (ii) the use of a different and currently higher base rate and (iii) a \$5.0 million term loan at a fixed rate of 9%. In addition, the UK segment has paid all refinancing fees. Weighted average borrowings dropped to \$31.3 million in YTD 2004 compared to \$38.1 million in YTD 2003.

China Manufacturing and Distribution

Summary—The China Manufacturing and Distribution segment loss increased \$1.7 million to \$(444,000) in YTD 2004 compared to segment contribution of \$1.3 million in YTD 2003.

The China Manufacturing and Distribution segment consists of products manufactured or sourced primarily for distributors and retailers in Europe and Asia and to a lesser extent the UK segment. In addition, the segment provides manufacturing and sourcing support to the North American segment. The China Manufacturing and Distribution Segment had combined net sales in YTD 2004 and YTD 2003 as shown in the following table (in thousands):

Description	Net Sales	
	YTD 2004	YTD 2003
Support of North America segment	\$ 15,076	\$ 22,219
Third party customers in Europe and Asia	\$ 7,025	\$ 7,868
Distribution to the UK segment	6,283	5,179
Total China Manufacturing and Distribution Segment	\$ 13,308	\$ 13,047

Net Sales—Net sales increased \$261,000 to \$13.3 million in YTD 2004 compared to \$13.0 million in YTD 2003, an increase of 2%. The increase was attributable to an increase in production and sourcing to the UK segment, which was offset by decreases in sales to one major customer in continental Europe shifting a portion of their purchases to alternate suppliers.

Gross Profit—Gross profit decreased \$1.4 million to \$1.2 million in YTD 2004 compared to \$2.6 million in YTD 2003, a decrease of 55.0%. Gross profit as a percentage of sales decreased to 8.8% in YTD 2004 compared to 20.0% in YTD 2003. The decrease in gross profit is attributable to (i) competitive pricing pressures in the European market, (ii) higher material costs, (iii) decrease in VAT rebate on export sales, and (iv) decreased factory utilization due to volume and a change in the mix of manufactured versus sourced products.

SG&A—SG&A increased \$249,000 to \$1.5 million in YTD 2004 compared to \$1.2 million in YTD 2003, an increase of 20%, as a result of increased (i) sample and courier charges, and (ii) travel and sales related expenses.

Liquidity and Capital Resources

We meet our short-term liquidity needs through cash provided by operations, borrowings under various credit facilities with banks, accounts payable and the use of letters of credit from customers to fund certain of our direct import sales activities. Term loans, lease obligations, subordinated debt and capital stock are sources for our longer-term liquidity and financing needs.

Cash Flows and Financial Condition

During YTD 2004, we refinanced our primary credit facility and incurred \$2.3 million in loan related fees and also increased our net borrowings by \$5.8 million. With the sale of the Miami facility, the Company repaid \$1.2 million in other debt (existing mortgage and subordinated debt). Availability under our revolving credit facilities decreased from \$23.1 million at September 30, 2003 to \$10.2 million at March 31, 2004.

Net working capital decreased to \$28.6 million at March 31, 2004 from \$28.8 million at September 30, 2003. A \$1.3 million increase in restricted cash was used to collateralize letters of credit during the period.

Our agreements with our major customers provide for various sales allowances (i.e., deductions given the customer from purchases made from us), the most common of which are for volume discounts, consumer product returns and cooperative advertising. These allowances are usually defined as a percentage of the gross sales price and are recognized as a reduction of gross sales revenue at the time the related sales are recorded. If the customer agreement does not provide for the deduction of the allowance amount directly from the amount invoiced the customer at time of billing, we record an accrual for the amounts due. These accrued sales allowances are settled periodically either by subsequent deduction from the accounts receivable from the customer or by cash payment. For financial statement presentation purposes, these sales allowances are netted against accounts receivable and amounted to \$8.8 million and \$7.9 million at March 31, 2004 and September 30, 2003, respectively. The amounts of our accrued sales allowances, by customer and in the aggregate, are dependent upon various factors, including sales volumes, the specific terms negotiated with each customer (including whether the allowance amounts are deducted immediately from the invoice or accrued) and the manner and timing of settlement.

Revolving Credit and Term Loan Facilities

On December 23, 2003, the Company entered into a new asset-based credit facility with a syndicate of lenders to refinance its indebtedness under its former \$75 million credit facility. The new facility matures June 30, 2006. The facility consists of two term loans in the amount of GBP 305,000 (\$561,000) and \$5.0 million and two revolving facilities in the amount of GBP 22.0 million (\$40.5 million) and \$6.0 million for loans, acceptances, and trade and stand-by letters of credit for the Company's ongoing operations in the United States and United Kingdom. Amounts outstanding under each revolving facility are limited under separate U.S. and U.K. borrowing bases that are defined as percentages of eligible accounts receivable and inventory. Obligations under the facility are secured by substantially all of the Company's U.S. and U.K. assets. The facility prohibits the payment of cash dividends or other distribution on any shares of the Company's common stock. The Company pays a monthly commitment fee of .375% per annum based on the unused portion of the revolving facilities as well as a monthly servicing fee of \$7,500. If the \$5.0 million term loan is not repaid by the first anniversary of the loan, a fee of \$500,000 is due. Borrowings under the revolving facilities and the GBP 305,000 term loan bear interest, payable monthly, at LIBOR plus a margin of 2.25%. Borrowings under the \$5.0 million term loan bear interest at 9% per annum, payable monthly. The Company is required to meet monthly minimum levels of adjusted earnings and adjusted net worth, as defined in the facility, as well as a maximum debt to adjusted earnings ratio. Capital expenditures are limited to \$3.8 million per year. The Company owes a \$450,000 investment-banking fee to an affiliate of its majority shareholder for services provided in connection with the refinancing. One-half of this fee was paid on April 1, 2004 and the remaining one-half of this fee will be paid on June 1, 2004, subject to certain minimum levels of availability as set forth in the credit facility. Total fees incurred in connection with the refinancing were approximately \$2.3 million of which, \$1.8 million is being amortized over the term of the facility and \$500,000 is being amortized over 12 months.

Ring has an arrangement with a U.K. bank which through December 23, 2003 was secured by a standby letter of credit previously issued under the GBP revolving loan facility of our former \$75 million credit facility. Ring's current arrangement with the U.K. bank is secured in part by cash on deposit. The arrangement provides for day-to-day operational cash management, trade letters of credit, bonds and foreign currency forward contracts and transactions. At March 31, 2004, there was \$1.3 million of restricted cash on hand in respect of this arrangement.

Catalina Lighting Canada (1992), Inc., our Canadian subsidiary ("Catalina Canada") has a credit facility with a Canadian company that provides U.S. dollar and Canadian dollar ("CDN dollar") revolving credit loans up to \$7.0 million CDN dollars (approximately U.S. \$5.3 million) in the aggregate. The facility matures in December 2004. Borrowings in CDN dollars bear interest at the Canadian prime rate plus 1.5%, while borrowings in U.S. dollars bear interest at the U.S. prime rate plus 0.5%. Borrowings under the facility are limited to a borrowing base calculated from receivables and inventory. The credit facility is secured by substantially all of the assets of Catalina Canada. The facility limits the payment of dividends, advances or loans from Catalina Canada to Catalina Lighting, Inc. to \$500,000 annually, and no such amounts may be transferred if Catalina Canada does not have sufficient excess borrowing availability under the facility's borrowing base. The facility contains a financial covenant requiring Catalina Canada to maintain a minimum net worth.

Go-Gro has a \$41.6 million Hong Kong dollars (approximately U.S. \$5.3 million) facility with a Hong Kong bank. The facility provides limited credit in the form of acceptances, trade letters of credit, discounting of export letters of credit, factoring of receivables, and negotiation of discrepant documents presented under export letters of credit issued by banks. The facility is secured by a guarantee issued by us. This agreement prohibits the payment of dividends without the consent of the bank and limits the total amount of trade receivables, loans or advances from Go-Gro to our other companies. This facility is subject to a periodic review by the bank. At March 31, 2004, Go-Gro had used \$3.4 of this facility for letters of credit, factoring of accounts receivable and discounting of import invoices.

The terms of our credit facilities and U.S. and foreign income tax considerations impact the flow of funds between our major subsidiaries. The facility entered into on December 23, 2003 prohibits loans to Go-Gro by any of our U.S. and U.K. companies other than normal intercompany trade payables. The facility permits loans and dividends between the U.S. and U.K. entities, subject to certain limits. Our Hong Kong credit facility prohibits the payment of dividends without the consent of the bank and limits the amount of loans or advances from Go-Gro to our other companies. Any loan made or dividends paid either directly or indirectly by Go-Gro to us or our U.S. subsidiaries could be considered by U.S. taxing authorities as a repatriation of foreign source income subject to taxation in the United States at a higher rate than that assessed in Hong Kong. The net impact of such a funds transfer from Go-Gro could be an increase in our U.S. income taxes payable and our effective tax rate. The credit facility for Catalina Canada also limits payments to our other companies other than trade payments in the ordinary course of business.

We utilize the revolving portions of our new credit facility to support our operations in the United States and the United Kingdom. Our U.S. operations are also supported to a limited extent by cash flows from our China operations. As of May 8, 2004, we had \$9.8 million available under the new credit facility to support U.S. and U.K. operations.

As of March 31, 2004, we were in compliance with the terms and covenants of our asset-based credit facility entered into on December 23, 2003. Based upon (i) current assessments of market conditions for our business and (ii) sales, profitability and cash flow projections, we believe we will continue to be in compliance with the terms and covenants of the asset-based credit facility entered into on December 23, 2003 and that we will have adequate available borrowings and other sources of liquidity for the 2004 fiscal year. However, there can be no assurances that market conditions will not deteriorate in the future or that we will be able to achieve our projected results. Moreover, our expenditures may increase in ways that consume our available liquidity and make it more difficult or impossible for us to comply with the terms and covenants of our asset-based credit facility.

On July 23, 2001, we obtained \$11.8 million in additional funding as a result of closing a transaction (the "Sun Transaction") with Sun Catalina Holdings LLC ("Sun Catalina") an affiliate of Sun Capital Partners, Inc. and other parties. We issued \$8.8 million in secured subordinated notes in July 2001 in connection with the Sun Transaction, which are due in full on July 23, 2006. These notes bear interest at 12%, compounded quarterly. Interest on the subordinated notes is payable quarterly in arrears in cash commencing as of March 31, 2003. Interest for quarters prior to the quarter ended March 31, 2003 could be added to the principal amount of the note. The note holders were also entitled to additional warrants to purchase shares of common stock at \$.05 per share for the quarters during which interest on the notes was not paid in cash. Interest was not paid in cash on the notes for the period from July 23, 2001 to March 31, 2002, for which the note holders received additional warrants to purchase, in the aggregate, 94,247 shares of common stock. Interest due on the subordinated debt outstanding for the period from March 31, 2002 to March 31, 2004 was paid in cash and no additional warrants were issued.

On June 14, 2002, we entered into a transaction with Sun Catalina and SunTrust Bank, Inc. ("SunTrust") whereby we issued and sold 924,572 and 184,843 shares of common stock to Sun Catalina and SunTrust, respectively, for an aggregate purchase price of \$6.0 million, representing a price of \$5.41 per share. As payment for their shares, Sun Catalina and SunTrust each surrendered a corresponding amount of subordinated debt and accrued interest, and we were released from all obligations and liabilities associated with the surrendered debt. In connection with the transaction, a special committee of independent members of our Board of Directors obtained a fairness opinion from a major investment bank regarding the \$5.41 per share sale price.

On February 27, 2004, we paid down \$500,000 of the subordinated notes with the proceeds from the sale of the Miami office building.

Other Obligations

We financed the purchase of our corporate headquarters in Miami, Florida with a loan payable monthly through 2004, based on a 15-year amortization schedule, with a balloon payment in March 2004. The loan interest rate was 8% and was secured by a mortgage on the land and building. This loan was paid off on February 27, 2004 in conjunction with the sale of the property.

Immediately prior to the closing of the Sun Transaction, we had existing employment agreements with our then chief executive officer, two executive vice presidents and our then chief financial officer that provided for certain payments to these employees in the event that we experienced a "change in control". We resolved these obligations as part of the Sun Transaction by terminating the previous employment agreements and entering into settlement agreements with these employees which provide in the aggregate for (i) the granting of rights to fully vested options to purchase 313,847 shares of common stock at a price of \$5.90 per share and (ii) payments of approximately \$198,000 each quarter over a three-year period beginning September 1, 2001. As part of the settlement agreements, we obtained covenants not to compete through July 23, 2004. Amounts receivable from the two former executive vice presidents totaled \$212,000 immediately prior to the Sun Transaction. These amounts are being repaid on a quarterly basis from the proceeds due these former executives under the settlement agreements negotiated as part of the Sun Transaction. At March 31, 2004, the remaining amount due is from one individual and totals \$35,000. This amount will all be collected from the last payment due to this individual in the next quarter.

Capital Expenditures

In September 2000, Go-Gro, our Chinese subsidiary, deposited the purchase price of approximately \$1.0 million for its joint venture partner's interest in Go-Gro's Chinese cooperative joint venture manufacturing subsidiary Shenzhen Jiadianbao Electrical Products Co., Ltd. ("SJE"). This purchase was finalized in December 2000. During the quarter ended March 31, 2001, SJE was converted under Chinese law from a cooperative joint venture to a wholly owned foreign entity and its name was changed to Jiadianbao Electrical Products (Shenzhen) Co., Ltd. ("JES").

JES obtained non-transferable land use rights for the land on which its primary manufacturing facilities were constructed under a Land Use Agreement dated April 11, 1995 between SJE and the Bureau of National Land Planning Bao-An Branch of Shenzhen City. This agreement provides JES with the right to use this land until January 18, 2042 and required SJE to construct approximately 500,000 square feet of factory buildings and 175,000 square feet of dormitories and offices. This construction is complete and total costs aggregated \$15.8 million.

In connection with the settlement with Go-Gro's former joint venture partner in SJE, JES acquired the land use rights for a parcel of land adjoining its primary manufacturing facilities. Under a separate land use agreement for this parcel, JES has the right to use the land through March 19, 2051 and was obligated to complete new construction on the land (estimated to cost approximately \$1.3 million) by March 20, 2002. The construction was not completed by that date. Because the construction was not completed by March 2004, the local municipal planning and state land bureau may take back the land use rights for the parcel without compensation and confiscate the structures and attachments. The Company has not begun construction and, during the fourth quarter of 2003, decided not to seek an extension from local authorities. As a result of this decision, the Company recorded a \$766,000 provision for impairment of land use rights during the fourth quarter of 2003. There are no structures on this parcel, and should the local authorities confiscate the land, we do not believe there would be any impact on the operations of the factory.

Litigation

During the past few years, we have received a number of claims relating to halogen torchieres sold by us to various retailers. The number of such claims has decreased significantly since the applicable Underwriters Laboratories Inc. (UL) standard was changed and the halogen torchieres produced complied with such new standard. Through January 7, 2003, we maintained primary product liability insurance coverage of \$1.0 million per occurrence, \$2.0 million in the aggregate, as well as umbrella insurance policies providing an aggregate of \$75 million in insurance coverage. The primary insurance policy required us to self-insure for up to \$10,000 per incident. Effective January 8, 2003, the umbrella coverage was decreased to \$50 million and the deductible was increased to \$150,000 per incident involving halogen light products and \$75,000 for all other incidents. All other significant aspects of the policy remain unchanged. Effective January 9, 2004, the Company renewed its insurance coverage at the same limits; however the deductible was established at \$100,000 for all incidents. Based on experience, we have accrued \$620,000 for this contingency as of March 31, 2004. No assurance can be given that the number of claims will not exceed historical experience or that claims will not exceed available insurance coverage or that we will be able to maintain the same level of insurance.

Other Matters

Our ability to import products from China at current tariff levels could be materially and adversely affected if the normal trade relations ("NTR") status the U.S. government has granted to China for trade and tariff purposes is terminated. As a result of its NTR status, China receives the same favorable tariff treatment that the United States extends to its other "normal" trading partners. China's NTR status, coupled with its membership in the World Trade organization ("WTO"), could eventually reduce barriers to manufacturing products in and exporting products from China. However, we cannot provide any assurance that China's WTO membership or NTR status will not change.

Ring has a defined benefit pension plan which covered approximately 750 members formerly associated with Ring. There are no active members in the defined benefit plan. The defined benefit plan is administered externally and professional investment managers hold the assets separately. The plan is funded by contributions at rates recommended by an actuary based on the "Minimum Funding Requirement" ("MFR"). The U.K. government has announced that it intends to abolish the MFR and to replace it with funding standards individually tailored to the circumstances of plans and employers. In June 2003, the U.K. government announced that (i) solvent employers who choose to terminate their defined benefit pension plans are expected to meet the full buyout costs of all members' benefits and (ii) a pension protection fund is to be introduced to guarantee members a specified minimum level of pension when the employer becomes insolvent. All employers with defined benefit pension plans will pay a flat rate levy and those employers with plans that are under funded, such as Ring, will have to pay a higher premium to the protection fund. The amount of the levy has not been determined. The full buyout cost is considerably higher

than the MFR cost. We do not intend to terminate the plan in the foreseeable future. As a result of the change in U.K. law, at some time in the future, the Company must negotiate with the plan trustees the amount of cash funded into the plan. The Company has not begun these negotiations but expects that future funding will increase. The weighted average assumptions used in the actuarial computations related to the defined benefit pension plan are consistent and reasonable.

As of December 31, 2003, Ring had approximately 9.5 million outstanding convertible preference shares of which third parties held approximately 2.5 million shares representing a minority interest of approximately \$1.1 million. The preference shares were converted into common shares of Ring on the basis of two common shares of Ring for every five preference shares, on January 1, 2004. The remaining minority interest of approximately \$200,000 is not convertible into common shares.

On February 27, 2004, the Company sold its Miami office building for \$2.5 million. The Company then subsequently signed a ten-year office lease with the new owners. The monthly lease payments on this lease are \$20,833.

Impact of New Accounting Pronouncements

On March 31, 2004, the Financial Accounting Standards Board (“FASB”) issued a proposed statement, *Share-Based Payment*, that addresses the accounting for share-based payment transactions (for example, stock options and awards of restricted stock) in which an employer receives employee-services in exchange for equity securities of the company or liabilities that are based on the fair value of the company’s equity securities. This proposal, if finalized as proposed, would eliminate use of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally would require such transactions be accounted for using a fair-value-based method and recording compensation expense rather than optional pro forma disclosure of what expense amounts might be. The proposal, if approved, would substantially amend FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Because of the timing of the proposal and the uncertainty of whether it will be adopted substantially as proposed, management has not completed its review of the proposal or assessed its potential impact on the Company.

In December 2003, the FASB issued Statements of Financial Accounting Standards (“SFAS”) No. 132 revised (“SFAS No. 132R”), “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” The provisions of SFAS No.132R do not change the measurement and recognition provisions of SFAS No. 87, “Employers’ Accounting for Pensions” or SFAS No.88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Plans and Termination Benefits.” During three months ended March 31, 2004, the Company adopted the provisions of SFAS No. 132R (see Note 5 to the condensed consolidated financial statements), which did not have a material effect on the Company’s consolidated financial statements.

In January 2003, the FASB issued Interpretation No. (“FIN”) 46, “Consolidation of Variable Interest Entities,” which establishes criteria to identify variable interest entities (“VIE”) and the primary beneficiary of such entities. An entity that qualifies as a VIE must be consolidated by its primary beneficiary. All other holders of interests in a VIE must disclose the nature, purpose, size and activity of the VIE as well as their maximum exposure to losses as a result of involvement with the VIE. FIN 46 was revised in December 2003 and is effective for financial statements of public entities that have special-purpose entities, as defined, for periods ending after December 15, 2003. For public entities without special-purpose entities, it is effective for financial statements for periods ending after March 15, 2004. The Company does not have any special-purpose entities, as defined and accordingly the adoption of FIN 46 did not have a material effect on the Company’s consolidated financial statements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, management has not determined whether implementation of such proposed standards would be material to the Company’s consolidated financial statements.

Impact of Inflation and Economic Conditions

The Company has periodically experienced price increases in the costs of raw materials and finished goods from suppliers that reduced the Company's profitability due to an inability to immediately pass on such price increases to its customers. Significant increases in raw materials and finished goods prices could have an adverse impact on our net sales and income from continuing operations. We have experienced increased prices for raw steel and copper, which will result in increased material costs, components and products costs in fiscal 2004.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk exposure during the six months ended March 31, 2004 that would require an update to the disclosure in our Annual Report on Form 10-K for the fiscal year ended September 30, 2003 as filed with the SEC on December 24, 2003.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

No change in the Company's internal controls over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are a defendant in legal proceedings arising in the ordinary course of our business. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial position or annual results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its annual Meeting of Shareholders on February 26, 2004. Two matters were considered and voted upon at the Annual Meeting: the election of ten persons to serve as directors for a one-year term and ratification of the appointment of Grant Thornton LLP as our auditors for the fiscal year ending September 30, 2004.

The nominations of Kevin J. Calhoun, C. Deryl Couch, C. Daryl Hollis, Michael H. Kalb, Rodger R. Krouse, Marc J. Leder, George R. Rea, Patrick J. Sullivan, Clarence E. Terry, and Robert Varakian were considered and ultimately approved by the votes set forth below:

	Votes For	Votes Withheld
Kevin J. Calhoun	3,089,999	112,536
C. Deryl Couch	3,106,739	104,796
C. Daryl Hollis	3,172,815	38,720
Michael H. Kalb	3,106,739	104,796
Rodger R. Krouse	3,106,739	104,796
Marc J. Leder	3,106,739	104,796
George R. Rea	3,172,815	38,720
Patrick J. Sullivan	3,172,815	38,720
Clarence E. Terry	3,098,999	112,536
Robert Varakian	3,106,739	104,796

The appointment of Grant Thornton LLP to serve as our auditors for the fiscal year ending September 30, 2004 was ratified by a vote of 3,203,609 shares cast for the proposal, 4,640 shares cast against, 3,266 abstentions and 0 non-votes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
10.32	Purchase and Sales Agreement between Crisana Corporation and Catalina Lighting, Inc., dated as of December 29, 2003 and Office Building Lease between Landlord Segovia Realty, LLC a Florida Limited Liability Company and Tenant Catalina Lighting, Inc. a Florida Corporation, dated as of February 27, 2004.
10.33	Letter Agreement dated January 30, 2004, by and between Catalina Lighting, Inc. and Robert Varakian.
10.34	Amended and Restated Incentive Compensation Agreement, dated as of March 15, 2004, by and between Catalina Lighting, Inc. and Robert Varakian.
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification by the Chief Executive Officer and Chief Financial Officer Relating to a Periodic Report Containing Financial Statements.

(b) Reports on Form 8-K.

On February 13, 2004, we furnished a report on Form 8-K to report the announcement of our financial results for the quarter ended December 31, 2003.

SIGNATURES

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

CATALINA LIGHTING, INC.

/s/ ROBERT VARAKIAN

Robert Varakian

President and Chief Executive Officer

/s/ GARY RODNEY

Gary Rodney

Chief Financial Officer

(Principal Financial Officer)

Date: May 17, 2004

EXHIBIT INDEX

Exhibit Number	Description
10.32	Purchase and Sales Agreement between Crisana Corporation and Catalina Lighting, Inc., dated as of December 29, 2003 and Office Building Lease between Landlord Segovia Realty, LLC a Florida Limited Liability Company and Tenant Catalina Lighting, Inc. a Florida Corporation, dated as of February 27, 2004.
10.33	Letter Agreement dated January 30, 2004, by and between Catalina Lighting, Inc. and Robert Varakian.
10.34	Amended and Restated Incentive Compensation Agreement, dated as of March 15, 2004, by and between Catalina Lighting, Inc. and Robert Varakian.
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification by the Chief Executive Officer and Chief Financial Officer Relating to a Periodic Report Containing Financial Statements.

Commercial Contract
FLORIDA ASSOCIATION OF REALTORS

Vila, Padron & Diez, P.A.
Two Alhambra Plaza, Suite 860
Coral Gables, Florida 33134
Tel. 305/461-4888 Fax 305/461-0281

1. PURCHASE AND SALE:

Crisana Corporation

(“Buyer”),

agrees to buy and

Catalina Lighting, Inc.

(“Seller”),

agrees to sell the property described as; Street Address;
18191 NW 68th Avenue

Legal Description: TRACT D OF COUNTRY CLUB OF MIAMI VILLAGE CENTER, according to the Plat thereof recorded in Plat Book 99, Page 61, of the Public Records of Miami-Dade County, Florida, and the following Personal Property; security systems, indoor and outdoor lighting, HVAC and any personal property associated with the operation of the property. Personal property associated with the Seller’s business (i.e. hanging light fixtures) are not included in the sale. (all collectively referred to as the “Property”) on the terms and conditions set forth below. The “Effective Date” of this Contract is the date on which the last of the Parties signs the latest offer. Time is of the essence in this Contract. Time periods of 5 days or less will be computed without including Saturday, Sunday, or national legal holidays and any time period ending on a Saturday, Sunday or national legal holiday will be extended until 5:00 p.m. of the next business day.

2. PURCHASE PRICE:

\$2,500,000.00

(a) Deposit held in escrow by Cushman & Wakefield

\$50,000.00

(b) Additional deposit to be made within 30 days from Effective Date

\$50,000.00

(c) Total mortgages (as referenced in Paragraph 3)

\$1,875,000.00

(d) Other.

\$ _____

(e) Balance to close, subject to adjustments and prorations, to be made with cash, locally drawn certified or cashier’s check or wire transfer.

\$325,000.00

3. THIRD PARTY FINANCING: Within 7 days from Effective Date (“Application Period”), Buyer will, at Buyer’s expense, apply for third party financing in the amount of \$_____ of 75% of the purchase price to be amortized over a period of 20 years and due in no less than ___ years and with a fixed interest rate not to exceed _____% per year or variable interest rate not to exceed _____% at origination with a lifetime cap not to exceed _____% from initial rate, with additional terms as follows: market interest rate. Buyer will pay for the mortgages title insurance policy and for all loan expenses. Buyer will timely provide any and all credit, employment, financial and other information reasonably required by any lender. Buyer will notify Seller immediately upon obtaining financing or being rejected by a lender, if Buyer, after diligent effort, fails to obtain a written commitment within 30 days from Effective Date (“Financing Period”), Buyer may cancel the Contract by giving prompt notice to Seller and Buyer’s deposit(s) will be returned to Buyer in accordance with Paragraph 8,

Buyer (/s/ OJV) (_____) and Seller (/s/ JL) (_____) acknowledge receipt of a copy of this page, which is Page 1 of 5 Pages. Illegible.

4. TITLE: Seller has the legal capacity to and will convey marketable title to the Property by statutory warranty deed other _____, free of liens, easements and encumbrances of record or known to Seller, but subject to property taxes for the year of closing; covenants, restrictions and public utility easements of record; and (list any other matters to which title will be subject) _____; provided there exists at closing no violation of the foregoing and none of them prevents Buyer's intended use of the Property as _____.

(a) Evidence of Title: Seller will, at (check one) Seller's Buyer's expense and within 5 days from Effective Date prior to Closing Date from date Buyer meets or waives financing contingency in Paragraph 3, (check one)

a title insurance commitment by a Florida licensed title insurer.

an abstract of title, prepared or brought current by an existing abstract firm or certified as correct by an existing firm. However, if such an abstract is not available to Seller, then a prior owner's title policy acceptable to the proposed insurer as a base for reissuance of coverage. The prior policy will include copies of all policy exceptions and an update in a format acceptable to Buyer from the policy effective date and certified to Buyer or Buyer's closing agent together with copies of all documents recited in the prior policy and in the update.

(b) Title Examination: Buyer will, within 15 days from receipt of the evidence of title deliver written notice to Seller of title defects. Title will be deemed acceptable to Buyer if (1) Buyer fails to deliver proper notice of defects or (2) Buyer delivers proper written notice and Seller cures the defects within 10 days from receipt of the notice ("Curative Period"). If the defects are cured within the Curative Period, closing will occur within 10 days from receipt by Buyer of notice of such curing. Seller may elect not to cure defects if Seller reasonably believes any defect cannot be cured within the Curative Period. If the defects are not cured within the Curative Period, Buyer will have 10 days from receipt of notice of Seller's inability to cure the defects to elect whether to terminate this Contract or accept title subject to existing defects and close the transaction without reduction in purchase price. The party who pays for the evidence of title will also pay related title service fees including title and abstract charges and title examination.

(c) Survey: (check applicable provisions below)

Seller will, within 10 days from Effective Date, deliver to Buyer copies of prior surveys, plans, specifications, and engineering documents, if any, and the following documents relevant to this transaction: government notices relating to the property, agreements relating to the property, tax bills, environmental report(s), leases (if any) prepared for Seller or in Seller's possession, which show all currently existing structures.

Buyer will, at Seller's Buyer's expense and within the time period allowed to deliver and examine title evidence, obtain a current certified survey of the Property from a registered surveyor. If the survey reveals encroachments on the Property or that the improvements encroach on the lands of another, Buyer will accept the Property with existing encroachments such encroachments will constitute a title defect to be cured within the Curative Period.

(d) Ingress and Egress: Seller warrants that the Property presently has ingress and egress.

(e) Possession: Seller will deliver possession and keys for all locks and alarms to Buyer at closing.

5. CLOSING DATE AND PROCEDURE: This transaction will be closed in Miami - Dade County, Florida on or before the _____, 20____ or within 60 days from Effective Date ("Closing Date"), unless otherwise extended herein Seller Buyer will designate the closing agent. Buyer and Seller will, within 21 days from Effective Date, deliver to Escrow Agent signed instructions which provide for closing procedure. If an institutional lender is providing purchase funds, lender requirements as to place, time of day, and closing procedures will control over any contrary provisions in this Contract.

(a) Costs: Buyer will pay taxes and recording fees on notes, mortgages and financing statements and recording fees for the deed. Seller will pay taxes on the deed and recording fees for documents needed to cure title defects. If Seller is obligated to discharge any encumbrance at or prior to closing and fails to do so, Buyer may use purchase proceeds to satisfy the encumbrances.

(b) Documents: Seller will provide the deed, bill of sale, mechanic's lien affidavit, assignments of leases, updated rent roll, tenant and lender estoppel letters, assignments of permits and licenses, corrective instruments and letters notifying tenants of the change in

ownership/rental agent. If any tenant refuses to execute an estoppel letter, Seller will certify that information regarding the tenant' s lease is correct. If Seller is a corporation, Seller will deliver a resolution of its Board of Directors authorizing the sale and delivery of the deed and certification by the corporate Secretary certifying the resolution and setting forth facts showing the conveyance conforms with the requirements of local law. Seller will transfer security deposits to Buyer. Buyer will provide the closing statement, mortgages and notes, security agreements and financing statements.

Buyer (/s/ O J V)(_____) and Seller (/s/ J L)(_____) acknowledge receipt of a copy of this page, which is Page 2 of 5 Pages.

Illegible.

(c) Taxes, Assessments, and Prorations: The following items will be made current and prorated as of Closing Date as of _____: real estate taxes, bond and assessment payments assumed by Buyer, interest, rents association dues, insurance premiums acceptable to Buyer, operational expenses and _____. If the amount of taxes and assessments for the current year cannot be ascertained, rates for the previous year will be used with due allowance being made for improvements and exemptions. Seller is aware of the following assessments affecting or potentially affecting the Property: _____. Buyer will be responsible for all assessments of any kind which become due and owing on or after Effective date, unless the improvement is substantially completed as of Closing Date, in which case Seller will be obligated to pay the entire assessment.

(d) FIRPTA Tax Withholding: The Foreign Investment in Real Property Act ("FIRPTA") requires Buyer to withhold at closing a portion of the purchase proceeds for remission to the Internal Revenue Service ("I.R.S.") if Seller is a "foreign person" as defined by the Internal Revenue Code. The parties agree to comply with the provisions of FIRPTA and to provide, at or prior to closing, appropriate documentation to establish any applicable exemption from the withholding requirement. If withholding is required and Buyer does not have cash sufficient at closing to meet the withholding requirement, Seller will provide the necessary funds and Buyer will provide proof to Seller that such funds were properly remitted to the I.R.S.

6. ESCROW: Buyer and Seller authorize Cushman & Wakefield Telephone: 305/461-4888 Facsimile: 305/461-0281 Address: Two Alhambra Plaza, Ste. 860, Coral Gables, FL 33134 to act as "Escrow Agent" to receive funds and other items and subject to clearance, disburse them in accordance with the terms of this Contract. Escrow Agent will deposit all funds received in a non-interest bearing account an interest bearing escrow account with interest accruing to _____ with interest disbursed (check one) at closing at _____, intervals, if Escrow Agent receives conflicting demands or has a good faith doubt as to Escrow Agent's duties or liabilities under this Contract, he/she may (a) hold the subject matter of the escrow until the parties mutually agree to its disbursement or until issuance of court order or decision of arbitrator determining the parties' rights regarding the escrow or (b) deposit the subject matter of the escrow with the clerk of the circuit court having jurisdiction over the dispute. Upon notifying the parties of such action, Escrow Agent will be released from all liability except for the duty to account for items previously delivered out of escrow. If a licensed real estate broker, Escrow Agent will comply with applicable provision of Chapter 476 Florida Statutes. In any suit or arbitration in which Escrow Agent is made a party because of acting as agent hereunder or interpleads the subject matter of the escrow, Escrow Agent will recover reasonable attorneys' fees and costs at all levels, with such fees and costs to be paid from the escrowed funds or equivalent and charged and awarded as court or other costs in favor of the prevailing party. The parties agree that Escrow Agent will not be liable to any person for misdelivery to Buyer or Seller of escrowed items, unless the misdelivery is due to Escrow Agent's willful breach of this Contract or gross negligence.

7. PROPERTY CONDITION: Seller will deliver the Property to Buyer at the time agreed in its present "as is" condition, ordinary wear and tear excepted, and will maintain the landscaping and grounds in a comparable condition. Seller makes no warranties other than marketability of the title. By accepting the Property "as is," Buyer waives all claim against Seller for any defects in the property, (Check (a) or (b))

(a) As is: Buyer has inspected the Property or waives any right to inspect and accepts the Property in its "as is" condition,

(b) Due Diligence Period: Buyer will at Buyer's expense and within 30 days from Effective Date ("Due Diligence Period"), determine whether the Property is suitable, in Buyer's sole and absolute discretion for Buyer's intended use and development of the Property as specified in Paragraph 4. During the Due Diligence Period, Buyer may conduct any tests, analyses, surveys and investigations ("Inspections") which Buyer deems necessary to determine to Buyer's satisfaction the Property's engineering, architectural, environmental properties; zoning and zoning restrictions; flood zone designation and restrictions; subdivision regulations; soil and grade; availability of access to public roads, water, and other utilities; consistency with local, state and regional growth management and comprehensive land use plans availability of permits, government approvals and licenses; compliance with American with Disabilities Act; absence of asbestos, soil and ground water contamination; and other inspections that Buyer deems appropriate to determine the suitability of the Property for Buyer's intended use and development. Buyer shall deliver written notice to Seller prior to the expiration of the Due Diligence Period of Buyer's determination of whether or not the Property is acceptable. Buyer's failure to comply with this notice requirement shall constitute acceptance of the Property in its present "as is" condition. Seller grants to Buyer, its agents, contractors and assigns, the right to enter the Property at any time during the Due Diligence Period for the purpose of conducting inspections; provided, however, that Buyer its agents, contractors and assigns enter the Property and conduct inspections at their own risk. Buyer shall indemnify and hold Seller harmless from the losses, damages, costs, claims and expenses of any nature, including attorneys' fees at all levels, and from liability to any person, arising from the conduct of any and all inspections or any work authorized by Buyer. Buyer will not engage in any activity that could result in a mechanic's lien being filed against the Property without Seller's

prior written consent. In the event this transaction does not close. (1) Buyer shall repair all damages to the Property resulting from the Inspections and return the Property to the condition it was in prior to conduct of the Inspections, and (2) Buyer shall, at Buyer' s expense, release to Seller all reports and other work generated as a result of the Inspections. Should Buyer deliver timely notice that the Property is not acceptable, Seller agrees that Buyer' s deposit shall be immediately returned to Buyer and the Contract terminated.

Buyer (/s/ OJV) (_____) and Seller (/s/ JL) (_____) acknowledge receipt of a copy of this page, which is Page 3 of 5.

Illegible.

(c) Walk-through Inspection: Buyer may, on the day prior to closing or any other time mutually agreeable to the parties, conduct a final “walk-through” inspection of the Property to determine compliance with this paragraph and to ensure that all Property is on the premises.

(d) Disclosures:

1. Radon Gas: Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional Information regarding radon and radon testing may be obtained from your county public health unit.

2. Energy Efficiency: Buyer may have determined the energy efficiency rating of the building, if any is located on the Real Property.

8. OPERATION OF THE PROPERTY DURING CONTRACT PERIOD: Seller will continue to operate the Property and any business conducted on the Property in the manner operated prior to Contract and will take no action that would adversely impact the Property, tenants, lenders or business, if any. Any changes, such as renting vacant spaces, that materially affect the Property or Buyer’s intended use of the Property will be permitted only with Buyer’s consent without Buyer’s consent.

9. RETURN OF DEPOSIT: Unless otherwise specified in the Contract, in the event any condition of this Contract is not met and Buyer has timely given any required notice regarding the condition having not been met, Buyer’s deposit will be returned in accordance with applicable Florida laws and regulations.

10. DEFAULT:

(a) In the event the sale is not closed due to any default or failure on the part of Seller other than failure to make the title marketable after diligent effort, Buyer may either (1) receive a refund of Buyer’s deposit(s) or (2) seek specific performance. If Buyer elects a deposit refund,

(b) In the event the sale is not closed due to any default or failure on the part of Buyer, Seller may either (1) retain all deposit(s) paid or agreed to be paid by Buyer as agreed upon liquidated damages, consideration for the execution of this Contract, and in full settlement of any claims, upon which this Contract will terminate or (2) seek specific performance.

11. ATTORNEY’S FEES AND COSTS: In any claim or controversy arising out of or relating to this Contract, the prevailing party, which for purposes of this provision will include Buyer, Seller and Broker, will be awarded reasonable attorneys’ fees, costs and expenses.

12. BROKERS: Neither Buyer nor Seller has utilized the services of, or for any other reason owes compensation to, a licensed real estate Broker other than:

(a) Listing Broker: Cushman & Wakefield
who is an agent of Seller
 a transaction broker a nonrepresentative and who will be
compensated by Seller Buyer both parties pursuant to a listing agreement other (specify):

(b) Cooperating Broker: NONE
who is an agent of _____
 a transaction broker a nonrepresentative and who will be
compensated by Buyer Seller both parties pursuant to an MLS or other offer of compensation to a cooperating
broker other (specify) _____

(collectively referred to as “Broker”) in connection with any act relating to the Property, including but not limited to inquiries, Introductions, consultations and negotiations resulting in this transaction.

Buyer (/s/ OJV) () and Seller (/s/ JL) () acknowledge receipt of a copy of this page, which is Page 4 of 5 Pages.

Illegible.

14. OPTIONAL CLAUSES: (Check if any of the following clauses are applicable and are attached as an addendum to this Contract):

- | | | |
|---|--|--|
| <input type="checkbox"/> Arbitration | <input type="checkbox"/> Seller Warranty | <input type="checkbox"/> Existing Mortgage |
| <input type="checkbox"/> Section 1031 Exchange | <input type="checkbox"/> Coastal Construction Control Line | <input checked="" type="checkbox"/> Other Addendum No. 1 |
| <input type="checkbox"/> Property Inspection and Repair | <input type="checkbox"/> Flood Area Hazard Zone | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Seller Representations | <input type="checkbox"/> Seller Financing | <input type="checkbox"/> Other _____ |

15. MISCELLANEOUS: The terms of this Contract constitute the entire agreement between Buyer and Seller. Modifications of this Contract will not be binding unless in writing, signed and delivered by the party to be bound. Signatures, initials, documents referenced in this Contract, counterparts and written modifications communicated electronically or on paper will be acceptable for all purposes, including delivery, and will be binding. Handwritten or typewritten terms inserted in or attached to this Contract prevail over preprinted terms. If any provision of this Contract is or becomes invalid or unenforceable, all remaining provisions will continue to be fully effective. This Contract will be construed under Florida law and will not be recorded in any public records. Delivery of any written notice to any party' s agent, will be deemed delivery to that party.

THIS IS INTENDED TO BE A LEGALLY BINDING CONTRACT. IF NOT FULLY UNDERSTOOD, SEEK THE ADVICE OF AN ATTORNEY PRIOR TO SIGNING. BROKER ADVISES BUYER AND SELLER TO VERIFY ALL FACTS AND REPRESENTATIONS THAT ARE IMPORTANT TO THEM AND TO CONSULT AN APPROPRIATE PROFESSIONAL FOR LEGAL ADVICE (FOR EXAMPLE, INTERPRETING CONTRACTS, DETERMINING THE EFFECT OF LAWS ON THE PROPERTY AND TRANSACTION, STATUS OF TITLE, FOREIGN INVESTOR REPORTING REQUIREMENTS, ETC.) AND FOR TAX, PROPERTY CONDITION, ENVIRONMENTAL AND OTHER SPECIALIZED ADVICE. BUYER ACKNOWLEDGES THAT BROKER DOES NOT OCCUPY THE PROPERTY AND THAT ALL REPRESENTATIONS (ORAL, WRITTEN OR OTHERWISE) BY BROKER ARE BASED ON SELLER REPRESENTATIONS OR PUBLIC RECORDS UNLESS BROKER INDICATES PERSONAL VERIFICATION OF THE REPRESENTATION. BUYER AGREES TO RELY SOLELY ON SELLER, PROFESSIONAL INSPECTORS AND GOVERNMENTAL AGENCIES FOR VERIFICATION OF THE PROPERTY CONDITION, SQUARE FOOTAGE AND FACTS THAT MATERIALLY AFFECT PROPERTY VALUE.

DEPOSIT RECEIPT: Deposit of \$50,000.00

by Company check other _____ received on _____

by _____
Signature of Escrow Agent Cushman & Wakefield

OFFER: Buyers offers to purchase the Property on the above terms and conditions. Unless acceptance is signed by Seller and a signed copy delivered to Buyer or Buyer' s agent no later than 5:00 a.m. p.m. on 12/31/03, Buyer may revoke this offer and receive a refund of all deposits.

Crisana Corporation

Date: 12/24/03

Tax ID No: _____

BUYER: /s/ Oscar Vila

BY: Oscar J. Vila

Title: Vice President

Telephone: 305/461-4888

Facsimile: 305/461-0281

Address: Two Alhambra Plaza Suite 860, Coral Gables, FL 33134

Date: _____

Tax ID No: _____

BUYER: _____

Title: _____

Telephone: _____

Facsimile: _____

Address: _____

ACCEPTANCE: Seller accepts Buyer's offer and agrees to sell the Property on the above terms and conditions (subject to the attached counter offer).

Catalina Lighting, Inc.

Date: 12/29/03

Tax ID No: _____

SELLER: /s/ Jason A. Leach

BY: Jason A. Leach

Title: VICE PRESIDENT

Telephone: 561-962 - 3498

Facsimile: 561-394-0540

Address: 5200 TOWN CENTER CIRCLE SUITE 470 BOCA RATON, FL 33486

Date: _____

Tax ID No: _____

SELLER: _____

Title: _____

Telephone: _____

Facsimile: _____

Address: _____

Buyer (/s/ O J. V) (____) and Seller (/s/ JL) (____) acknowledge receipt of a copy of this page, which is Page 5 of 5 Pages.

Illegible.

ADDENDUM NO. 1 TO CONTRACT FOR SALE AND PURCHASE

Buyer: Crisana Corporation

Seller: Catalina Lighting, Inc.

Legal Description: TRACT D OF COUNTRY CLUB OF MIAMI VILLAGE CENTER, according to the Plat thereof recorded in Plat Book 99, Page 61 of the Public Records of Miami-Dade County, Florida.

This addendum is made part of the Contract for Sale and Purchase concerning the property referenced above. All other terms of the Contract for Sale and Purchase of which this addendum is incorporated shall remain unchanged.

1. Lease Contingency. This Agreement is subject to the execution of a triple net lease agreement for the premises by Seller as Lessee and Buyer as Landlord. A draft copy of this triple net lease will be attached to this Agreement and be incorporated therein.

2. Survey Encroachments. Seller shall not be required to commence litigation nor incur significant expense to cure encroachments shown on the survey.

3. Due Diligence. Buyer shall notify Seller 48 hours prior to entry upon Property. All tests, surveys and investigations by Buyer and/or representatives shall be non-invasive. Seller shall have the right to have a representative present when Buyer is on property conducting tests. Buyer shall deliver certificate of insurance for its representatives which enter unto property to conduct tests and investigation. Buyer's shareholders hereby waive any and all claim they may have under any theory in tort in place of providing Seller with a certificate of insurance naming the shareholders individually. Buyer shall not disclose results of any environmental investigation to Seller unless specifically requested to disclose said information by Seller.

4. Assignability. Buyer's rights and obligations under this Contract shall not be assignable, directly or indirectly or by operation of law, without the prior written consent of Seller, provided, that Buyer may, by written notice delivered to Seller not less than ten (10) business days prior to closing, designate a Permitted Assignee (as hereinafter defined) as grantee of the Property, whereupon, provided such Permitted Assignee shall assume in writing, in form reasonably acceptable to Seller, all Buyer's agreements and obligations hereunder, Seller shall convey the Property to Permitted Assignee at closing. Nothing contained in the preceding sentence shall be deemed to diminish or otherwise affect the obligations hereunder of Crisana Corporation, including the obligations to pay the Purchase Price at closing and any obligations to indemnify Seller in accordance with the terms of this Contract. The term "Permitted Assignee" shall mean any subsidiary of Crisana Corporation, and/or any entity which is commonly controlled by the shareholders of Crisana Corporation; provided, however, that in the event of an

assignment of any rights or remedies by Crisana Corporation to a Permitted Assignee, Buyer shall remain primarily liable, as a guarantor, for all obligations, responsibilities and/or liabilities of Buyer thereunder.

5. Finance Contingency: If Buyer is unable to secure financing within the 30 day Financing Period identified in Par. 3 of the Contract and Buyer fails to cancel the Agreement within two (2) business days from the expiration of the 30 day Financing Period, the Closing shall not be subject to financing. If Buyer fails to cancel this Agreement within the time frame identified above and proceeds to Closing without the financing contingency, Buyer' s deposit(s) shall be forfeited if Buyer fails to close as scheduled in the Agreement and Buyer' s failure to close arises from Buyer' s act(s) and/or omission(s).

6. Seller' s Board Approval: This Agreement is subject to the approval of the Board of Directors which approval will be secured within Ten (10) business days from the date of execution hereof.

BUYER

By: /s/ Oscar J. Vila

12/29/03

DATED

SELLER

By: /s/ Jason A. Leach

12/29/03

DATED

(NNN) OFFICE BUILDING LEASE

between

LANDLORD

SEGOVIA REALTY, LLC
a Florida Limited Liability Company

and

TENANT

CATALINA LIGHTING, INC.
a Florida Corporation

- 1 -

**OFFICE BUILDING
(NNN) LEASE**

THIS AGREEMENT (this "Lease"), entered into as of this 27th day of **February, 2004**, between SEGOVIA REALTY, LLC, (hereinafter called Landlord), and CATALINA LIGHTING, INC., a Florida Corporation (hereinafter called Tenant), **IS TO WITNESS**: that Landlord does this day lease unto Tenant; a free standing office building.

LOCATION: the premises known as: 18191 NW 68TH Avenue, Miami Lakes, Florida, consisting of an office building containing approximately Thirty Thousand (+/- 30,000) square feet. **TERM. TO HAVE AND TO HOLD** said premises for the initial term of **One Hundred Twenty (120)**, months beginning **February 27, 2004**, and ending **January 31, 2014**.

IT IS FURTHER AGREED AND COVENANTED BY AND BETWEEN THE PARTIES HERETO AS FOLLOWS:

1. DEMISE AND PREMISES; RENT. Landlord hereby leases to Tenant and Tenant hereby takes from Landlord, subject to and with the benefit of the terms, covenants, conditions and provisions of this Lease, the real property described in Exhibit "A", and the building (the "Building") and improvements, thereon, together with any and all easements, appurtenances, HVAC equipment, fixtures and any other improvements and rights and privileges now or hereafter belonging thereto (collectively, the "Premises"). The annual rent during the first year (1) of this Lease shall be Two Hundred Fifty Thousand Dollars and No Cents (**\$250,000.00**) payable in advance and in monthly installments of Twenty Thousand Eight Hundred Thirty-Three Dollars and Thirty Three Cents (**\$20,833.33**), **plus Florida Sales Tax**, for a total of (**\$22,291.67**) per month beginning on February 27, 2004 and the like sum thereafter, on the first day of every month, for an additional eleven (11) months and to the office of the Landlord, Two Alhambra Plaza, Suite 860, Coral Gables, Florida 33142. Commencing on the first month of the second year of the Lease term and the first month of each subsequent year thereafter, the annual rental payment (payable in advance in monthly installments as provided above) for the new year shall increase, but never decrease, as per the Consumer Price Index, but never more than 3% increase per year. For example, if the annual rent is \$265,000 in the third year of the Lease term and the CPI is 2%, the annual rent for the fourth year of the Lease term shall be \$265,000 multiplied by a factor 1.02.

2. SECURITY DEPOSIT. Tenant has deposited with the Landlord the sum of **\$25,000.00** (the "Security Deposit") with the Landlord, which sum shall be retained by Landlord as security for the payment by Tenant of the rents herein agreed to be paid by Tenant and for the faithful

performance by Tenant of the terms and covenants of this Lease. It is agreed that Landlord, at Landlord's option, may at any time apply said sum or any part thereof toward the payment of the rents and all other sums payable by Tenant under this Lease (provided Tenant has breached its covenant to pay such amounts and has failed to cure the same after the expiration of all applicable notice and cure periods), and towards the performance of each and every of Tenant's covenants under this Lease, but such covenants and Tenant's liability under this Lease shall thereby be discharged only pro-tanto; that Tenant shall remain liable for any amounts that such sum shall be insufficient to pay; that Landlord may exhaust any or all rights and remedies against Tenant before resorting to said sum, but nothing herein contained shall require or be deemed to require Landlord so to do; that, in the event this Security Deposit shall not be utilized for any such purposes, then such deposit shall be returned by Landlord to Tenant within ten (10) days next after the expiration of the term of this Lease. Landlord shall not be required to pay Tenant any interest on said security deposit and Tenant acknowledges that Landlord may commingle the Security Deposit fund with its general administrative fund.

3. ASSIGNMENT. Tenant shall have the right to assign this Lease or to sublet the whole or any part of the Premises with the consent of Landlord, which consent shall not be unreasonably withheld. Landlord shall respond to Tenant's written request for consent hereunder within thirty (30) days after Landlord's receipt of the written request. As part of its request for Landlord's consent to a transfer, Tenant shall provide Landlord with reasonable financial information for the proposed transferee, a complete copy of the proposed assignment, sublease and other contractual documents and such other information as Landlord may reasonably request. Landlord shall be deemed to have given its consent if Landlord does not respond to Tenant's request for consent within such thirty (30) day period. Notwithstanding the foregoing, Tenant shall have the right to assign this Lease without Landlord's consent, but upon prior written notice to Landlord (together with reasonable financial information for the proposed transferee, a complete copy of the proposed assignment, sublease and other contractual documents and such other information as Landlord may reasonably request), to an entity having a minimum net worth (defined in accordance with US GAAP) of Twenty Million Dollars (\$20,000,000), in which event Landlord shall release Tenant from any liability hereunder. For purposes of this Paragraph 3, the determination of net worth shall exclude intangible assets and goodwill. Landlord may freely assign this Lease, provided that the assignee assumes Landlord's obligations under this Lease either by an assumption agreement by and between Landlord and its assignee or by operation of law.

4. OPTION TO RENEW. Tenant may renew the Lease for one extended term of two (2) years. Tenant shall exercise such renewal option, if at all, by giving written notice to Landlord not less than one hundred eighty (180) days prior to the expiration of the initial Ten (10) year term. The rental payments due during each year of the two (2) year renewal term shall increase at the rate of 3% increase per year over the preceding years' rental payment and otherwise upon the same covenants, conditions and provisions as provided in this Lease.

5. EXAMINATION OF PREMISES. Tenant having examined and occupied the premises, is intimately familiar with the condition thereof and will take the premises in their present condition without any modifications by Landlord. The rental payments by Tenant to Landlord are based upon the lease of the premises in their entirety and are not based, to any

degree, upon the usable square footage of the building located at 18191 NW 68TH Avenue, Miami Lakes, Florida.

6. USE & WASTE REMOVAL. The premises shall be used by Tenant for **the operation of a lighting business(es) and any ancillary uses related thereto or for any other business office use consistent with applicable zoning** and for no other purposes without the express, written consent of Landlord first obtained; provided, however, that Landlord' s consent shall not be unreasonably withheld, conditioned or delayed. Tenant acknowledges that it shall obtain and maintain its own garbage container(s) with scheduled garbage pickups frequently enough to maintain the interior and exterior of the premises neat and clean.

7. ALTERATIONS. Tenant may from time to time at its own cost and expense make such alterations, additions or improvements (any or all of which are herein referred to as "Alterations") in or to the Premises as Tenant deems necessary or desirable, without the consent of Landlord; provided that no such Alteration shall constitute waste or materially impair the marketability or leaseability of the Premises or decrease the area of the Building unless Landlord has given its prior written consent. Tenant in making any such Alteration shall comply with all applicable laws, orders and regulations of federal, state, county and municipal authorities having jurisdiction, with any direction pursuant to law of any public officer thereof and with all regulations of any board of fire underwriters having jurisdiction. Tenant shall obtain or cause to be obtained all building permits, licenses, temporary and permanent certificates of occupancy and other governmental approvals which may be required in connection with the making of the Alterations, and Landlord shall, at Tenant' s sole cost and expense, cooperate with Tenant in the obtaining thereof and shall execute any documents reasonably required in furtherance of such purpose. Tenant shall pay all costs and expenses in connection with the making of Alterations and shall discharge any mechanic' s lien filed against the Premises in connection therewith within thirty (30) days after Tenant receives notice of the filing of such lien, or Tenant may provide a bond securing the interest of the claim until the dispute can be resolved. Tenant shall indemnify and hold Landlord harmless from and against any claims arising out of such work. Tenant shall have no obligation to remove any such Alteration at the expiration or earlier termination of this Lease.

8. CONDITION OF PREMISES, REPAIRS AND MAINTENANCE. The Tenant has owned and sold the Premises sold to the Landlord. As such, Tenant has been in occupancy of the Premises prior to the date hereof. The Premises are being delivered to Tenant in its present "AS IS" condition, and Landlord has no obligation to remedy any condition contained therein or to improve the Premises on behalf of Tenant. Tenant agrees to keep the exterior part of said premises in good repair, and if any part of the entire exterior, including roof, walls, windows and doors as well as the interior of the premises is injured or damaged Tenant agrees to promptly cause all necessary repairs to be made at Tenant' s expense so as to promptly restore said premises to its condition immediately prior to said breaking and/or entering or said attempt to break and/or enter. Tenant will repair promptly at its expense any damage to the Premises, and, upon written demand, shall reimburse Landlord as Additional Rent for Landlord' s reasonable and actual out-of-pocket costs of the repair of any damage elsewhere in the Premises, caused by or arising from the installation or removal of property in or from the Premises, regardless of fault or by whom such damage shall be caused (unless caused by Landlord). If Tenant shall fail to commence such repairs within fifteen (15) days after written notice to do so from Landlord,

Landlord may make or cause the same to be made and Tenant agrees to pay to Landlord promptly upon Landlord's written demand, as Additional Rent, the actual and reasonable cost thereof with interest thereon at the Prime Rate (as hereinafter defined) plus seven percent (7%) per annum until paid. Tenant shall also reimburse Landlord within ten (10) days after written demand for the actual and reasonable cost of the repair of any damage to the Premises caused by Tenant, its agents and/or representatives. The Tenant further agrees at Tenant's own expense to repair, maintain and replace the plumbing, electrical system and HVAC system, and in the event additional sanitary facilities are required because of the nature of the operation conducted by the Tenant it shall be the Tenant's obligation to supply such additional facilities and in the event the sanitary facilities are deemed insufficient or inadequate for the Tenant's intended purpose. Tenant agrees to repair the entire roof of the Premises and utilize a contractor reasonably approved by Landlord. Tenant agrees that it shall submit a proposal from a roofing contractor to Landlord within 90 days from the effective date of this Lease and to cause the roofing contractor to commence replacement of the roof within One Hundred Twenty Days of the effective date of this Lease. For purposes hereof, the "Prime Rate" shall be the per annum interest rate publicly announced as its prime or base rate by Citibank, N.A., or its successor, from time to time, or if such rate is usurious, the maximum contract interest rate per annum allowed by Florida law.

9. INTERIOR. Tenant agrees to keep the interior of the Premises, including all windows, screens, awnings, doors, including the overhead truck loading doors, interior walls, pipes, elevators, machinery, plumbing, electric wiring, and other fixtures and interior appurtenances, in good and substantial repair and clean condition at Tenant's own expense—fire, windstorm, or other act of God, alone excepted. All glass, both interior and exterior, is at the sole risk of Tenant and Tenant agrees to replace at Tenant's own expense, any glass broken during the terms of this Lease, and the Tenant agrees to insure and to keep insured, all plate glass in the demised premises and to furnish the Landlord with certification of said insurance. It is hereby understood and agreed that in the event that there is an air conditioning unit (or units) in the demised premises, the Tenant shall maintain the same during the term of this Lease and shall return said unit (or units) to the Landlord at the termination of this Lease in good working order, reasonable wear and tear excepted.

10. REGULATIONS AND INSURANCE. Tenant shall promptly execute and comply with all statutes, ordinances, rules, orders, regulations and requirements of the Federal, State and City Government, and of any and all their Departments and Bureaus, applicable to the Premises for the correction, prevention, and abatement of nuisances or other grievances, in, upon, or connected with the Premises, during said terms, at Tenant's own cost and expense. Landlord, at Tenant's sole cost and expense, agrees to pay the amount of insurance premiums necessary to insure the premises in the amount of \$2,000,000 (the "Property Insurance Policy"). Commencing on February 1, 2004 and continuing through the term of this Lease, Tenant shall pay Landlord, as additional rent, one twelfth (1/12) of the premium for the Property Insurance Policy, including any annual increases. Payments due to Landlord for insurance premiums for the Property Insurance Policy shall be considered as rent due and shall be included in any lien for rent. Tenant shall be named as the insured on the Property Insurance Policy, with BankUnited, N.A. being named as Loss Payee. Any casualty proceeds for damage to real property covered by the Property Insurance Policy shall be paid to Landlord and BankUnited, N.A. The Property Insurance Policy shall contain a provision that the Property Insurance Policy shall not be cancelled without thirty (30) days' prior written notice to Tenant. In the event that Landlord fails

to pay a premium for the Property Insurance Policy when due, the policy is cancelled for nonpayment and Landlord fails to secure new coverage within 15 days written receipt of the notice of cancellation, such failure shall be an Event of Default under this Lease. Tenant agrees to carry \$2,000,000/\$2,000,000 liability insurance naming Landlord and BankUnited, N.A. as additional insureds. Proof of such coverage shall be sent to Landlord within 15 days of the effective date of this Agreement.

Landlord hereby waives any and all claims and right of recovery against Tenant, its employees, agents and/or contractors, for damage, loss or injury caused by or resulting from fire and/or other perils, to the extent that any such claims for damages, losses or injuries are paid to Landlord by any property insurance policies which Tenant does maintain hereunder after taking into account deductible amounts. Tenant hereby releases Landlord from any liability for damage or destruction to Tenant's property, whether or not caused by acts or omissions of Landlord, its employees, agents or contractors, and Tenant hereby waives any and all claims and right of recovery against Landlord, its employees, agents and/or contractors, for damage, loss or injury caused by or resulting from fire and/or other perils, to the extent that any such claim for damages, losses or injuries are or would be covered by any property insurance policies which Tenant does or is required to maintain hereunder without regard to deductible amounts. Landlord and Tenant shall each look to the required insurance coverage for recovery of any insured property damage. Tenant shall cause any property insurance policies which it is required to maintain hereunder to contain a provision whereby the insurer waives any (i) rights of subrogation and (ii) rights of recovery against either Landlord or Tenant, or both. Both Landlord and Tenant agree to immediately give each insurance company which has issued to it policies of property insurance required by this Lease written notice of the terms of said mutual waivers and to cause said insurance policies to be properly endorsed, if necessary, to prevent the invalidation thereof by reason of said waivers and shall furnish to the other party a certificate of insurance or other written evidence of such endorsement or that such endorsement is not required. Said Certificate of Insurance shall name BankUnited, N.A., as a loss payee.

11. BEYOND TENANT'S CONTROL. Tenant shall not be in default under this Lease if Tenant's performance is delayed or prevented by or due to strike, lockout, war, riot, the occurrence of a named windstorm, acts of God and other similar causes beyond the reasonable control of Tenant, and the time within which Tenant must comply with any of the teams, covenants, and conditions of this Lease shall be extended by a period of time equal to the period of time that performance by Tenant is delayed or prevented by the causes specified above. The foregoing shall in no way act to excuse or delay Tenant's obligation to pay any rent or additional rent due under this Lease.

12. ABANDONED PROPERTY. It is understood and agreed that any merchandise, fixtures, furniture or equipment left in the premises when Tenant vacates and not removed within ten (10) days thereafter shall be deemed to have been abandoned by Tenant and by such abandonment Tenant automatically relinquishes any right of interest therein. Landlord is authorized to sell, dispose of or destroy same, with prior written notice to Tenant.

13. FIRE. In the event the premises shall be destroyed or so damaged or injured by fire or other casualty, during the term of this Lease, whereby the same shall be rendered untenable, then Landlord shall have the obligation to render said premises tenable by repairs within

ninety days therefrom. If the premises cannot be rendered tenantable within ninety days from the date of such casualty after the exercise of diligence by Landlord, it shall be optional with either party hereto to cancel this Lease by written notice delivered to the other party within thirty days of such casualty, and in the event of such cancellation the rent shall be paid only to the date of such fire or casualty. During any time that the premises are untenable due to causes set forth in this paragraph, the rent shall be omitted. If neither party terminates the Lease within thirty days of such casualty and such repair/restoration is not completed within six (6) months of the date the damage occurred, then Tenant shall have the right to terminate this Lease upon thirty (30) days written notice to Landlord.

14. PERSONAL PROPERTY. All personal property placed or moved in the premises above described shall be at the risk of Tenant or the owner thereof, and Landlord shall not be liable to Tenant for any damages to said personal property unless caused by or due to gross negligence or willful misconduct of Landlord, Landlord's agents or employees.

15. CHARGES FOR SERVICE AND UTILITIES. It is understood and agreed between the parties hereto that any charges against Tenant by Landlord for services, utilities or for work done on the premises by order of Tenant, or otherwise accruing under this Lease, shall be considered as rent due and shall be included in any lien for rent, provided that any such services provided by Landlord to Tenant hereunder shall be delivered and invoiced at Landlord's cost, without mark-up, overhead or administrative charge. It is further understood that the Tenant shall, upon demand, pay as additional rent its prorata share(s) of any sprinkler standby, storm water utility standby, water and/or sewer charges billable to the Landlord for the building(s) of which the demised premises are a part.

16. SIGNS, AWNINGS. Except as the same may exist on the date hereof, no awnings, sign or signs shall be attached to or erected on the exterior of the premises, other the signs currently placed on the outside of the building, without the written consent of Landlord having first been obtained. The Landlord's consent shall not be unreasonably withheld, conditioned or delayed, and Landlord's failure to respond to Tenant's written request for consent within fifteen days of receipt of said request shall be deemed approval.

17. RIGHT OF ENTRY. Upon not less than five (5) days' prior written notice (except in the event of an emergency), Landlord, or any of his agents, shall have the right to enter said premises during all reasonable hours to examine the same or to make such repairs, additions, or alterations as may be deemed necessary for the safety, comfort, or preservation thereof, or of said building, or to exhibit said premises, and to put or keep upon the grounds of the property thereof a notice "FOR RENT" at any time within one hundred eighty (180) days before the expiration of this Lease. Said right of entry shall likewise exist for the purpose of removing placards, signs, fixtures, alterations, or additions which do not conform to this agreement. In the event of any entry pursuant to this Article, Landlord shall not interfere with the conduct of Tenant's business and Tenant shall have the right to have one or more of its employees present during such inspection.

18. TIME. It is understood and agreed between the parties hereto that time is the essence of all of the terms and provisions of this Lease.

19. NOTICES. Any notice(s) given or required under the terms of this Lease shall be in writing sent by certified mail or hand delivered as follows:

if to Tenant:

Catalina Lighting, Inc.
18191 NW 68th Avenue
Miami Lakes, Florida
Attention: Gary Rodney

with a copy to:

Morgan, Lewis & Bockius LLP
One Oxford Centre
Thirty-Second Floor
Pittsburgh, Pennsylvania 15219
Attention: David A. Gerson, Esquire

if to Landlord:

Segovia Realty, LLC
Two Alhambra Plaza, Suite 860
Coral Gables, FL 33134
Attention: Oscar J. Vila

or such other address written notice of which is given by either party to the other. Notice shall be deemed given upon receipt or refusal of delivery.

20. NON-PAYMENT. Tenant agrees: That Tenant will promptly pay said rent at the times above stated; that Tenant will pay all charges for gas, electricity, other illuminant, water and sewer, used on the premises during the term of this Lease; that, if any part of the rent shall not be paid when due and the same remains due and unpaid for ten (10) calendar days following the due date, Landlord shall have the following rights and remedies without prejudice to any other remedy which it in law or equity may have under Florida law:

(i) Provide Tenant with thirty (30) days' written notice (which notice shall clearly state in capital letters that Rent is past-due and failure to pay same may result in Lease termination) of Landlord' s intent to terminate the Lease, and on the date specified in such notice (unless Tenant pays the amount due with applicable late fees and interest charges prior to such date in which event such notice shall be deemed null), Tenant' s right to possession of the Premises shall cease and this Lease shall thereupon be terminated and Tenant shall be liable to Landlord for an amount equal to all unpaid Rent and other sums due hereunder that accrued and/or became due prior to such termination, provided that Landlord agrees to use reasonable efforts to mitigate damages; and

(ii) If Tenant has failed to pay rent on the dates each such payments were due for two (2) consecutive months, then Landlord may provide Tenant with thirty (30) days' written notice (which notice shall clearly state in capital letters that Rent is past-due and failure to pay same may result in Lease termination) of Landlord's intent to terminate Tenant's right to possession of the Premises and (unless Tenant pays the amount due with applicable late fees and interest charges prior to such date in which event such notice shall be deemed null), in compliance with applicable law, expel and remove Tenant, Tenant's property and any parties occupying all or any part of the Premises. Landlord may (but shall not be obligated to) relet all or any part of the Premises, without notice to Tenant, for a term that may be greater or less than the balance of the Term and on such conditions (which may include concessions, free rent and alterations of the Premises) and for such uses as Landlord in its reasonable discretion shall determine. Landlord may collect and receive all rents and other income from the reletting. Tenant shall pay Landlord on demand all past due Rent, all Costs of Reletting and any deficiency arising from the reletting or failure to relet the Premises. Landlord shall not be responsible or liable for the failure to relet all or any part of the Premises or for the failure to collect any Rent. The re-entry or taking of possession of the Premises shall not be construed as an election by Landlord to terminate this Lease. Landlord agrees to use reasonable efforts to mitigate damages, provided that such reasonable efforts shall not require Landlord to relet the Premises in preference to any other space in the Building or to relet the Premises to any party that Landlord could reasonably reject as a transferee pursuant to Article XII hereof. "Costs of Reletting" shall include all reasonable costs and expenses incurred by Landlord in reletting or attempting to relet the Premises, including, without limitation, reasonable legal fees, brokerage commissions, the costs of alterations and the value of other concessions or allowances granted to a new tenant.

(iii) In lieu of calculating damages under clauses (i) and (ii) above, Landlord may elect to receive as damages the sum of (a) all Rent accrued through the date of termination of this Lease or Tenant's right to possession, and (b) an amount equal to the total Rent that Tenant would have been required to pay for the remainder of the term of this Lease discounted to present value at the Prime Rate then in effect, minus the then present fair rental value of the Premises for the remainder of the Term, similarly discounted, after deducting all anticipated Costs of Reletting.

Any amount due from Tenant to Landlord hereunder which is not paid when due shall bear interest at the Prime Rate plus seven percent (7%) per annum from the date due until paid, unless otherwise specifically provided herein, but the payment of such interest shall not excuse or cure any default by Tenant under the lease.

(1) Immediately following the Tenant's failure to pay rent due within the time specified above (including the applicable notice and cure periods), Landlord shall have the right to enter upon the Premises and place and thereafter maintain a "FOR RENT" sign in a place where the sign would be most likely seen by the public.

21. LATE CHARGE. Tenant acknowledges that late payment by Tenant to Landlord of rent will cause Landlord to incur costs which are extremely difficult and impractical to fix. Such costs include, without limitation, processing and accounting charges, and late charges that may be imposed on Landlord by the terms of any encumbrance and note secured by any encumbrance covering the premises. Therefore, if any installment of rent due from the Tenant is not be paid when due and the same remains due and unpaid for ten (10) calendar days, Tenant shall pay to Landlord an additional three percent (3%) of the overdue rent as a late charge. The parties agree that this late charge represents a fair and reasonable estimate of the costs that the Landlord will incur by reason of late payment by Tenant. Acceptance of any late charge shall not constitute a waiver of Tenant' s default with respect to the overdue amount, or prevent Landlord from exercising any of the other rights and remedies available to Landlord.

22. INDEMNIFY LANDLORD & INSURANCE. Tenant shall secure liability insurance with a carrier rated by Moodys no less than A+5, and cause a certificate of insurance in the amount of no less than \$2,000,000/\$2,000,000 to be issued naming the Landlord and BankUnited, N.A. as a loss payee. Failure to maintain the required liability insurance with certificate shall constitute a material breach of this Lease. In consideration of said premises being leased to Tenant for the above rental Tenant agrees: That, except to the extent caused by the gross negligence or willful misconduct of Landlord or its agents or contractors, Tenant, at all times will indemnify and keep harmless Landlord from all losses, damage, liabilities and expenses, which may arise or be claimed against Landlord and be in favor any person, firm or corporation, for any injuries or damages to the person or property of any person, firm or corporation, consequent upon or arising from the use or occupancy of said premises by Tenant, or consequent upon or arising from any acts, omissions, neglect or fault of Tenant (his agents, servants, employees, licensees, customers or invitee), or consequent upon or arising from Tenant' s failure to comply with the aforesaid laws, statutes, ordinances or regulations; that Landlord, except to the extent of Landlord' s gross negligence or willful misconduct, shall not be liable to Tenant for any damages, losses or injuries to the person or property of Tenant which may be caused by the acts, neglect, omissions or faults of any person, firm or corporation and that Tenant will indemnify and keep harmless Landlord from all damages, liabilities, losses, injuries, or expenses, which may arise or be claimed against Landlord and be in favor of any person, firm or corporation, for any injuries or damages to the person or property of any person, firm or corporation, where said injuries or damages arose about or upon said premises. Except to the extent caused by the negligence or willful misconduct of Tenant or its agents or contractors, Landlord shall indemnify, defend and hold Tenant, its trustees, members, principals, beneficiaries, partners, officers, directors, employees and agents harmless against and from all liabilities, obligations, damages, penalties, claims, actions, costs, charges and expenses, including, without limitation, reasonable attorneys' fees and other professional fees (if and to the extent permitted by Law), which may be imposed upon, incurred by or asserted against Tenant and arising out of or in connection with the acts or omissions (including violations of law) of Landlord, any of Landlord' s agents or contractors.

23. BANKRUPTCY. It is agreed between the parties hereto: if Tenant shall be adjudicated a bankrupt or an insolvent and fails to have such adjudication discharged within sixty (60) days

from the date thereof, or shall take the benefit of any federal reorganization or composition proceeding or make a general assignment or take the benefit of any insolvency law, or if Tenant' s leasehold interest under this Lease shall be sold under any execution or process of law, or if a trustee in bankruptcy or a receiver be appointed or elected or had for Tenant (whether under federal or state laws) and Tenant fails to have such appointment discharged with sixty (60) days after the appointment thereof, or if said premises shall be abandoned or deserted, or if this Lease or the terms hereof be transferred or pass to or devolve upon any person, firm, officer or corporation other than Tenant, then, in any such events, Landlord may, at Landlord' s option, terminate and end this Lease and re-enter upon the premises; whereupon the term hereby granted and, at the Landlord' s option, all right, title, and interest under it shall end and Tenant shall become a Tenant at sufferance; but this shall not impair or affect Landlord' s right to maintain summary proceedings for the recovery of the possession of the demised premises in all cases provided for bylaw. If the term of this Lease shall be so terminated, Landlord may immediately or at any time thereafter re-enter or re-possess the premises and remove all persons and property therefrom without being liable for trespass or damages.

24. WAIVER. The rights and remedies created by this Lease are cumulative and the use of one remedy shall not be taken to exclude or waive the right to the use of another.

No delay or omission in the exercise of any right or remedy of Landlord on any default by Tenant shall impair such a right or remedy or be construed as a waiver.

The receipt and acceptance by Landlord of delinquent rent shall not constitute a waiver of any other default; it shall constitute only a waiver of timely payment for the particular rent payment involved.

No act or conduct of Landlord, including, without limitation, the acceptance of the keys to the premises, shall constitute an acceptance of the surrender of the premises, by Tenant before the expiration of the term. Only a written notice from Landlord to Tenant shall constitute acceptance of the surrender of the premises and accomplish a termination of the Lease prior to the expiration of the term.

Landlord' s consent to or approval of any act by Tenant requiring Landlord' s consent or approval shall not be deemed to waive or render unnecessary Landlord' s consent to or approval of any subsequent act by Tenant.

Any waiver by Landlord of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision of the lease.

25. PEACEFUL POSSESSION. Subject to the terms, conditions and covenants of this Lease, Landlord agrees that Tenant shall and may peaceably have, hold and enjoy the premises above described, without hindrance or molestation by Landlord or by anyone claiming by, through or under Landlord. Landlord shall not interfere with Tenant' s quiet enjoyment of the demised premises.

26. Intentionally deleted. [Covered in Section 36]

27. HEIRS AND ASSIGNS. This lease and all provisions, covenants and conditions thereof shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and assigns of the parties hereto, except that no person, firm, corporation, or court officer holding under or through Tenant in violation of any of the terms, provisions or conditions of this Lease, shall have any right, interest, or equity in or to this Lease, the terms of this Lease or the premises covered by this Lease.

28. BEYOND LANDLORD' S CONTROL. None of the acts, promises, covenants, agreements or obligations on the part of the Tenant to be kept, performed or not performed as the case may be, nor the obligation of the Tenant to pay rent and/or additional rent or other charge or payment shall be in anywise waived, impaired, excused or affected by reason of the Landlord being unable at any time or times during the term of his lease to supply, or being prevented from, or delayed in supplying heat, light, elevator service, or any other service expressly or implied on the part of the Landlord to be supplied, or by reason of the Landlord being unable to make any alterations, repairs or decorations or to supply any equipment or fixtures, or any other promise, covenant, agreement or obligation on the part of the Landlord to be performed, if the Landlord' s inability or delay shall arise by reason of any law, rule or regulation of any Federal, State, Municipal or other governmental department, agency or subdivision thereof, or by reason of conditions of supply and demand due to National Emergency or other conditions or causes beyond the Landlord' s control.

29. EMINENT DOMAIN. In the event any portion of said leased premises is taken by any condemnation or eminent domain proceedings, the (minimum) monthly rental herein specified to be paid shall be ratably reduced according to the area of the leased premises which is taken, and either Landlord or Tenant, or both, shall have the right to recover compensation and damage caused by condemnation from the condemnor, provided that Tenant' s award does not decrease or diminish Landlord' s award. Should all of the leased premises, or so much thereof as to make its further use by Tenant manifestly impractical, be taken by eminent domain, then this Lease shall terminate at the option of either party upon thirty (30) days' written notice from the time when possession thereof is taken by said public authorities, and in that event either Landlord or Tenant, or both, shall have the right to recover compensation and damage caused by condemnation from the condemnor, provided that Tenant' s award does not decrease or diminish Landlord' s award.

30. SURRENDER PREMISES. Tenant agrees to surrender to Landlord, at the end of the term of this Lease and/or upon any cancellation of this Lease, said leased premises in broom-clean and tenantable condition, ordinary wear and tear and damage by fire and windstorm or other acts of God, excepted, and subject to the provisions of paragraph 6 hereof. Tenant agrees that, if Tenant does not surrender to Landlord, at the end of the term of this Lease, or upon any cancellation of the term of this Lease, said leased premises, such holding over shall not be deemed to extend the term of or renew this Lease, but Tenant' s occupancy thereafter shall continue as a tenancy from month to month upon the terms and conditions herein contained and at the holdover rent of one hundred and fifty percent (150%) of the monthly base rent in effect immediately preceding the end of the term of this Lease and this holdover tenancy may be terminated by Landlord or Tenant upon fifteen (15) days prior written notice. Nothing in this Section 30 shall be construed as a consent by Landlord to any holding over by Tenant and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises upon the expiration of the term of this Lease or upon the earlier termination hereof and to assert

any remedy in law or equity to evict Tenant and/or collect damages in connection with such holding over.

31. LIENS. Tenant further agrees that Tenant will pay all liens of contractors, subcontractors, mechanics, laborers, materialmen, and other items of like character in connection with any work or service done or purportedly done by or for benefit of Tenant, and will indemnify Landlord against all actual and reasonable legal costs and charges, bond premiums for release of liens, including counsel fees reasonably incurred in and about the defense of any suit in discharging the said premises or any part thereof from any liens, judgments, or encumbrances caused or suffered by Tenant. It is understood and agreed between the parties hereto that the costs and charges above referred to shall be considered as rent due and shall be included in any lien, for rent.

The Tenant herein shall not have any authority to create any liens for labor or material on the Landlord' s interest in the above described property and all persons contracting with the Tenant for the destructions or removal of any building or for the erection, installation, alteration, or repair of any building or other improvements on the above described premises and all materialmen, contractors, mechanics, and laborers, are hereby charged with notice that they must look to the Tenant and to the Tenant' s interests only in the above described property to secure the payment of any bill for work done or material furnished during the rental period created by this Lease.

32. TAXES. Tenant shall pay as additional rent its proportionate share of the annual levy of the Real Property and Personal Property Taxes assessed against Folio Number 30-2011-003- 0040 (for Real Property) and a separate folio for personal property located thereon. If the assessed value of Landlords property is increased by inclusion of Tenants personal property, Tenant Improvements, trade fixtures or equipment, and Landlord elects to pay the taxes based on such increase, Tenant shall, within ten (10) days of written request from Landlord, pay to Landlord that part of such taxes for which Tenant is primarily liable. Commencing on February 1, 2004 and continuing through the term of this Lease, Tenant shall pay to Landlord, as additional rent, one twelfth (1/12) of the annual Real Property taxes, including any annual increases. The monthly payments shall be based upon the real property taxes imposed by Miami-Dade County for the year immediately preceding the lease year. As an example if the taxes due for 2003 are \$39195.12, the monthly payment for taxes on February 1, 2004 through November 2004 will be \$3,266.26 per month. This monthly tax payment will be adjusted on December of each lease year, depending upon whether property taxes have increased or decreased. Payments due to Landlord for real and personal property taxes shall be considered as rent due and shall be included in any lien for rent.

Tenant shall pay any and all state and federal taxes as they become due and indemnify Landlord for any claims that governmental taxing authorities may have against the Premises and fixtures located on the premises. Tenant shall pay any and all special assessments levied against the Premises during the term of the Lease. Nothing herein shall be construed to require Tenant to pay (a) any income, gross receipts or similar tax assessed on or in respect of the general income of Landlord, (b) any capital levy, estate, succession, inheritance or similar tax assessed or payable by reason of any inheritance, devise or transfer of any estate or property of Landlord, or

(c) any corporation or other franchise, license, mercantile or similar tax assessed against or payable by Landlord other than with respect to the use or occupancy of the Premises.

Landlord shall have the obligation to, if possible, (1) have the tax bills mailed directly to Tenant; and (2) for the first and last lease year of the term hereof of this Lease, furnish an apportionment between Landlord and Tenant based on the number of days of Tenant' s lease year which falls within the then current tax period. Landlord hereby agrees that, if any general or special assessment, whether ordinary or extraordinary, is assessed in whole or in part against the Premises which may be payable over a term of years, Landlord will exercise its right to make payment over such term of years, and only such portion of any such tax or assessment which falls due within each Lease Year shall be used in the determination of Tenant' s payment obligation. Landlord shall use its best efforts to cause all notices pertaining to taxes to be sent directly to Tenant by the taxing authority and shall in any event send to Tenant within seven (7) days after receipt thereof copies of any such tax notice received by Landlord.

Tenant shall have the right to contest, at Tenant' s expense, the amount or validity, in whole or in part, of any tax, by appropriate proceedings diligently conducted by Tenant in good faith, after payment of such tax, unless such payment would operate as a bar to such contest or interfere materially with the prosecution thereof, in either of which latter events Tenant may postpone or defer payment of such tax provided the Premises shall not, by reason of such postponement or deferment, be subject to lien or forfeiture. Within 10 days of the issuance of a ruling by the Master hearing property tax appeals for Miami-Dade County, such proceedings, Tenant shall pay such amount of any such tax or part thereof as is finally determined in such proceedings, the payment of which, pursuant to the foregoing provisions of this Section, shall have been deferred during the prosecution of such proceedings, together with all costs, fees, interest, penalties and other liabilities in connection therewith. Upon request by Tenant, Landlord, shall execute and deliver any and all such documents or instruments and take any and all such other action as shall be necessary or proper to permit Tenant to bring such proceedings in Tenant' s name or otherwise to facilitate the conduct of such proceedings by Tenant. Any refunds of taxes paid by Tenant resulting from such contest by Tenant and attributable to any period occurring during the term shall be payable to Tenant, and Landlord shall promptly pay to Tenant any such refunds received by Landlord.

33. LANDSCAPE. The Tenant, at its own cost and expense, shall maintain all portions of the leased property in a clean and orderly condition, free of dirt, rubbish and unlawful obstructions and shall keep the landscaped areas thereof watered and trimmed during the term of this Lease.

34. PROMPT PAYMENT. The prompt payment of the rent for said premises upon the dates named, and the faithful observance of the terms of this Lease are the conditions upon which the Lease is made and accepted and if the Tenant fails to comply with the terms of said Lease (and such failure remains uncured following the expiration of all applicable notice and cure periods), then and in any of such events Landlord shall be entitled to exercise the rights set forth in Section 20 of this Lease. With respect to Tenant' s failure (other than a monetary default) to comply with any term, provision or covenant of this Lease, Tenant shall have thirty (30) days after written notice from Landlord to Tenant within which to cure such non-monetary default; provided, if Tenant' s failure to comply cannot reasonably be cured within such thirty (30) day

period, Tenant shall be allowed additional time as is reasonably necessary to cure the failure so long as: (1) Tenant commences to cure the failure within such thirty (30) day period, and (2) Tenant diligently pursues a course of action that will cure the failure and bring Tenant back into compliance with the Lease.

35. WATER DAMAGE. It is expressly agreed and understood by and between the parties to this agreement, that the Landlord, except to the extent caused by its gross negligence or willful misconduct, shall not be liable for any damage or injury by water, which may be sustained by the said Tenant or other person or for any other damage or injury resulting from or by reason of the breakage, leakage, or obstruction of the water, sewer or soil pipes, or other leakage in or about the said building.

36. SUBORDINATION. This lease is and shall be subject and subordinate to any and all permanent or building loan mortgages covering the fee of the leased premises, or any other real property which includes all or any part of the leased premises, now existing or hereafter made by Landlord and to all advances made or to be made thereon and to all renewals, modifications, consolidations, replacements, or extensions thereof, and the lien of any such mortgage or mortgages shall be superior to all rights hereby or hereunder vested in Tenant, to the full extent of the principal sums secured thereby and interest thereon, but only if and when a non-disturbance and attornment agreement is entered into in respect of such mortgage by the holder thereof acknowledging Tenant' s possession and providing that Tenant' s rights hereunder shall not be disturbed or interfered with. This provision shall be self-operative and, except as otherwise provided herein, no further instrument of subordination shall be necessary to effectuate such subordination, and the recording of any such mortgage shall have preference and precedence and be superior and prior in lien to this Lease, irrespective of the date of recording.

37. ESTOPPEL CERTIFICATE. Tenant, upon written request of Landlord or any holders of a mortgage against the fee, shall from time to time deliver or cause to be delivered to Landlord or such mortgagee, within ten (10) days from date of demand, a certificate duly executed and acknowledged in form for recording, without charge, certifying, if true, that this Lease is valid and subsisting and in full force and effect and that, to the best knowledge of Tenant, Landlord is not in default (or stating the nature of the alleged default) under any of the terms of this Lease. Landlord, upon written request of Tenant, shall from time to time deliver or cause to be delivered to Tenant, within ten (10) days from the date of demand, a certificate duly executed and acknowledged in form for recording, without charge, certifying, if true, that this Lease is valid and subsisting and in full force and effect and that, to the best knowledge of Landlord, Tenant is not in default (or stating the nature of the alleged default) under any of the terms of this Lease.

38. HAZARDOUS SUBSTANCES - GENERAL. The term "Hazardous Substances," as used in this Lease shall mean pollutants, contaminants, toxic or hazardous wastes, or any other substances the use and/or the removal of which is required or the use of which is restricted, prohibited or penalized by any "Environmental Law," which term shall mean any federal, state or local law, ordinance or other statute of a governmental or quasi-governmental authority relating to pollution or protection of the environment. Tenant hereby agrees that (i) no activity will be conducted on the premises that will produce any Hazardous Substance, except for such activities that are part of the ordinary course of Tenant' s business activities (the "Permitted Activities") provided said Permitted Activities are conducted substantially in accordance with all applicable

Environmental Laws and have been approved in advance in writing by Landlord; Tenant shall be responsible for obtaining any required permits and paying any fees and providing any testing required by any governmental agency; (ii) the premises will not be used in any manner for the storage of any Hazardous Substances except for the temporary storage of such materials that are used in the ordinary course of Tenant' s business (the "Permitted Materials") provided such Permitted Materials are properly stored in a manner and location meeting all applicable Environmental Laws; Tenant shall be responsible for obtaining any required permits and paying any fees and providing any testing required by any governmental agency; (iii) no portion of the Premises will be used as a landfill or a dump; (iv) Tenant will not install any underground tanks of any type; (v) Tenant will not allow any surface or subsurface conditions to exist or come into existence that constitute, or with the passage of time may constitute a public or private nuisance; (vi) Tenant will not introduce any Hazardous Substances into the Premises, except for the Permitted Materials described above, and if so introduced by Tenant thereon, the same shall be promptly removed, with proper disposal, and all required cleanup procedures shall be diligently undertaken pursuant to all applicable Environmental Laws.

39. LANDLORD' S LIABILITY. The liability of the Landlord (which, for the purposes of this Lease, shall include the Owner of the building if other than the Landlord) to the Tenant for any default by Landlord under the terms of this Lease is limited to the interest of the Landlord in the building (including the rents and proceeds thereof), and the Tenant agrees to look solely to the Landlord' s present or future interest in the building for the recovery of any judgment.

40. NO ARBITRARY REJECTION. References herein to "approval", "acceptable" and "satisfactory" shall not be interpreted as justifying arbitrary rejection, but mean a reasonable application of judgment in accordance with institutional leasing practice and commercial custom concerning similar real estate transactions.

41. PARTIAL INVALIDITY. If any term or provision of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease and the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforceable to the fullest extent permitted by law.

42. RADON GAS. Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon mat exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your county public health unit.

43. ATTORNEY' S FEES. If either party becomes a party to any litigation concerning this Lease, the premises, or the building or other improvements in which the premises are located, by reason of any act or omission of the other party or its authorized representatives, and not by any act or omission of the party or its authorized representatives, the party that causes the other party to become involved in the litigation shall be liable to that party for reasonable attorneys' fees and all costs and expense incurred by it in connection with said litigation including available appeals thereof.

44. BROKER' S COMMISSIONS. The Tenant and Landlord acknowledge that no broker has been utilized in securing this Lease and that each party shall hold harmless the other party from all damages resulting from any claims that may be asserted against the other party by any broker, finder, or other person, with whom the other party has or purportedly has dealt.

45. WAIVER OF RIGHT OF REDEMPTION. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant' s being evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the Premises, by reason of the violation by Tenant of any of the covenants or conditions of this Lease, or otherwise (provided that Landlord has provided Tenant notice of Tenant' s default and Tenant has failed to cure such default within the time periods specified elsewhere in this Lease). Landlord expressly reserves the right to hold Tenant in default, and Tenant has no right to cure except as provided under this Lease and by statutory law.

46. CAPTIONS. The captions of the paragraphs of this instrument are solely for convenience and shall not be deemed a part of this instrument for the purpose of construing the meaning thereof, or for any other purpose.

47. PARKING. Tenant shall have the exclusive right to park in the existing parking lot, at no additional cost or mark-up to Tenant.

48. WAIVER OF TRIAL BY JURY. TENANT AND LANDLORD HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT EITHER MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS INSTRUMENT, AND ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF EITHER PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE LANDLORD LEASING THE PREMISES TO THE TENANT.

49. WRITTEN AGREEMENT. This lease contains the entire agreement between the parties hereto and all previous negotiations leading thereto, and it may be modified only by an agreement in writing signed and sealed by Landlord and Tenant. No surrender of the demised premises, or of the remainder of the term of this Lease, shall be valid unless accepted by Landlord in writing.

IN WITNESS WHEREOF, The parties hereto have signed, sealed and delivered this Lease at Miami, Florida, on the day and year first above written.

Witnesses as to Landlord:

SEGOVIA REALTY, LLC

/s/ Illegible

By: /s/ Oscar J. Vila

Oscar J. Vila, Manager

Illegible

Date: 2/27/04

(Please Print Name)

/s/ Illegible

(Please Print Name)

/s/ Illegible

Witnesses as to Tenant:

CATALINA LIGHTING, INC.

/s/ Illegible

Illegible

(Please Print Name)

/s/ Illegible

By: /s/ Jason A. Leach

Date: 2-27-04

(Please Print Name)

CATALINA LIGHTING, INC.
18191 N.W. 68th Avenue
Miami, Florida 33015

January 30, 2004

Robert Varakian
17555 Collins Ave, #1703
Sunny Isles Beach, FL 33160

Re: Change in Control Severance Agreement

Dear Bob:

This letter agreement sets forth our understandings and agreements with respect to the severance payable to you under certain circumstances following a Change in Control (as defined below).

1. If, after the occurrence of a Change in Control but before the expiration of the Post Change of Control Period (as defined below), either your employment with Catalina Lighting, Inc. (the "Company") or any of its subsidiaries is terminated by the Company without Cause (as defined below), or you terminate your employment with the Company for Good Reason (as defined below), then the Company will pay you severance in an amount equal to 100% of your annual base salary as of the date of such Change in Control and such payment shall be made in a lump sum no later than the fourteenth day after your last day of employment.

2. For purposes of this Agreement, the following terms shall have the following meanings:

- (a) "Cause" shall mean a determination by the Board of Directors of the Company that you have engaged in conduct injurious to the Company, its successor, or any of their respective subsidiaries, including, without limitation, embezzlement, theft, destruction of property, unethical business conduct, commission of a felony, or any other crime of moral turpitude, dishonesty in the course of your employment or service, the disclosure of trade secrets or confidential information of the Company, its successor, or any of their respective subsidiaries to persons not entitled to receive such information, violation of any rule or policy of the Company or its successor that is not cured within 15 days after you are given notice of such violation, breach of my nonsolicitation covenant or any other agreement between you and the Company, its successor, or any of their respective subsidiaries, or any other conduct that is injurious to the Company, its successor, or any of their respective subsidiaries.

- (b) "Change in Control" shall mean (i) any consolidation or merger in which the Company is not the surviving entity or which results in the acquisition of all or a majority of the Company's outstanding shares of capital stock by a single person or entity or by a group of persons or entities acting in concert or (ii) any sale or transfer of all or substantially all of the Company's assets; provided, however, that the term "Change in Control" shall not include any of the following: (x) a transaction or transactions with affiliates of the Company (as determined by the Company's Board of Directors in its sole discretion) or (y) a transaction or transactions pursuant to which more than fifty percent (50%) of the shares of voting stock of the surviving or acquiring entity is owned and/or controlled (by agreement or otherwise), directly or indirectly, by Sun Catalina Holdings, LLC or any of its affiliates.
- (c) "Good Reason" shall exist if, without your consent, the Company (i) reduces your base salary, (ii) requires that you relocate your principal place of employment more than 100 miles from your current principal place of employment (i.e. 18191 N.W. 68th Avenue, Miami, Florida 33015) or (iii) reduces the number of the Company's divisions reporting to you as of the date hereof; provided, however that "Good Reason" shall not exist under this clause (iii) if the Company's U.K. and/or Asian divisions are sold to an unrelated third party *and* the Company retains ownership of its U.S. division.
- (d) "Post Change of Control Period" shall mean that one (1) year period beginning on the date of a Change in Control and ending on the first anniversary of such Change in Control.

3. By signing below, you acknowledge that nothing set forth in this letter shall constitute a contract for employment with the Company of its successor, and nothing herein shall require the Company, its successor, or any of their respective subsidiaries to continue your employment.

4. The Company may withhold from any amounts payable to you under this letter agreement such federal, state, local and other taxes as may be required to be withheld pursuant to any applicable law or regulation.

5. This letter agreement shall terminate on December 31, 2004 and be of no further force or effect if no Change in Control has occurred on or before such date,

6. This letter agreement is legally binding on the parties and their respective successors and assigns. It may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. It represents the parties' entire understanding regarding the subject matter of this letter agreement and supersedes any and all prior agreements regarding the same subject matter. The terms and provisions of this letter agreement cannot be terminated, modified or amended except in a writing signed by the party against whom

enforcement is sought. This letter agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Florida, and any suit, action or proceeding arising out of or relating to this letter agreement shall be commenced and maintained in any court of competent subject matter jurisdiction located in Miami-Dade County, Florida. In any suit, action or proceeding arising out of or in connection with this letter agreement, the prevailing party shall be entitled to recover from the other party, upon final judgment on the merits, all attorneys' fees and disbursements actually billed to such party, including all such fees and disbursements incurred at trial, during any appeal or during negotiations.

Please acknowledge your agreement to the terms of this letter agreement by signing below and returning a copy to the undersigned.

Sincerely,

CATALINA LIGHTING, INC.

/s/ CLARENCE E. TERRY

Name:

Clarence E. Terry

Title:

Vice President

Acknowledged and agreed to
as of this 30 day of January, 2004;

/s/ ROBERT VARAKIAN

Robert Varakian

AMENDED AND RESTATED INCENTIVE COMPENSATION AGREEMENT

THIS AMENDED AND RESTATED INCENTIVE COMPENSATION AGREEMENT (this "Agreement") is entered into as of this 15 day of March, 2004, by and between Catalina Lighting, Inc., a Florida corporation (the "Company"), and Robert Varakian ("Employee").

WHEREAS, the Company and Employee are parties to an Incentive Compensation Agreement dated as of February 15, 2004 (the "Initial Agreement"), which Initial Agreement sets forth the terms and conditions under which the Company shall pay Employee certain compensation for Employee's contributions to the Company; and

WHEREAS, the Company and Employee desire to amend and restate the Initial Agreement pursuant to the terms hereof;

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows;

1. Incentive Compensation.

(a) Subject in all cases to the provisions of Section 1(b) and Section 4 hereof, if a "Change in Control" (as defined in Section 1(c) hereof) occurs on or before December 31, 2004, the Company shall pay Employee a cash bonus (the "Incentive Compensation") equal to: (i) the amount, if any, determined under Schedule A hereto, which amount will be based partially on the "Net Proceeds" (as defined on Schedule A) received by the Company or its shareholders in connection with such Change in Control, less (ii) the Option Proceeds (as defined in Section 1(c) hereof).

(b) Notwithstanding any other provision of this Agreement to the contrary, no Incentive Compensation shall be due or payable by the Company to Employee if Employee is not employed by the Company on the effective date of the Change in Control.

(c) For purposes of this Agreement, the following terms shall have the following meanings:

(i) "Change in Control" shall mean (i) any consolidation or merger in which the Company is not the surviving entity or which results in the acquisition of all or substantially all of the Company's outstanding shares of capital stock by a single person or entity or by a group of persons or entities acting in concert; (ii) any sale or transfer of all or substantially all of the Company's assets; or (iii) the sale through merger, exchange or sale of all or substantially all of the assets, business or stock of one of the Company's two operating segments, which are for purposes of this definition the North American operating segment (which includes China Manufacturing and Distribution operations) and the United Kingdom operating segment, in a single or series of related transactions; provided, however, that the term "Change in Control" shall not include any of the following: (x) a transaction or transactions with affiliates of the Company (as determined

by the Company's Board of Directors in its sole discretion) or (y) a transaction or transactions pursuant to which more than fifty percent (50%) of the shares of voting stock of the surviving or acquiring entity is owned and/or controlled (by agreement or otherwise), directly or indirectly, by Sun Catalina Holdings, LLC or any of its affiliates (as determined by the Company's Board of Directors in its sole discretion).

(ii) "Option Proceeds" shall mean the gross amount received by Employee in connection with a Change in Control in respect of all options granted to Employee under the Catalina Lighting, Inc. Stock Incentive Plan and any other existing or future stock Option plan of the Company (i.e., the value of any shares received upon exercise of any such options owned by the Employee as of the Change in Control, less the exercise price paid for such shares; where unexercised options are cancelled in exchange for a cash payment in connection with the Change in Control, the gross amount of such payment; and where unexercised options are assumed or replaced by an acquiring entity in connection with the Change in Control, the fair value of the options so assumed or replaced at the date of the Change in Control, as determined in good faith by the Company).

2. Withholding Taxes. The Company may withhold from any amounts payable to Employee under this Agreement such foreign, federal, state, local and other taxes as may be required to be withheld pursuant to any applicable law or regulation.

3. Cooperation With Regard to Litigation. Employee agrees to cooperate with the Company during the period of Employee's employment with the Company or any of its subsidiaries or affiliates and following the termination or expiration of Employee's employment with the Company or any of its subsidiaries or affiliates for any reason whatsoever (including, without limitation, death, disability, retirement, voluntary resignation or termination, or involuntary termination with or without cause) by being reasonably available to testify on behalf of the Company or any of its affiliates, in any action, suit or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company or any of its affiliates in any such action, suit, or proceeding by providing information and meeting and consulting with its counsel and representatives. Employee shall be reimbursed for any out-of-pocket expenses reasonably incurred by Employee in the course of such cooperation.

4. Special Limitation. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment by the Company in connection with a Change in Control to or for the benefit of Employee (whether paid or payable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be nondeductible by the Company for Federal income tax purposes because of Section 280G of the Internal Revenue Code of 1986, as amended ("Code"), then the amount payable to Employee hereunder shall be reduced to the Reduced Amount. The "Reduced Amount" shall be that amount which maximizes the payment amount hereunder without causing any Payment to be nondeductible by the Company because of Section 280G of the Code.

5. Miscellaneous. This Agreement is legally binding on the parties and their respective successors and assigns. It may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. It represents the parties' entire understanding regarding the subject matter of this Agreement and supersedes any and all prior agreements regarding the same subject matter. The terms and provisions of this Agreement cannot be terminated, modified or amended except in a writing signed by the party against whom enforcement is sought. This Agreement shall be governed by, and construed and interpreted in accordance with, the law of the State of Florida, and any suit, action or proceeding arising out of or relating to this Agreement shall be commenced and maintained in any court of competent subject matter jurisdiction located in Miami, Florida, In any suit, action or proceeding arising out of or in connection with this Agreement, the prevailing party shall be entitled to recover from the other party, upon final judgment on the merits, all attorneys' fees and disbursements actually billed to such party, including all such fees and disbursements incurred at trial, during any appeal or during negotiations. None of Employee's rights under this Agreement may be transferred, assigned, pledged or encumbered. Nothing in this Agreement shall be construed as conferring upon Employee any right to continue in employment or to limit the right of the Company to terminate the Employee for any reason, with or without cause. This Agreement shall terminate on December 31, 2004.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

Catalina Lighting, Inc.

By: /s/ CLARENCE E. TERRY

Name:

CLARENCE E. TERRY

Title:

VICE PRESIDENT

/s/ ROBERT VARAKIAN

Robert Varakian

APPENDIX A

SCHEDULE OF POTENTIAL CASH BONUS AMOUNTS¹

<u>Net Proceeds²</u>	<u>Cash Bonus Amount^{3,4}</u>		
Less Than \$60,000,000	No amount payable		
\$60,000,000	\$333,333	+	\$300,000
\$70,000,000	\$333,333	+	\$350,000
\$80,000,000	\$333,333	+	\$400,000
\$90,000,000	\$333,333	+	\$450,000
\$100,000,000	\$333,333	+	\$500,000
\$110,000,000	\$333,333	+	\$550,000
\$120,000,000	\$333,333	+	\$600,000
\$130,000,000	\$333,333	+	\$650,000
\$140,000,000	\$333,333	+	\$700,000

¹ Subject to reduction, for Option Proceeds per Section 1(a).

² “Net Proceed” shall mean the aggregate amount of proceeds actually received by the Company or its shareholders in connection with a Change in Control, less all fees, expenses and other monetary obligations paid or payable to unaffiliated third parties (including, without limitation, investment banking, legal, accounting and escrow fees and expenses and indemnification costs) in connection with a Change in Control and in the case of a Change in Control described in clause (ii) of the definition of Change in Control in Section 1(c)(i) less all taxes paid or payable in connection therewith; provided, however, that notwithstanding anything in this definition to the contrary, for avoidance of doubt, any proceeds or other funds that the Company or its affiliates (including, without limitation, Sun Capital Partners Management, LLC) actually receive or are entitled to receive pursuant to any agreement between Sun Capital Partners Management, LLC (or any of its affiliates) and the Company (or any of its subsidiaries) shall not be included in “Net Proceeds.”

³ The total Cash Bonus Amount will equal the sum of the two columns opposite the applicable Net Proceeds number. For example, if the Net Proceeds equal \$60,000,000, the total Cash Bonus Amount will equal \$633,333 (\$333,333 plus \$300,000). The variable Cash Bonus Amount represented by the right hand column under the heading Cash Bonus Amount will be prorated between steps (e.g., if the Net Proceeds are between \$60,000,000 and \$70,000,000, Employee’ s cash bonus amount shall be equal to the sum of (a) \$333,333 plus (b) the product obtained by multiplying (i) \$350,000 by (ii) a fraction, the numerator of which is the actual amount of Net Proceeds and the denominator of which is \$70,000,000).

⁴ In the event of a Change in Control due to the sale of one (or both) of the Company' s operating segments as further described in clause (iii) of the definition of Change in Control in Section 1(c)(i), the Cash Bonus Amount shall be payable in accordance with the following procedures:

A. If the Change in Control is due to the sale of the United Kingdom operating segment, the Net Proceeds shall be multiplied by 1.25.

B. 50% of the applicable Cash Bonus Amount (as provided in the Schedule of Potential Cash Bonus Amounts, as amended by A above) shall be paid on the Change in Control and the remaining 50% shall be paid in accordance with the vesting schedule of Employee' s November 21, 2002 option grant.

C. If the remaining operating segment of the Company is sold before the expiration of this Agreement, the 50% of the applicable Cash Bonus Amount to be paid according to the vesting schedule described in paragraph B above shall be canceled, and the Company will pay Employee on the date of such sale a Cash Bonus Amount based upon the aggregate Net Proceeds of the two sales and the Schedule of Potential Cash Bonus Amounts shown in the table above less any amount previously paid to Employee pursuant to paragraph B above.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert Varakian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Catalina Lighting, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert Varakian

Date: May 17, 2004

Robert Varakian
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gary Rodney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Catalina Lighting, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gary Rodney

Date: May 17, 2004

Gary Rodney
Chief Financial Officer

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
RELATING TO A PERIODIC REPORT CONTAINING FINANCIAL STATEMENTS**

I, Robert Varakian, Chief Executive Officer of Catalina Lighting, Inc., hereby certify to my knowledge, and I, Gary Rodney, Chief Financial Officer, Catalina Lighting, Inc., hereby certify to my knowledge, that:

- (a) The Company's periodic report on Form 10-Q for the quarterly period ended March 31, 2004 (the "Form 10-Q"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (b) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

/s/ Robert Varakian
Robert Varakian

/s/ Gary Rodney
Gary Rodney

Date: May 17, 2004

Date: May 17, 2004

A signed original of this written statement required by Section 906 the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Catalina Lighting, Inc. and will be retained by Catalina Lighting, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.