FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

CATALINA LIGHTING INC

CIK:**822665**| IRS No.: **591548266** | State of Incorp.:**FL** | Fiscal Year End: **0930**
Type: **10-K405** | Act: **34** | File No.: **033-27861** | Film No.: **96687780**
SIC: **3640** Electric lighting & wiring equipment

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FORM 10-K

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 1996

OR

[ ] TRANSITION PERIOD PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from_______________________to_______________________

COMMISSION FILE NO: 1-9917

CATALINA LIGHTING, INC.
(Exact name of Registrant as specified in its charter)

FLORIDA	59-1548266
State or other jurisdiction of incorporation or organization	(I.R.S Employer Identification Number)

18191 N.W. 68TH AVENUE, MIAMI, FLORIDA 33015
(Address of principal executive offices, including zip code)

(305) 558-4777
(Registrant's telephone number, including area code)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.01 per share	New York Stock Exchange

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

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant computed by reference to the closing price of such stock, as reported by the New York Stock Exchange, on December 18, 1996 was $36.2 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Company for its 1997 Annual Meeting of Stockholders are incorporated by reference into Part III.

Number of shares outstanding of Registrant's common stock, as of December 18, 1996: 7,064,587

Exhibit Index at Page 53

FORM 10-K
CATALINA LIGHTING, INC.

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K (this "Form 10-K"), including statements under "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward- looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Catalina Lighting, Inc. (the "Company") and its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following: the highly competitive nature of the lighting industry; reliance on certain key customers; consumer demand for lighting products; dependence on imports from China; general economic and business conditions; competition; operating costs; advertising and promotional efforts; brand awareness; the existence or absence of adverse publicity; acceptance of new product offerings; changing trends in customer tastes; changes in business strategy; quality of management; availability, terms and deployment of capital; business abilities and judgment of personnel; availability and cost of raw materials and supplies; factory construction schedules; the costs and other effects of legal and administrative proceedings; and other factors referenced in this Form 10-K. The Company will not undertake and specifically declines any obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

ITEM 1. BUSINESS.

GENERAL

Catalina Lighting, Inc. was incorporated under the laws of the state of Florida in 1974 and became a public company in 1988. The Company designs, manufactures, contracts for the manufacture of, imports and distributes a broad line of lighting fixtures and lamps under the Westinghouse/registered trademark/ brand and the Catalina/registered trademark/, Dana/registered trademark/, Meridian Lamps/registered trademark/ and Illuminada/registered trademark/ trade names. The Company also functions as an original equipment manufacturer, selling goods under its customers' private labels. The Company sells principally in the United States through a variety of retailers including home centers, national retail chains, office superstore chains, warehouse clubs, discount department stores, catalog showrooms, lighting showrooms and hardware stores. The Company also sells its products in Europe and Canada, and, to a lesser extent, in Mexico, Asia, Latin America and Australia. Currently, its product line is comprised almost entirely of lighting fixtures and lamps. The Company has supplemented its product lines through acquisitions but has remained focused on lighting products and has no plans to materially change its sales focus in the near future.

STRATEGY

In order to expand its retail distribution network and more efficiently and profitably service its customers, the Company focuses on the following strategies:

TARGETED DISTRIBUTION. The Company distributes a diverse product line through multiple retail channels. The Company targets rapidly growing and large retailers, including leading home centers, office product superstores, warehouse clubs, discount department stores, catalog showrooms, lighting showrooms and hardware stores. Large retailers assure a broad distribution of a variety of the Company's products while high-growth retailers provide the Company with rapid penetration of selected industry segments. Secondarily, the Company targets smaller chains within the above retail categories. While sales to each of these retailers are smaller than those to their larger counterparts, these smaller retailers are more numerous than their larger competitors and account for a significant portion of the lighting industry. The Company's distribution strategy provides it with numerous sources of demand and promotes the Company's brand names broadly throughout the residential and office lighting markets in the United States, Europe and Canada, and to a lesser extent Asia, Mexico, Latin America and Australia.

PROGRAM SELLING. In its primary domestic markets, the Company strives to be the primary source of lighting products to its retailers by offering a complete program of lighting products in a variety of categories. The availability of over 1000 styles of outdoor/security lighting, table, floor and torchiere lamps, chandeliers, recessed and track lighting and wall and ceiling lights - the majority of which are available in several colors or finishes - provides retailers the opportunity to source most of their lighting products through the Company on a "one stop shopping" basis. The Company believes that its broad selection of affordable products coupled with its ability to aid its retail customers in developing a complete lighting program gives it a competitive advantage.

INTERNATIONAL EXPANSION The Company's Hong Kong based subsidiary, Go-Gro Industries Limited ("Go-Gro"), sells its products principally to wholesale distributors in Europe, but also sells to various customers in the U.S., Asia and Australia and is also a supplier to the Company in the U.S. and Canada. Management believes the Company's products and services are well suited for further growth in these and other markets. The Company expects to join forces with sales representatives and distributors in its foreign target markets and utilize their knowledge of local markets' tastes in products, social customs, and trading nuances to facilitate the Company's entry into those countries. The Company's current plans include expansion of Go-Gro's existing sales and marketing operations in Europe, including the United Kingdom.

TURNKEY DEPARTMENTS. The Company consults with many of its domestic retail customers to establish departments which allow the Company to display its products in a customized layout designed to meet each retailer's specific merchandising and marketing goals. The Company can design, assemble and maintain these departments and provide the retailer with shelving plan-o-grams, signs, point-of-purchase promotional strategies and in-store inventory stocking programs. Turnkey departments ensure the Company's retail customers efficient and convenient management of the Company's products within their stores and allow the Company to maintain an attractive and informative presentation of its products.

WAREHOUSE SUPPLY OF IMPORTED GOODS. The Company's warehouses in the United States, Canada and Mexico enable it to provide the cost advantage of imported products with the convenience of short delivery time. Warehouse sales allow retailers to receive products in several days as compared to several months for items shipped directly to them from Asia. Timely deliveries increase the customer's inventory turns and profits making the Company a valuable partner in the retailer's business.

SALES MANAGEMENT. Catalina has regional vice-presidents and supporting salespeople strategically located in key regions throughout the U.S., Europe, Canada, Asia and Mexico. While continuing to maintain independent representatives in select areas, the Company has built a team of sales professionals who service key accounts and cultivate new business in their regions. The Company will continue to develop its internal sales force to provide dedicated and knowledgeable lighting professionals to aid in directing the customers' buying decisions and ensure maximum penetration into targeted markets.

PRODUCTS

The Company markets a diverse product line of lighting fixtures and lamps used primarily in residential and office settings. The Company's product line is comprised of three main categories: hardwire lighting fixtures ("lighting fixtures"), functional table and floor lamps ("functional lamps") and decorative table and floor lamps ("decorative lamps"). Lighting fixtures consist of outdoor/security lighting, chandeliers, recessed and track lighting, and wall and ceiling lights. Functional lamps consist of halogen desk lamps, bankers lamps, swing arm desk lamps, torchiere lamps, magnifier lamps, and any other lamps generally used for task oriented functions. Decorative lamps consist of table top and floor lamps in such materials as metal, ceramic, hydrocal, and crystal glass. The Company may continue to expand its product lines internally or through acquisitions.

The Company's products are manufactured and assembled according to the Company's design specifications. The finished products are packaged and labeled under one of the Company's brand names: Westinghouse/registered trademark/, Catalina/registered trademark/, Dana/registered trademark/, Meridian Lamps/registered trademark/ and Illuminada/registered trademark/. The Company also functions as an original equipment manufacturer, selling goods under its customers' private labels.

CUSTOMERS

The Company distributes its products in North America principally through major retail outlets, including home centers, national retail chains, office superstore chains, discount department stores, warehouse clubs, catalog showrooms, furniture and lighting stores and hardware stores. Go-Gro's products are sold to a large extent in Europe to wholesale distributors under their private labels. Go-Gro also sells to selected retail customers in the U.S., Europe, Australia and Asia. In fiscal 1996 and 1995, Kmart accounted for 3.9% and 5.9%, respectively, of the Company's net sales while its affiliate, Builders Square, accounted for 7.1% and 6.9% of the Company's net sales. For the fiscal years ended September 30, 1996 and 1995, net sales to the Company's ten largest customers represented approximately 58% and 53%, respectively, of the Company's total revenues. The Company believes its relationships with its customers are good.

SALES

DISTRIBUTION OPERATIONS

Distribution operations generated net sales of $153.8 million and $148.3 million in 1996 and 1995, respectively, representing 83.3% and 84.1%, respectively, of net sales in such years. The backlog of unshipped orders at September 30, 1996 and 1995 was $13.8 million and $13.2 million, respectively. Although these orders are subject to cancellation by the customers, the Company believes substantially all such orders are firm. The Company's distribution operations utilize two methods to sell products: warehouse sales and direct sales.

The Company purchases products overseas for its own account and warehouses the products in a 475,000 square foot Company-owned facility in Tupelo, Mississippi and in leased facilities in Montreal, Canada, Mexico City, Mexico and in a public warehouse in California. The Company is responsible for costs of shipping, insurance, customs clearance and duties, storage and distribution related to such warehouse products and therefore, warehouse sales usually command higher per unit sales prices than direct sales of the same items. For the fiscal years ended September 30, 1996 and 1995, warehouse sales accounted for 54% and 61%, respectively, of the net sales generated by the Company's distribution operations.

The Company's direct sales are made either by delivering lighting products to the retailers' common carriers at a shipping point in Asia or by shipping the products from Asia directly to retailers' distribution centers, warehouses or stores. Direct sales are made in large quantities (generally container-sized lots) to customers, who pay pursuant to their own international, irrevocable, transferable letters of credit or on open credit with the Company. Upon receipt of a customer's letter of credit, the Company transfers the portion of the letter of credit covering the cost of merchandise to its supplier. The terms of the transfer provide that draws may not be made by the supplier until the Company is entitled to be paid pursuant to the terms of the customer's letter of credit. The Company has the right to draw upon the customer's letter of credit once the products are inspected by the Company or its agents, delivered to the port of embarkation and the appropriate documentation has been presented to the issuing bank within the time periods established by such letter of credit. For fiscal years ended September 30, 1996 and 1995, 46% and 39%, respectively, of the net sales generated by the Company's distribution operations were attributable to direct sales.

The relative proportion of the Company's distribution sales generated by each method is dependent upon customer buying preferences and Company sales strategies. Purchasing on a direct basis allows the customer to generally pay a lower price than purchasing the same items from the warehouse, but such method requires the customer to purchase in greater quantities and thus assume the costs, risks and liquidity requirements associated with holding larger inventories. Customer buying preferences are influenced by a number of business, economic and other factors. The underlying factors driving customer buying preferences often vary from customer to customer and are subject to change, thus customer buying preferences over time are inherently difficult to predict.

MANUFACTURING OPERATIONS

On July 30, 1994 the Company purchased Go-Gro a lighting products manufacturer with its administrative office located in Hong Kong and production facilities located in the Guangdong Province of China. Go-Gro's production equipment is owned by Shenzhen Jiadianbao Electrical Products Co., Ltd. (SJE), Go-Gro's cooperative joint venture

subsidiary. SJE's factory buildings are leased from the Company's joint venture partner in SJE, Shenzhen Baoanqu Fuda Industries Co. Ltd. ("Fuda"), a Chinese company. Under the terms of the cooperative joint venture agreement with Fuda, Go-Gro is entitled to 100% of the manufacturing profits and losses of SJE, while Fuda is entitled to a yearly management fee from SJE of approximately $400,000 in addition to the rent for the factory buildings. Go-Gro manufactures an extensive product line consisting primarily of lamps sold mainly to wholesale distributors and retailers in Europe, the Company and its subsidiaries and to a lesser extent, retailers in North America. Go-Gro had sales for fiscal 1996 and 1995 of $53.3 million and $43 million, respectively, of which $25.3 million in 1996 and $17.3 million in 1995 were sold to the Company and its subsidiaries. The backlog of unshipped orders at September 30, 1996 and 1995 was $15.9 million and $8.5 million, respectively, of which $6.4 million and $3.1 million for 1996 and 1995, respectively, was for the Company and its subsidiaries. Although these orders are subject to cancellation by the customers, the Company believes substantially all such orders are firm. Go-Gro and its subsidiaries employ approximately 2,900 people.

SJE leases factory buildings in three separate locations in China. During 1995, the Company initiated a consolidation of its Go-Gro/SJE manufacturing facilities into one large compound in order to achieve certain manufacturing efficiencies and to fix its occupancy costs in what management believes will be an inflationary business environment. In April 1995, SJE and the Bureau of National Land Planning Bao-An Branch of Shenzhen City entered into a Land Use Agreement covering approximately 467,300 square feet in Bao-An County, Shenzhen City, People's Republic of China. The agreement provides SJE with the right to use the above-described land until January 18, 2042. The land use rights are non-transferable. Under the terms of the SJE joint venture agreement, ownership of the land and buildings of SJE is divided 70% to Go-Gro and 30% to the other joint venture partner. Land costs, including the land use rights, approximated $2.6 million of which Go-Gro has paid its 70% proportionate share of $1.8 million.

Under the terms of this agreement, SJE is obligated to construct approximately 917,000 square feet of factory buildings and 275,000 square feet of dormitories and offices, with 40 percent of the construction required to be completed by April 1, 1997 and the remainder by December 31, 2000. The total construction costs for this project are estimated at $11.3 million, and include approximately $1.6 million for a Municipal Coordination Facilities Fee (MCFF). The MCFF is based upon the square footage to be constructed. The agreement calls for the MCFF to be paid in installments beginning in January 1997 and continuing through 1998, with 46% of the total fee due by September 1997. SJE plans to file an application to reduce the amount of square footage required to be constructed by approximately 40% and thereby proportionately reduce the MCFF and make the MCFF payable upon the completion of each applicable factory and/or dormitory building. The outcome of the application cannot be presently determined. Go-Gro anticipates shifting a substantial portion of its manufacturing operations from the current leased properties to the new SJE owned facilities over the next five years. The first construction phase (a 162,000 square foot factory, a 77,000 square foot warehouse and a 60,000 square foot dormitory) is estimated to be completed in March 1997 and will increase present production capacity by approximately 30%.

Meridian Lamps, Inc. ("Meridian") is a wholly-owned subsidiary with a manufacturing facility located in Meridian, Mississippi, which commenced operations in late December 1994. Meridian produces decorative table and floor lamps. The Meridian facility consists of 123,000 square feet with both manufacturing and warehousing capabilities. Meridian's activities during 1996 were focused upon refinement of the production processes and establishment of a customer base. Meridian's operations generated $2.8 million in net sales during fiscal 1996 and $2.8 million during its nine months of operations in fiscal 1995.

PURCHASING

Other than the goods produced by Go-Gro and Meridian, the products sold by the Company during 1996 were virtually all purchased and imported from approximately 60 independent suppliers located in China and Taiwan. The Company's primary suppliers of lighting products are located in China. In fiscal 1996 and 1995, Chinese suppliers, excluding Go-Gro, accounted for approximately 71% of the Company's total goods purchased for the Company's distribution operations. Shunde No. 1 Lamp Factory ("Shunde") accounted for approximately 23% of purchases for the Company's distribution operations in 1996 and 19% in 1995. Purchases from the top five independent suppliers comprised 50% and 39%, respectively, of total purchases for distribution for fiscal 1996 and 1995. Other than Shunde, no independent supplier accounted for more than 10% of purchases by the Company's distribution operations in 1996. In

addition, goods produced by Go-Gro, which also manufactures in China, constituted approximately 24% in 1996 and 16% in 1995, of purchases made by the Company's distribution operations.

On June 21, 1996, the Company entered into an agreement with Shunde whereby Shunde agreed to manufacture lighting products for the Company to be sold in North and South America and the European Community on an exclusive basis for a three year period beginning October 1, 1996 in return for annual minimum purchase requirements from the Company. The agreement is terminable if the Company does not meet its minimum purchase requirements, at which time the exclusivity clause would cease. However, no amounts would be due Shunde for failure to meet the purchase requirements.

While the Company purchases its products from a small number of large suppliers with whom it maintains close alliances, the same products could be purchased from numerous other suppliers. The Company provides key suppliers with design and quality specifications and product safety standards. To ensure that its high standards of product quality and shipping schedules are met by suppliers, the Company employs staff in offices in Hong Kong, Taiwan and Southern China. These employees include product inspectors who are knowledgeable about the Company's product specifications and work closely with the suppliers to verify that such specifications are met. Additionally, key officers of the Company frequently visit suppliers to emphasize quality and maintain good relations.

During 1996 approximately 95% (including purchases from Go-Gro) of the products purchased for sale by the Company's distribution operations were imported from China. In addition, Go-Gro sold $28 million in products to unaffiliated entities, of which $3.1 million were shipped to the U.S. The continued importation of these products and the Company's business could be affected by any one of several significant trade issues that presently impact

U.S. - China relations. These issues and their possible effects are summarized below.

On June 19, 1996, the President of the United States extended to the People's Republic of China "Most Favored Nation" ("MFN") treatment for the entry of goods into the United States for an additional year, beginning July 3, 1996. In the context of United States tariff legislation, MFN treatment means that products are subject to favorable duty rates upon entry into the United States. The Presidential Determination did not recommend subjecting any future renewal of MFN trade status for China to various conditions, such as China's compliance with the 1992 bilateral agreement with the United States concerning prison labor and overall progress with respect to human rights, release and accounting of Chinese citizens imprisoned or detained for their political and religious beliefs, humane treatment of prisoners, protecting Tibet's religious and cultural heritage and permitting international radio and television broadcasts into China. Congress has passed a resolution instructing certain committees to investigate China's alleged human rights abuses, illicit arms transfers and unfair trade practices. Members of Congress and the "human rights community" will continue to monitor the human rights issues in China and adverse developments in human rights and other trade issues in China could affect U.S. - China relations.

On November 30, 1993, the United States Trade Representative ("USTR") placed China on the "priority watch list" under the so-called special 301 provisions of the Trade Act of 1974 dealing with the protection of intellectual property rights. On June 30, 1994, USTR announced that China had been designated a "priority foreign country " under the special 301 provisions of the Trade Act of 1974. On February 4, 1995, the USTR announced that the United States would take retaliatory trade action against China if the government did not agree to address intellectual property rights issues. The USTR also published a final list of products comprising $1 billion worth of Chinese exports to the United States which would be subject to increased duties. Products currently manufactured by and for the Company were excluded from the list. On February 26, 1995 the United States and China resolved this dispute when China agreed to close down a number of compact disc plants and take enforcement actions against copyright piracy which was evidenced by the signing of an Intellectual Property Enforcement Agreement (the "IPR Agreement"). On April 30, 1996, USTR designated China as a "priority foreign country" because of its failure to implement the 1995 intellectual property enforcement agreement and on June 17, 1996, the United States and China reached an understanding on the enforcement of the intellectual property agreement. USTR will continue to monitor China's implementation of the 1995 agreement and trade sanctions could be imposed for non-compliance at any time pursuant to a decision by USTR that China is not satisfactorily implementing the 1995 agreement.

During 1995, the Company obtained a political risk insurance policy issued by the Multilateral Investment Guarantee Agency, a member of the World Bank Group, in the amount of $14.4 million covering its purchase and

expansion of SJE in China. The contract is a long-term non-cancelable guarantee covering the risks of expropriation and war and civil disturbance. The Company obtained guarantees to cover existing assets of $11.0 million and stand-by guarantees on its facility under construction of $3.4 million.

As a result of various political and trade disagreements between the U.S. Government and China, it is possible restrictions could be placed on trade with China in the future which could adversely impact the Company's operations.

COMPETITION

The Company's product lines span major segments within the lighting industry and, accordingly, the Company's products compete in a number of different markets with a number of different competitors. The Company competes with other independent distributors, importers, manufacturers, and suppliers of lighting fixtures and other consumer products. The lighting industry is highly competitive. Other competitors market similar products that compete with the Company on the basis of price. Some of these competitors do not maintain warehouse operations or perform some of the services provided by the Company which require the Company to charge higher prices. The relatively low barriers to entry into the lighting industry and the limited proprietary nature of many lighting products also permit new competitors to enter the industry easily. The ability of the Company to compete successfully in this highly competitive market depends upon its ability to manufacture and purchase quality products on favorable terms, ensure its products meet safety standards, deliver the goods promptly at competitive prices, and provide a wide range of services such as electronic data interchange and customized products, packaging, and store displays.

INDEPENDENT SAFETY TESTING

As part of its marketing strategy, the Company voluntarily submits its products to recognized product safety testing laboratories in countries in which it markets its products. Such laboratories include Underwriters Laboratories

(UL) in the United States, Canadian Standards Association (CSA) in Canada, Association Nacional de Normalizacion y Certification del Sector Electrico (ANCE) in Mexico and various European electrical testing organizations. If the product is acceptable, the laboratory issues a report which provides a technical description of the product. It also provides the Company's suppliers with procedures to follow in producing the products and periodically conducts inspections at such suppliers' facilities for compliance. Electrical products which are manufactured in accordance with safety certification marks are generally recognized by consumers as safe products and such certification marks are often required by various governmental authorities to comply with local codes and ordinances. The Company does not anticipate any difficulty in maintaining the right to use the listing marks of these laboratories.

PRODUCT LIABILITY

The Company is engaged in a business which could expose it to possible claims for injury resulting from the failure of its products. While the Company maintains $1 million in product liability insurance as well as a $25 million aggregate umbrella insurance policy, there can be no assurance that claims will not arise in the future, that the proceeds of such policy will be sufficient to pay any such claims, or that the Company will be able to maintain the same level of insurance. Management has no knowledge of any cases which will exceed these insurance limits.

TRADEMARKS AND PATENTS

On April 26, 1996, the Company entered into a license agreement with Westinghouse Electric Corporation ("Westinghouse") to market and distribute a full range of lighting fixtures, lamps and other lighting products under the Westinghouse brand name in exchange for royalty payments. The agreement terminates on September 30, 2001. The Company has an option to extend the agreement for an additional ten years. The royalty payments are due quarterly and are based on a percent of the value of the Company's net shipments of Westinghouse branded products, subject to annual minimum payments due. Either party has the right to terminate the agreement during years three through five of the agreement if the Company does not meet the minimum net shipments required under the agreement.

On December 17, 1996 White Consolidated Industries, Inc. ("White") which has acquired certain limited trademark rights from Westinghouse to market certain household products under the White-Westinghouse trademark, notified the Company of a lawsuit against Westinghouse and the Company. The lawsuit challenges the Company's right

to use the Westinghouse trademarks on its lighting products and alleges trademark infringement. Both the Company and Westinghouse vigorously dispute White's allegations and on December 24, 1996, Westinghouse and the Company served a Complaint and Motion for Preliminary Injunction against White, AB Electrolux, Steel City Vacuum Co., Inc., Salton/Maxim Housewares, Inc., Newtech Electronics Corp., and Windmere Durable Holdings, Inc. alleging that the defendants had violated Westinghouse's trademark rights, breached the Agreement between Westinghouse and White and seeking an injunction to enjoin White against interference with their contractual arrangements. Management does not believe this litigation will have a material adverse impact on the Company's financial position or annual results of operations.

The Company's licensed brand, Westinghouse/registered trademark/, and the Company's own trademarks, Catalina/registered trademark/, Dana/registered trademark/, Meridian Lamps/registered trademark/ and Illuminada/registered trademark/ are registered in the United States, Canada and Mexico as well as in numerous countries in the European Community and Asia. The Company is in the process of registering its trademarks in Central and South America.

EMPLOYEES

As of December 18, 1996 the Company employed approximately 300 people in the United States, including 75 people at Meridian. The Hong Kong and China operations, including Go-Gro's cooperative joint venture, employed approximately 2,900 people. None of the Company's employees are represented by a collective bargaining unit and the Company believes that its relationships with its employees are good.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

Please see Note 13 of the Consolidated Financial Statements.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information as of December 18, 1996 with respect to the executive officers of the Company:

NAME	AGE	POSITION WITH THE COMPANY

Robert Hersh	50	Chairman, President, Chief Executive Officer, Director
Dean S. Rappaport	44	Executive Vice President, Chief Operating Officer, Director
William D. Stewart	48	Executive Vice President - Sales and Marketing, Director
Nathan Katz	41	Executive Vice President - Catalina, President of Catalina Industries, Inc.
Wai Check Lau	49	President of Go-Gro Industries Limited
Janet P. Ailstock	48	Vice President, General Counsel
Thomas M. Bluth	39	Vice President, Secretary, Treasurer
David W. Sasnett	40	Vice President, Chief Financial Officer

None of the Company's officers has any family relationship with any director or other officer. "Family relationship" for this purpose means any relationship by blood, marriage, or adoption, not more remote than first cousin.

ROBERT HERSH has been the President and Chief Executive Officer of the Company since April, 1991, Chairman of the Board since June, 1991 and a Director of the Company since April, 1988. Mr. Hersh served as the Executive Vice President of the Company from 1985 to April 1991 and as Secretary from June, 1989 until June, 1991.

DEAN S. RAPPAPORT has been Executive Vice President, of the Company since January, 1988 and a Director of the Company since April, 1988. From January 1988 to November 1996 Mr. Rappaport was Chief Financial Officer and Treasurer of the Company. Mr. Rappaport was promoted to Chief Operating Officer of the Company in November 1996. From 1984 until he joined the Company, Mr. Rappaport was a partner with Wachsman & Rappaport, P.A., a public accounting firm located in Margate, Florida.

WILLIAM D. STEWART has been Executive Vice President, Marketing and Sales of the Company since 1989, and a Director of the Company since April, 1994. From 1985 until he joined the Company, Mr. Stewart was the Executive Vice President with Crest Industries, Inc., a distributor of home improvement products.

NATHAN KATZ has been Executive Vice President of the Company since October 1, 1993 and President of Catalina Industries, Inc., a wholly-owned subsidiary of the Company since August 1989. From October 1983 to August 1989, Mr. Katz was the Chief Executive Officer of Dana Imports, Inc., an importer of lamps located in Boston, Massachusetts.

WAI CHECK LAU has been President of Go-Gro Industries Limited since 1985.

JANET P. AILSTOCK has been Vice President and General Counsel for the Company since April 1992. Prior to joining the Company, from 1986 to 1992 Ms. Ailstock was associated with the law firm of Fine, Jacobson, Schwartz, Nash and Block practicing in the area of securities and corporate law.

THOMAS M. BLUTH has been Vice President since August 1994 and Secretary of the Company since November 1994. Mr. Bluth became Treasurer of the Company in November 1996. From 1989 until he joined the Company, Mr. Bluth was Vice President and General Counsel for Ellis Diversified, Inc. From 1987 to 1989, Mr. Bluth was the Assistant Tax Director for Southwestern Bell Corporation.

DAVID W. SASNETT has been a Vice President of the Company since November 1994. In November 1996, Mr. Sasnett became the Chief Financial Officer of the Company. Prior to that time, he was the Company's Controller and Chief Accounting Officer. From 1993 until he joined the Company, Mr. Sasnett was the Vice President - Finance and Controller of Hamilton Bank, N.A. and from 1980 to 1993 was employed by the international accounting firm of Deloitte & Touche.

ITEM 2. PROPERTIES.

The following table sets forth details about the Company's offices, manufacturing plants and warehouse facilities:

LOCATION	FACILITY	LEASED/ OWNED

Miami, FL	Headquarters/ office	owned (1)
Dallas, TX	office/warehouse	leased (2)
Tupelo, MS	warehouse	owned (1)
	warehouse	leased
Easton, MA	office	leased
Meridian, MS	manufacturing plant / warehouse	owned (1)
	warehouse	leased
Montreal, Canada	office/warehouse	leased
Mexico	office	leased
	warehouse	leased
Hong Kong	office	leased
China	office/manufacturing plants/warehouse	leased
	dormitories	leased
	manufacturing plant/ warehouse/dormitories	partially owned (3) / under construction
Taiwan	office	leased

(1) Owned subject to a first mortgage.

(2) The Company has subleased all space under this lease to unrelated parties.

(3) This facility is owned by a joint venture in which the Company has a 70% interest as to ownership of the facility. The joint venture purchased land use rights which terminate in the year 2042.

(Continued on page 12)

Additionally, the Company has month-to-month lease agreements with public warehouses in California and Mississippi, which provide handling services for the Company's inventory.

All of the Company's properties are fully utilized, with the exception of the Company's Meridian manufacturing facility, which operated at approximately 50% of capacity in 1996. With the exception of the office / warehouse space in Dallas, which has been fully subleased, all of the Company's properties are suitable for its operations.

ITEM 3. LEGAL PROCEEDINGS.

On June 4, 1991, the Company was served with a copy of the Complaint in the matter of Browder vs. Catalina Lighting, Inc., Robert Hersh, Dean S. Rappaport and Henry Gayer, Case No. 91-23683, in the Circuit Court of the 11th Judicial Circuit in and for Dade County, Florida. The plaintiff in the action, the former President and Chief Executive Officer of the Company, contends that his employment was wrongfully terminated and as such brought action for breach of contract, defamation, slander, libel and intentional interference with business and contractual relationship. On June 11, 1992, the Court dismissed the Complaint and on June 17, 1992, the plaintiff filed an amended Complaint including claims for damages in excess of $5 million against the Company and declaratory relief as well as claims for damages in excess of $3 million against the named directors. On November 24, 1992, the Company filed a Counterclaim in the action. The Counterclaim alleges damages for in excess of $1 million arising out of actions which the Company alleges constituted violation of federal and state securities laws, breach of fiduciary duty, breach of contract, breach of constructive trust, conversion, civil theft, negligence, fraudulent inducement, fraud and extortion. On December 21, 1992, Mr. Browder filed his Answer denying the allegations of the Counterclaim. On March 1, 1993, Mr. Browder voluntarily dismissed Count II of his Complaint which sought a Declaratory Judgment. In June 1995, the Court granted the Company's Motion for Summary Judgment on the plaintiff's claims of libel which reduced the claims for damages against the Company to $3,000,000.

The case is presently in the discovery stages. The Company's legal counsel has opined that, based on their understanding of the facts, the legal elements necessary to justify a termination of John Browder's employment for "Cause" existed at the time his employment was terminated. Thus, the Company believes that the possibility is remote that any amounts claimed to be due by Mr. Browder will be paid by the Company. Accordingly, no provisions for any amounts which Mr. Browder claims are owed under his employment agreement nor any liability that may result from this litigation have been recorded in the accompanying consolidated financial statements.

On February 23, 1993, Dana Lighting (now Catalina Industries, Inc.), a subsidiary of the Company, and Nathan Katz, President of Dana, were served with a copy of the Complaint in a matter captioned Holmes Products Corp. vs. Dana Lighting, Inc. and Nathan Katz, Case No. 93-0249 in the Superior Court of Commonwealth of Massachusetts, City of Worcester, Massachusetts. The plaintiff in the action alleges that Dana Lighting engaged in acts constituting tortious interference with contractual actions, interference with prospective economic relationship with plaintiff's supplier and unfair competition. Plaintiff seeks injunctive relief and damages in excess of $10 million. Dana filed its Answer to the Complaint on March 15, 1993 denying all allegations, and Plaintiff's request for a temporary restraining order was denied by the Court. The supplier and Dana's President have filed affidavits with the court denying that Dana engaged in such acts. In July 1994, Holmes Products Corp. amended the Complaint to include allegations of a violation of civil RICO and a violation of the Federal Antitrust laws. On July 22, 1994, Dana Lighting removed the case from State Court to the United States District Court for the District Court of Massachusetts. Dana believes that the Complaint is totally without merit and disputes that any of the alleged acts or damages occurred or that Dana is liable in any matter. Dana intends to defend this case vigorously. The Company believes that the possibility is remote that any significant damages will be paid by the Company in connection with this litigation. Accordingly, no provision for any liability that may result from this litigation has been recorded in the accompanying consolidated financial statements.

On August 8, 1996, the Company was served with a copy of the Complaint in the matter of Black & Decker (U.S.), Inc. vs. Catalina Lighting, Inc., Case No. 96-1042-A, and on October 25, 1996 and December 4, 1996, the Company was served with a second and third complaint entitled Black & Decker vs. Catalina Lighting and Westinghouse Electric Corp., Case Nos. 96-1577-A and 96-1707-A, respectively. All cases are pending in the United States District Court, Eastern Division of Virginia. The plaintiff in these actions contends that the Company has infringed certain of plaintiff's patents in selling its line of flexible flashlights and as such brought action for an unspecified amount of monetary damages and an injunction prohibiting any further acts of infringement. Management believes that damages recoverable by the plaintiff, if any, will not have a material adverse impact on the Company's financial position or annual results of operations. The Company does not believe that its design and sale of flexible flashlights violates the property rights of others and the Company intends to defend this case vigorously. However, no assurances can be given as to the ultimate outcome.

The Company is also a defendant in other legal proceedings arising in the course of business. In the opinion of management, based on advice of legal counsel, the ultimate resolution of these other legal proceedings will not have a material adverse effect on the financial posiion or annual results of operations of the Company. See also Item 1 "Trademarks and Patents."

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

During the quarter ended September 30, 1996, no matters were submitted for a vote of the Company's stockholders.

PART II

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

The Company's common stock is traded on the New York Stock Exchange under the symbol LTG. The following table sets forth, for the periods indicated, the high and low closing prices of the common stock as reported by the New York Stock Exchange.

	High	Low
Fiscal Year Ended September 30, 1995		
First Quarter	11 7/8	6 3/4
Second Quarter	9 1/4	6 1/4
Third Quarter	6 3/4	5
Fourth Quarter	6 3/4	5 1/4
Fiscal Year Ended September 30, 1996		
First Quarter	5 3/8	3 5/8
Second Quarter	6 3/4	4 3/4
Third Quarter	7 1/8	5 3/8

Fourth Quarter	5 3/4	3 1/2

On December 18, 1996, the closing price of the Company's common stock as reported on the New York Stock Exchange was $5.125. As of December 18, 1996, there were approximately 180 holders of record of the Company's common stock, several of which are brokerage firms which hold shares in street name on behalf of their clients and whose holdings comprise a majority of the Company's outstanding shares.

The Company has never paid cash dividends on its common stock. The Company intends to retain future earnings, if any, to finance the expansion of its business and does not anticipate that any cash dividends will be paid in the foreseeable future. In addition, the terms of the Company's domestic credit facility and convertible subordinated notes prohibit the payment of any cash dividends or other distribution on any shares of the Company's common stock, other than dividends payable solely in shares of common stock, unless approval is obtained from the lenders. Future dividend policy will depend on the Company's earnings, capital and financing requirements, expansion plans, financial condition and other relevant factors.

<TABLE>
<CAPTION>
ITEM 6. SELECTED FINANCIAL DATA.
(in thousands, except per share data)

	AT OR FOR THE YEARS ENDED SEPTEMBER 30,				
	1996	1995(1)	1994(2)	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$184,630	$176,292	$142,123	$112,791	$104,995
Net income	$ 1,603	$ 400	$ 5,510	$ 4,404	$ 2,524
Primary earnings per share	$ 0.21	$ 0.05	$ 0.75	$ 0.69	$ 0.39
Fully diluted earnings per share	$ 0.21	$ 0.05	$ 0.74	$ 0.65	$ 0.37
Total assets	$117,462	$120,051	$101,428	$ 65,904	$ 63,768
Long-term borrowings	$ 36,571	$ 46,299	$ 30,068	$ 20,316	$ 953

</TABLE>

Certain amounts presented above for prior years have been reclassified to conform to the current year's presentation. No cash dividends were declared during the five year period ended September 30, 1996.

(1) Includes operating results for Go-Gro for the full fiscal year and Meridian from December 15, 1994 to September 30, 1995.

(2) Includes assets and liabilities acquired upon the acquisition of Go-Gro on July 30, 1994 and the operating results for Go-Gro for the period July 31, 1994 to September 30, 1994.

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

The Company's fiscal years ended September 30, 1996, 1995 and 1994 are referred to herein as "1996", "1995" and "1994", respectively.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentage relationship to net sales of amounts presented in the Company's consolidated statements of operations.

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
Net sales	100.0%	100.0%	100.0%
Cost of sales	83.2	84.1	81.1
Gross profit	16.8	15.9	18.9
Selling, general and administrative expenses	13.9	13.6	11.8
Operating income	2.9	2.3	7.1
Interest expense	(1.8)	(2.0)	(1.2)

Other income	0.2	0.2	0.1
Income before income taxes	1.3	0.5	6.0
Income tax provision	0.5	0.3	2.1
Net income	0.8%	0.2%	3.9%

COMPARISON OF FISCAL YEARS ENDED SEPTEMBER 30, 1996 AND 1995

Net sales and gross profit for 1996 were $184.6 million and $30.9 million, respectively, as compared to $176.3 million and $27.9 million, respectively, for 1995. The Company generated greater net income of $1.6 million ($.21 per share) in 1996 as compared to net income of $400,000 ($.05 per share) in 1995, as the pretax operating results of the Company's Hong Kong manufacturing subsidiary (Go-Gro) improved significantly.

In 1996, Kmart accounted for 3.9% of the Company's net sales while its affiliate, Builders Square, accounted for 7.1% of net sales. In 1995, the respective percentages of net sales for Kmart and its affiliate were 5.9% and 6.9%.

DISTRIBUTION OPERATIONS

Distribution operations contributed pretax income of approximately $3.3 million in 1996 and $3.2 million in 1995.

Net sales from distribution operations aggregated $153.8 million in 1996, as compared to $148.3 million in 1995. The $5.5 million increase in net sales reflects additional sales in Canada of $3 million. An increase in gross sales was partially offset by an increase in provisions for sales incentives of $3.4 million resulting from competitive pressures. Sales of functional lighting increased by a total of $13.5 million reflecting increased unit sales. Sales of functional lighting/lamps accounted for 64% of sales in 1996 compared to 58% in 1995. The Company's net sales for its other principal line of products, lighting fixtures, decreased by $8 million or 12.8% from 1995 to 1996. Management attributes this decline to a weakened customer base arising from the financial

DISTRIBUTION OPERATIONS (CONTINUED)

difficulties experienced by several of the Company's more significant customers for lighting fixtures.

Gross profit from distribution operations increased to $23.9 million in 1996 from $22.9 million in 1995. As a percentage of net sales, gross profit from distribution operations was 15.5% and 15.4% for 1996 and 1995, respectively. The $1 million increase in gross profit is attributable for the most part to the incremental contribution of higher sales. The gross profit percentage for 1996 reflects higher margins on sales of new products and higher margins on warehouse sales, which offset the impact on the gross profit percentage of the higher proportion of total distribution sales represented by direct sales (which are made at lower margins than warehouse sales of the same items) and the increase in provisions for sales incentives. Warehouse sales decreased to comprise 54% of distribution sales in 1996, as compared to 61% in 1995.

Selling, general and administrative expenses ("SG&A") for distribution operations amounted to $18.3 million in 1996, as compared to $17.7 million in 1995. The added SG&A is comprised of increases in depreciation and amortization of property and equipment ($472,000) as the Company accelerated the amortization of its computer system in connection with the planned purchase of a new system in 1997, expenses related to Mexican operations which commenced during fiscal 1996 ($275,000) and factoring costs related to the insurance of additional customer accounts ($181,000). These increases were offset by a reduction in the amortization of deferred costs of $214,000.

Interest expense on distribution-related financing rose to $2.3 million in 1996 from $2.1 million in 1995 primarily due to additional average outstanding borrowings.

MANUFACTURING OPERATIONS

Excluding certain administrative costs incurred at the corporate headquarters, in 1996 the Company's foreign and domestic manufacturing operations recorded a pretax loss of $867,000. This compares to a pretax loss from manufacturing operations of $2.4 million in 1995. An analysis of the results for the Company's two manufacturing subsidiaries is as follows:

GO-GRO

Go-Gro generated $1.6 million in pretax income in 1996 while reporting a pretax loss of $600,000 in 1995. Sales by Go-Gro to non-related companies primarily located in Europe, increased by $2.4 million, or 9%, in 1996 to $28 million. Go-Gro also recorded intercompany sales to the Company and its subsidiaries (which are eliminated for financial statement purposes and the profit on such sales deferred until the goods are sold to third parties) of $25.3 million in 1996 and $17.3 million in 1995. Gross profit increased in total dollars in 1996 by $2.3 million to $8.3 million as a result of the overall increase in shipments.

SG&A was $6.3 million for 1996, up $735,000 from 1995 mostly due to added payroll and benefits related to new employees hired to pursue additional sales in the European market and to support the increased sales volume. Interest expense declined in 1996 by $424,000 due to lower outstanding borrowings while other income increased by $129,000, mostly reflecting the sale of intangibles and increased income from an investee.

MERIDIAN

Meridian's pretax loss of $1.8 million for 1995 is not comparable to the pretax loss of $2.4 million for 1996 as Meridian did not commence operations until mid December 1994. Net sales for Meridian were $2.8 million in 1996 and $2.3 million in 1995. An additional $500,000 in Meridian product was sold in 1995 through the Company's distribution operations.

Cost of sales for 1996 was $4 million. The following factors increased costs of sales during 1996:

(1) a sales volume insufficient to avoid significant underutilization of plant capacity, resulting in manufacturing variances;

(2) unit production that has exceeded unit sales to date, resulting in additional storage expenses and a provision for excess inventory;

(3) costs required to develop new products.

Cost of sales exceeded sales in 1995 by $870,000 due entirely to manufacturing inefficiencies related to the start up nature of Meridian's operations during this period.

Meridian's remaining expenses for 1996 increased by $244,000 from 1995 as Meridian was operational for twelve months in 1996 as compared to only nine months in 1995.

During 1996, the sales volume of Meridian's decorative lamps product line was insufficient to avoid significant underutilization of Meridian's manufacturing facilities, which operated at approximately 50% of capacity. In late 1996 Meridian developed several additions to its product line. Management believes these new products, along with continued aggressive sales efforts, will facilitate placement of Meridian product with new and existing customers. However, it is presently uncertain when this subsidiary will be able to significantly improve its operating results.

INCOME TAX PROVISION

The effective income tax rates for 1996 and 1995 were 34.6% and 51.9%, respectively. The decrease in the effective rate from 1995 is mostly attributable to higher proportionate foreign income which is taxed at a lower rate than U.S. income. The high effective tax rate for 1995 reflects the impact on pretax income of amounts expensed by the Company for financial statement purposes which are not deductible for tax purposes (consisting primarily of goodwill amortization and interest incurred by certain foreign subsidiaries), which have the effect of increasing the effective tax rate.

The Company's effective income tax rate is dependent both on the total amount of pretax income generated and the relative contribution to such total of income from foreign operations. Consequently, the Company's effective tax rate may vary in future periods.

COMPARISON OF FISCAL YEARS ENDED SEPTEMBER 30, 1995 AND 1994

Net sales and gross profit for 1995 were $176.3 million and $27.9 million, respectively, as compared to $142.1 million and $26.8 million, respectively, for 1994. The added sales for 1995 as well as changes in the other components of operating results reflect, in part, the addition of manufacturing to the Company's operations for 1995. The Company generated net income of $400,000 ($.05 per share) in 1995 compared to net income of $5.5 million ($.74 per share) in 1994 as various factors adversely impacted its distribution and manufacturing operations.

DISTRIBUTION OPERATIONS

Distribution operations generated pre-tax income of $3.2 million in 1995 as compared to $8.3 million in 1994.

Net sales from distribution operations aggregated $148.3 million in 1995, as compared to $136.0 million in 1994. The $12.3 million increase in sales principally results from increased unit sales of functional lamps and reflects $3.3 million in additional sales made in the Canadian market. A 37.6% increase in the sales of functional lamps served to more than offset a 12.7% decline in sales of lighting fixtures. Sales from domestic warehouses increased 6% while sales made from Asia directly to customers increased 18.5%. In 1995, Kmart accounted for 4.6% of the Company's net distribution sales, and an affiliate of Kmart accounted for 8.2% of net distribution sales. In 1994, the respective percentages for Kmart and its affiliates were 6.9% and 13.9%, respectively.

Gross profit from distribution operations declined to $22.9 million in 1995 from $25.5 million in 1994. As a percentage of sales, gross profit from distribution operations was 15.4% and 18.7% for 1995 and 1994, respectively. Factors which reduced gross profit for 1995 include (1) the decline in the sales of lighting fixtures as a percentage of distribution sales, as the gross profit percentage earned on sales of lighting fixtures typically exceeds that earned on sales of functional lamps; (2) additional sales

incentives and allowances provided to acquire new customers and expand lighting programs with existing customers; (3) reduced demand for consumer products in general, which increased competitive pressures on retailers of these products and, ultimately, on the suppliers of such products, including the Company, and (4) higher inventory levels for part of the year, which resulted in the Company expensing $1.2 million more in 1995 than 1994 for incremental storage and handling costs incurred to carry these higher inventories.

S,G&A for distribution operations amounted to $17.7 million in 1995, as compared to $15.7 million in 1994. The major components of the $2.0 million increase in SG&A from 1994 relate to selling expenses such as advertising, merchandising and sales materials ($375,000), professional services ($333,000), charges related to the prepayment of $7.6 million of the Company's convertible subordinated notes ($267,000), depreciation and amortization ($196,000), and payroll and benefits, net of the decrease in executive bonuses ($421,000). Greater depreciation and amortization reflects investments in capital expenditures, most notably computer software and equipment. Advertising costs for 1995 exceeded those for 1994 as the Company investigated new avenues, such as television, for advertising its products. The remaining increases in the other main components of S,G&A are attributable to the growth in sales and overall increased operations of the Company.

Interest expense on distribution-related financing rose to $2.1 million in 1995 from $1.5 million in 1994 due to additional average outstanding borrowings necessary to support the Company's higher inventory levels and a higher weighted average cost of funds.

MANUFACTURING OPERATIONS

Manufacturing operations began in August 1994 with the acquisition of Go-Gro and in late December 1994 with the commencement of sales by Meridian. In 1995, Go-Gro and Meridian recorded pretax losses of approximately $600,000 and $1.8 million, respectively, excluding certain administrative costs incurred at the corporate headquarters.

Sales by Go-Gro during 1995 amounted to $43 million, with $25.7 million made to unaffiliated parties located principally in Europe and the remainder made to the Company and other subsidiaries of the Company. However, while available production capacity at Go-Gro was utilized to produce merchandise for the Company and its other subsidiaries (generating $17.3 million in intercompany sales for Gro-Gro) such intercompany sales are eliminated for financial reporting purposes, and profits thereon are not recognized until such merchandise is ultimately sold to unrelated parities.

Go-Gro's gross profits in 1995 were negatively impacted by increased raw material costs which it was unable to pass on to customers in the form of increased prices. The gross profit of approximately $6 million recognized by Go-Gro during 1995 was insufficient to cover its operating costs, which consisted of approximately $5.5 million in SG&A and interest expense of $1.2 million. Included in the operating costs for Go-Gro were approximately $244,000 in goodwill amortization and $684,000 in interest expense arising from the acquisition of Go-Gro by the Company.

Sales of Meridian products directly by Meridian amounted to $2.3 million and an additional $500,000 of Meridian's products were sold through the Company's distribution operations in 1995. Cost of goods sold and other operating costs (S,G&A and interest expense) amounted to $3.2 million and $940,000, respectively, for the year. The operating performance of Meridian for 1995 reflects many of the production concerns typically faced during the initiation of manufacturing operations including (1) refinement of the production and packaging processes, (2) hiring and training of the work force, (3) identification of the best sources of raw materials and (4) optimal allocation of production capacity to maximize profits given market conditions and sales demands.

INCOME TAX PROVISION

Effective income tax rates for 1995 and 1994 were 51.9% and 35.8%, respectively. The higher effective tax rate for 1995 is attributable to the decrease in pretax income from 1994 to 1995. Amounts expensed by the Company for financial statement purposes which are not deductible for tax purposes, consisting primarily of goodwill amortization, have the effect of increasing the effective tax rate. Such amounts had a significant impact on the effective tax rate for 1995 given 1995's relatively lower pretax income of $831,000, but did not as significantly affect the 1994 rate given pretax income in that year of $8.6 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company meets its short-term liquidity needs through cash provided by operations, accounts payable, borrowings under various credit facilities with banks, and the use of letters of credit from customers to fund certain of its direct sales activities. Lease obligations, mortgage notes, convertible subordinated notes, bonds and capital stock are additional sources for the longer-term liquidity and financing needs of the Company. Management believes the Company's available sources of cash will enable it to fulfill its liquidity requirements for fiscal 1997.

1996 CASH FLOWS

The Company's operating, investing and financing activities resulted in a net increase in cash and cash equivalents of $959,000 from September 30, 1995 to September 30, 1996.

Net cash of $12.5 million was provided by operating activities. Such cash was used to reduce outstanding borrowings under the credit lines, make payments due on bonds payable and other long term debt and to pay for certain capital expenditures.

Capital expenditures during the year aggregated $9.5 million, and included additional construction costs of $2.3 million for the Tupelo warehouse and the purchase of $3.2 million in equipment and computer software for such warehouse (financed by the issuance in May 1995 of a series of State of Mississippi Variable Rate Industrial Revenue Development Bonds) and $3.5 million in costs incurred by Go-Gro for the construction of a China factory and dormitory and the purchase of machinery, molds and equipment. In addition, office and warehouse equipment (primarily purchased for the Tupelo warehouse) amounting to $573,000 was financed by the Company's leasing facilities.

Management estimates that capital expenditures in fiscal 1997 will approximate $8 million, representing additional construction costs and equipment for the China facilities, computer software and hardware for the distribution operations and other miscellaneous capital additions. These capital expenditures will be financed by leasing facilities with financial institutions and funds from operations.

CREDIT FACILITIES AND CONVERTIBLE SUBORDINATED NOTES

The Company has a $65 million credit facility with a group of commercial banks. This facility provides credit in the form of a $7.6 million non-revolving loan and $57.4 million in revolving loans, acceptances, and trade and stand-by letters of credit, matures March 31, 1999 and provides for quarterly principal payments of $950,000 commencing on June 1, 1997 on the non-revolving loan. The non-revolving loan bears interest, payable monthly, at prime plus 1% and other borrowings under the facility bear interest, payable monthly, at the Company's preference of either the prime rate or the LIBOR rate plus a variable spread based upon earnings, debt and interest expense levels defined under the credit agreement. The effective rates for the non-revolving loan and the other borrowings were 9.25% and 7.3%, respectively, at September 30, 1996. Obligations under this facility are secured by substantially all of the Company's U.S. assets. The Company is required to comply with various convenants in connection with this facility and borrowings are subject to a borrowing base calculated from U.S. receivables and inventory. In addition, the agreement prohibits the payment of any cash dividends or other distribution on any shares of the Company's common stock, other than dividends payable solely in shares of common stock, unless approval is obtained from the lenders. At September 30, 1996, the Company had $34.6 million in additional borrowings available under this credit facility.

The Company's Canadian and Hong Kong subsidiaries have credit facilities with foreign banks of 4 million Canadian dollars (approximately U.S. $2.9 million) and 35 million Hong Kong dollars (approximately U.S. $4.5 million), respectively. Borrowings under the Canadian facility are secured by substantially all of the assets of the Canadian subsidiary and are limited under a borrowing base defined as the aggregate of certain percentages of accounts receivable and inventory. Advances up to $1.1 million bear interest at the Canadian prime rate (5.75% at September 30, 1996) while advances in excess of $1.1 million bear interest at the Canadian prime rate plus .5%. The Hong Kong facility provides credit in the form of acceptances, trade and stand-by letters of credit, overdraft protection and negotiation of discrepant documents presented under export letters of credit issued by banks. Advances bear interest at the Hong Kong prime rate plus .25% (8.75% at September 30, 1996). Each of these credit facilities are payable upon demand and are subject to annual reviews by the banks. With respect to the Canadian facility, the agreement prohibits the payment of dividends and the Company is required to comply with various covenants, which effectively restrict the amount of funds which may be transferred from the Canadian subsidiary to the Company. The Hong Kong facility limits dividends that may be paid to the Company to 40% of Go-Gro's earnings but does not limit advances or loans from Go-Gro to the Company. The aggregate amounts available for borrowing under the Canadian and Hong Kong facilities at September 30, 1996 were U.S.$918,000 and U.S.$909,000, respectively.

The Company has outstanding $7.6 million of 8% convertible subordinated notes due March 15, 2002. The notes are convertible into common shares of the Company's stock at a conversion price of $7.31 per share, subject to certain anti-dilution adjustments (as defined in the note agreement) at any time prior to maturity. The notes are subordinated in right of payment to all existing and future senior indebtedness of the Company and the notes are callable at the option of the Company with certain required premium payments. Principal payments of approximately $2.5 million are required on March 15 in each of the years 2000 and 2001. The remaining outstanding principal and interest is due in full on March 15, 2002. Interest is payable semiannually. The terms of the note agreement require the Company to maintain specific interest coverage ratio levels in order

to increase its credit facilities or otherwise incur new debt and to maintain a minimum consolidated net worth. In addition, the note agreement prohibits the declaration or payment of dividends on any shares of the Company's capital stock, except dividends or other distributions payable solely in shares of the Company's common stock, and the purchase or retirement of any shares of capital stock or other capital distributions.

During the 1995 fiscal year, the Company began construction of a 475,000 square foot facility located near Tupelo, Mississippi, to consolidate warehouse operations located in leased facilities in Texas and Massachusetts. The facility became operational during the second quarter of fiscal 1996. The Company completed the move of all inventory from its Texas and Massachusetts facilities and ceased warehousing operations therein effective April 30, 1996 and September 30, 1996, respectively. The Company expended $9 million for the building and underlying land, and $3.2 million on machinery and equipment for the facility. The Company arranged for the issuance in 1995 of $10.5 million in State of Mississippi Variable Rate Industrial Revenue Development Bonds to finance (along with internally generated cash flow and the Company's $1 million leasing facility) the new warehouse and machinery and equipment. The bonds have a stated maturity of May 1, 2010 and require mandatory sinking fund redemption payments, payable monthly, of $900,000 per year from 1996 to 2002, $600,000 per year in 2003 and 2004, and $500,000 per year from 2005 to 2010. The bonds bear interest at a variable rate (5.6% at September 30, 1996) that is adjustable weekly to the rate the remarketing agent for the bonds deems to be the market rate for such bonds. The bonds are secured by a lien on the land, building, and all other property financed by the bonds. Additional security is provided by a $10.8 million direct pay letter of credit which is not part of the Company's credit line.

The Company financed the purchase and improvements of its Meridian manufacturing facility through the issuance of a series of State of Mississippi General Obligation Bonds (Mississippi Small Enterprise Development Finance Act Issue, 1994 Series GG) with an aggregate available principal balance of $1,605,000, a weighted average coupon rate of 6.23% and a contractual maturity of November 1, 2009. The bonds are secured by a first mortgage on land, building and improvements and a $1,713,000 standby letter of credit which is not part of the Company's credit line. Interest on the bonds is payable semiannually and principal payments are due annually.

The Company has a $1 million facility with a U.S. financial institution to finance the purchase of equipment in the United States, of which $576,000 was available at September 30, 1996. In addition, the Company has a nine million Hong Kong dollar (approximately U.S. $1.2 million) facility with a Hong Kong financial institution to finance the purchase of equipment for its China facilities, all of which was available at September 30, 1996.

OTHER

Shenzhen Jiadianbao Electrical Products Co., Ltd. ("SJE"), a cooperative joint venture subsidiary of Go-Gro, and the Bureau of National Land Planning Bao-An Branch of Shenzhen City entered into a Land Use Agreement covering approximately 467,300 square feet in Bao-An County, Shenzhen City, People's Republic of China on April 11, 1995. The agreement provides SJE with the right to use the above land until January 18, 2042. The land use rights are non-transferable. Under the terms of the SJE joint venture agreement, ownership of the land and buildings of SJE is divided 70% to Go-Gro and 30% to the other joint venture partner. Land costs, including the land use rights, approximated $2.6 million of which Go-Gro has paid its 70% proportionate share of $1.8 million.

Under the terms of this agreement, SJE is obligated to construct approximately 917,000 square feet of factory buildings and 275,000 square feet of dormitories and offices, with 40 percent of the construction required to be completed by April 1, 1997 and the remainder by December 31, 2000. The total construction costs for this project are estimated at $11.3 million, and include approximately $1.6 million for a Municipal Coordination Facilities Fee (MCFF). The MCFF is based upon the square footage to be constructed. The agreement calls for the MCFF to be paid in installments beginning in January 1997 and continuing through June 1998, with 46% of the total fee due by September 1997. SJE plans to file an application to reduce the amount of square footage required to be constructed by approximately 40% and thereby proportionately reduce the MCFF and make the MCFF payable upon the completion of each applicable factory and/or dormitory building. The outcome of the application cannot be presently determined. It is anticipated that Go-Gro will shift a substantial portion of its manufacturing operations from the current leased properties to the new SJE owned facilities over the next five years. The first construction phase (a 162,000 square foot factory, a 77,000 square foot warehouse and a 60,000 square foot dormitory) is estimated to be completed in March 1997 and will increase present production capacity by approximately 30%. The Company used internally generated funds to finance the first phase of the construction and anticipates financing the second phase through either its current banking relationships or by establishing additional banking relationships.

On April 26, 1996, the Company entered into a license agreement with Westinghouse Electric Corporation to market and distribute a full range of lighting fixtures, lamps and other lighting products under the Westinghouse brand name in exchange for

royalty payments. The agreement terminates on September 30, 2001. Catalina has an option to extend the agreement for an additional ten years. The royalty payments are due quarterly and are based on a percent of the value of the Company's net shipments of Westinghouse branded products, subject to annual minimum payments due. Either party has the right to terminate the agreement during years three through five of the agreement if the Company does not meet the minimum net shipments required under the agreement.

The Company is engaged in an aggressive defense against litigation initiated by Black & Decker. Legal fees associated with this litigation are expected to be approximately $1 million for the first quarter of fiscal 1997 with additional legal fees associated with this litigation presently estimated at approximately $1 million, barring appeals. The Company anticipates completion of this litigation by the end of fiscal 1997.

FOREIGN EXCHANGE FLUCTUATIONS

The Company expects to continue to obtain most of its products from the People's Republic of China and Taiwan. Large fluctuations in currency exchange rates could have a material effect on the Company's cost of products, thereby decreasing the Company's ability to compete. All purchases of finished goods are made in U.S. dollar-denominated letters of credit which limit the Company's exposure to foreign currency fluctuations with respect to fluctuations that would impact existing outstanding purchase commitments. However, the Company is subject to foreign currency fluctuations to the extent such fluctuations affect the cost of products purchased (or manufactured) or the Company's ability to sell into domestic or foreign markets. The Company's Canadian and Mexican subsidiaries are subject to fluctuations between the U.S. dollar currency in which they purchase goods and the Canadian dollar and Mexican peso currencies in which they sell goods, however the Company's foreign exchange risk is not significant with respect to Canada and Mexico due to the relative size of these subsidiaries in comparison with the Company.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which provides an alternative to APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock-based compensation issued to employees. The statement recommends a fair value based method of accounting for employee stock options and similar equity instruments. However, the statement also allows companies to continue to account for employee stock-based compensation arrangements under Opinion No. 25. For companies electing to continue to use Opinion No. 25, the statement requires disclosures of the pro forma effect on net income and earnings per share of its fair value based accounting for those arrangements. These disclosure requirements are effective for financial statements for fiscal years beginning after December 15, 1995. The Company plans to continue to account for employee stock-based compensation under Opinion No. 25.

In March 1995, the FASB issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company will adopt Statement No. 121 in the first quarter of fiscal 1997 and, based on current circumstances, does not believe the effect of this adoption will have a material impact on its financial condition or annual results of operations.

IMPACT OF INFLATION

During 1995 Go-Gro experienced price increases in the costs of raw materials, which reduced Go-Gro's profitability due to an inability to immediately pass on such price increases to its customers. The Company believes that increased prices could have an initial adverse impact on the Company's net sales and income from continuing operations but that, over time, increased prices can be passed on to its customers.

CATALINA LIGHTING, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(All other schedules have been omitted as the related information is not required or applicable)

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Catalina Lighting, Inc.
Miami, Florida

We have audited the accompanying consolidated balance sheets of Catalina Lighting, Inc. and its subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1996. Our audits also included the financial statement schedule listed in the accompanying index to the financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Catalina Lighting, Inc. and its subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Certified Public Accountants
Miami, Florida
December 12, 1996

<TABLE>
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CATALINA LIGHTING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
	(IN THOUSANDS)	
<S>	<C>	<C>
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,766	$ 807
Accounts receivable, net of allowances of $7,313,000 and $4,934,000, respectively	29,644	31,747
Inventories	39,648	40,306
Other current assets	5,009	4,152
Total current assets	76,067	77,012
Property and equipment, net	26,003	20,049
Restricted cash equivalents and short-term investments	378	6,339
Goodwill, net	11,344	11,777
Other assets	3,670	4,874
	$ 117,462	$ 120,051
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable - credit lines	$ 3,963	$ 1,604
Accounts and letters of credit payable	25,289	23,295
Current maturities of bonds payable	970	970
Current maturities of other long-term debt	363	300
Income taxes payable	21	446
Other current liabilities	5,500	3,997
Total current liabilities	36,106	30,612
Notes payable - credit lines	17,044	26,100
Convertible subordinated notes	7,600	7,600
Bonds payable	10,165	10,966
Other long-term debt	1,762	1,633
Other liabilities	811	1,011
Total liabilities	73,488	77,922
Commitments and contingencies		
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 and outstanding 7,063,587 shares and 6,994,253 shares, respectively	71	70
Additional paid-in capital	26,135	25,894
Retained earnings	17,768	16,165
Total stockholders' equity	43,974	42,129
	$ 117,462	$ 120,051

</TABLE>

See accompanying notes to consolidated financial statements.

CATALINA LIGHTING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
Net sales	$ 184,630	$ 176,292	$ 142,123
Cost of sales	153,698	148,343	115,319
GROSS PROFIT	30,932	27,949	26,804
Selling, general and administrative expenses	25,611	23,898	16,689
OPERATING INCOME	5,321	4,051	10,115
Other income (expenses)			
Interest expense	(3,254)	(3,537)	(1,721)
Other income	385	317	194
Total other expenses	(2,869)	(3,220)	(1,527)
INCOME BEFORE INCOME TAXES	2,452	831	8,588
Income tax provision	849	431	3,078
NET INCOME	$ 1,603	$ 400	$ 5,510
EARNINGS PER SHARE			
PRIMARY			
Earnings per share	$ 0.21	$ 0.05	$ 0.75
Weighted average number of shares	7,797,500	7,800,469	7,317,341
FULLY DILUTED			
Earnings per share	$ 0.21	$ 0.05	$ 0.74
Weighted average number of shares	7,804,500	7,800,469	8,050,100

See accompanying notes to consolidated financial statements.

<TABLE>
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CATALINA LIGHTING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994
(IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT			
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT SEPTEMBER 30, 1993	5,765,887	$ 58	$ 17,882	$ 10,255	$ 28,195
Proceeds from exercise of stock options	133,289	1	843	-	844
Common stock issued to acquire Go-Gro	750,000	7	4,728	-	4,735
Commin stock issued under employment agreement	10,000	-	51	-	51

Common stock issued for non-compete contract	55,756	1	416	-	417
Common stock issued pursuant to the Dana Lighting purchase agreement	208,720	2	1,563	-	1,565
Net income	-	-	-	5,510	5,510
BALANCE AT SEPTEMBER 30, 1994	6,923,652	69	25,483	15,765	41,317
Proceeds from exercise of stock options	70,601	1	411	-	412
Net income	-	-	-	400	400
BALANCE AT SEPTEMBER 30, 1995	6,994,253	70	25,894	16,165	42,129
Proceeds from exercise of stock options	64,334	1	226	-	227
Common stock issued under employment agreement	5,000	-	15	-	15
Net income	-	-	-	1,603	1,603
BALANCE AT SEPTEMBER 30, 1996	7,063,587	$ 71	$ 26,135	$ 17,768	$ 43,974

</TABLE>

See accompanying notes to consolidated financial statements.

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CATALINA LIGHTING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,603	$ 400	$ 5,510
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,266	5,239	3,036
Accounts receivable allowances, net	2,377	2,246	(60)
Deferred income taxes	(1,335)	(1,506)	(76)
(Gain) loss on disposition of property and equipment	53	(328)	19
Change in assets and liabilities, net of effects of acquisitions:			
Decrease (increase) in accounts receivable	(274)	(2,492)	(5,116)
Decrease (increase) in inventories	658	(7,159)	(1,359)
Decrease (increase) in other current assets	452	772	(1,310)
Decrease (increase) in other assets	(544)	(1,564)	(1,875)
Increase (decrease) in income taxes payable	(425)	334	(531)
Increase (decrease) in accounts payable, letters of credit payable and other liabilities	3,642	2,758	1,363
Total adjustments	10,870	(1,700)	(5,909)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	12,473	(1,300)	(399)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures, net	(9,479)	(13,595)	(1,984)
Payments to purchase minority interest in subsidiary	-	-	(750)
Payments for Go-Gro acquisition, net of cash acquired	(144)	(586)	(5,880)
Return of funds escrowed in conjunction with the acquisition of Go-Gro	-	1,904	-
Collection of receivable from stockholder	-	1,850	-
Payment to affiliated company	-	(2,002)	-
Decrease (increase) in restricted cash equivalents and short-term investments	5,961	(5,862)	300
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(3,662)	(18,291)	(8,314)

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(Continued on page 28)

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CATALINA LIGHTING, INC. SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(IN THOUSANDS)

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTVITIES:			
Proceeds from notes payable - credit lines	43,400	43,900	26,500
Payments on notes payable - credit lines	(50,556)	(30,768)	(32,182)
Net proceeds from notes payable-credit lines due on demand	459	277	1,266
Proceeds from convertible subordinated notes	-	-	15,200
Payment on convertible subordinated notes	-	(7,600)	-
Fees incurred in conjunction with convertible subordinated notes	-	-	(767)
Proceeds from other long-term debt	-	-	1,200
Payments on other long-term debt	(581)	(812)	(1,393)
Proceeds from the issuance of bonds payable	99	11,936	-
Payments on bonds payable	(900)	-	-
Proceeds from issuance of common stock and related income tax benefit	227	412	844
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(7,852)	17,345	10,668
Net increase (decrease) in cash and cash equivalents	959	(2,246)	!,955
Cash and cash equivalents at beginning of year	807	3,053	1,098
Cash and cash equivalents at end of year	$1,766	$ 807	$ 3,053

</TABLE>

SUPPLEMENTAL CASH FLOW INFORMATION

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
CASH PAID FOR:			
Interest	$ 3,457	$ 3,595	$ 1,680
Income taxes	$ 2,671	$ 1,352	$ 3,378

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

On July 30, 1994, the Company acquired Go-Gro Industries Limited and Lamp Depot Limited as follows:

Fair value of assets acquired, net of cash and cash equivalents	$ 22,920
Liabilities assumed	(12,305)
Common stock issued	(4,735)
Net cash payments made in 1994	$ 5,880

The Company issued 750,000 shares of common stock in connection with this acquisition.

(Continued on page 29)

CATALINA LIGHTING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES (CONTINUED)

During the years ended September 30, 1996, 1995 and 1994 capital lease obligations aggregating approximately $573,000, $189,000 and $493,000, respectively, were incurred when the Company entered into leases for new office, computer and warehouse equipment.

In 1996 and 1994, the Company issued 5,000 and 10,000 common shares, respectively, to an employee as salary, pursuant to an employment agreement with such employee.

In 1995, the Company sold racking and equipment with a net book value of $216,000 receiving as payment a note receivable for $572,000.

During 1994, the Company issued 32,644 restricted common shares as consideration for a one year extension, from May 1993 to May 1994, of its non-compete contract with a shareholder and former Chief Executive Officer of the Company. In May 1994, the Company issued 23,112 restricted common shares as consideration for the third year of its three-year option, from May 1994 to May 1995, of such non-compete contract.

During 1994, the Company issued 208,720 common shares to the current CEO (and previous owner) of Dana Lighting as additional proceeds for the Company's purchase of this subsidiary.

See accompanying notes to consolidated financial statements.

CATALINA LIGHTING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

(a) The Business

Catalina Lighting, Inc. ("the Company") is a United States-based wholesaler, distributor and manufacturer of lamps, lighting fixtures and other lighting related products. The Company sells principally in the U.S. to a variety of retailers including home centers, national retail chains, office superstore chains, warehouse clubs, discount department stores and catalog showrooms. The Company also sells its products in Europe, Canada and other foreign markets.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The consolidated statements include the results of the wholly-owned subsidiary Go-Gro Industries Limited ("Go-Gro") subsequent to the date of acquisition on July 30, 1994. The consolidated statements for 1996 and 1995 also include the results of Meridian Lamps, Inc. ("Meridian"), a wholly-owned subsidiary formed by the Company that commenced operations in fiscal 1995. All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Geographic Risks

Substantially all of the Company's products are obtained from suppliers located in China. Any inability by the Company to continue to obtain its products from China could significantly disrupt the Company's business. In addition, in the Company's consolidated balance sheet at September 30, 1996 are net assets of $18.6 million of Company subsidiaries located in China and Hong Kong (which will become a sovereign territory of China in 1997).

(e) Cash and Cash Equivalents

Cash on hand and in banks, money market funds and other short-term securities with maturities of three months or less when purchased are considered cash and cash equivalents.

(f) Accounts Receivable

Pursuant to an agreement between the Company and a bank, the bank assumes the credit risk of certain of the Company's U.S. receivables. The Company pays a fee of .50 percent of billings to customers covered by the arrangement. In addition, the Company insures certain of its foreign receivables with an insurance company. Gross accounts receivable secured under such agreements at September 30, 1996 and 1995 amounted to $19.2 million and $19.1 million, respectively. In addition, certain of the Company's sales are made to customers who pay pursuant to their own international, irrevocable transferable letters of credit. Accounts receivable secured by such letters of credit at September 30, 1996 and 1995, amounted to $8.1 million and $5.2 million, respectively.

The Company provides allowances against accounts receivable for doubtful accounts, sales returns and sales incentives.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

(h) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Interest expense incurred for the construction of facilities is capitalized until such facilities are ready for use. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the lease term or estimated useful lives of the related assets.

(i) Restricted Cash Equivalents and Short-Term Investments

The Company's restricted cash equivalents and short term investments at September 30, 1996 represented sinking fund payments towards bonds issued to finance the Tupelo warehouse and investment income earned on such payments. At September 30, 1995, such amount included (1) unused funds received from the issuance of bonds payable restricted for the construction of the Company's warehouse in Tupelo, Mississippi and for the purchase of equipment for such facility and (2) $375,000 in sinking fund payments towards such bonds. Such amounts consisted of short-term, highly liquid investments and were carried at an amount that approximated fair value.

(j) Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired and is being amortized on a straight-line basis over periods from twenty to forty years. The Company periodically evaluates the recoverability of recorded costs for goodwill based upon estimations of future undiscounted operating income from the related acquired companies. Should the Company determine it probable that future estimated undiscounted operating income from any of its acquired companies will be less than the carrying amount of the associated goodwill, an impairment of goodwill would be recognized, and goodwill would be reduced to the amount estimated to be recoverable. Accumulated amortization of goodwill amounted to $1.5 million and $1.1 million at September 30, 1996 and 1995, respectively.

(k) Capital Leases

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as the acquisition of assets and assumption of obligations under the capital lease standards issued by the Financial Accounting Standards Board. Accordingly, capitalized leased assets are recorded as property and equipment and the present values of the minimum lease payments are recorded as capital lease obligations under other long-term debt. Depreciation of such assets is computed using the shorter of the lease terms or estimated useful lives of the assets and is included in depreciation expense.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income Taxes

The Company and its wholly-owned domestic subsidiaries file consolidated federal and state tax returns in the United States. Separate foreign tax returns are filed for the Company's Hong Kong, Canadian and Mexican subsidiaries. The Company follows the asset and liability method of accounting for income taxes prescribed by Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes". Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the year that includes the enactment date.

(m) Earnings Per Share

Primary earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year increased by common equivalent shares (stock options, warrants and shares issuable under contractual agreements) using the modified treasury stock method. Fully diluted earnings per share is computed by dividing net income (as adjusted) by the weighted average number of common shares outstanding during the year, increased by common equivalent shares (stock options, warrants and shares issuable under contractual agreements) using the modified treasury stock method and, where dilutive, shares which would be issued upon the conversion of the convertible subordinated notes.

(n) Foreign Currency Translation

The accounts of the Company's foreign subsidiaries are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation". For subsidiaries where the functional currency is the U.S. dollar, monetary balance sheet accounts are translated at the current exchange rate and nonmonetary balance sheet accounts are translated at historical exchange rates. For subsidiaries where the functional currency is other than the U.S. dollar, all balance sheet accounts are translated at the current exchange rate. Income and expense accounts are translated at the average exchange rates in effect during the year. Adjustments resulting from the translation of these entities are included in the statements of operations. Such adjustments were not significant for any year presented. Gains and losses arising from foreign currency transactions are included in net income and were not significant for any year presented.

(o) Reclassifications

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Impact of Recently Issued Accounting Standards

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which provides an alternative to APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock-based compensation issued to employees. The statement recommends a fair value based method of accounting for employee stock options and similar equity instruments. However, the statement also allows companies to continue to account for employee stock-based compensation arrangements under Opinion No. 25. For companies electing to continue to use Opinion No. 25, the statement requires disclosures of the pro forma effect on net income and earnings per share of its fair value based accounting for those arrangements. These disclosure requirements are effective for financial statements for fiscal years beginning after December 15, 1995. The Company plans to continue to account for employee stock-based compensation under Opinion No. 25.

In March 1995, the FASB issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company will adopt Statement No. 121 in the first quarter of fiscal 1997 and, based on current circumstances, does not believe the effect of this adoption will have a material impact on its financial condition or results of operations.

2. ACQUISITIONS

On July 30,1994, the Company acquired all of the issued and outstanding capital stock of two Hong Kong companies, Go-Gro Industries Limited ("Go-Gro") and Lamp Depot Limited ("Lamp Depot"), for an aggregate consideration of $7,500,000 and 750,000 shares of the Company's common stock. This acquisition was accounted for under the purchase method and, accordingly, the operating results of Go-Gro and Lamp Depot have been included in the Company's consolidated operating results since the date of acquisition. Go-Gro is a manufacturer of lighting products with its administrative office located in Hong Kong and production facilities located in the Guangdong Province of the People's Republic of China. Go-Gro's production facilities are owned by Go-Gro's cooperative joint venture subsidiary. Under the terms of the cooperative joint venture agreement with a Chinese company, Go-Gro is entitled to 100% of the subsidiary's profits and losses, and the Chinese company partner is entitled to a yearly management fee from the subsidiary of approximately $400,000. Lamp Depot was engaged in the retail sale of lighting products in Hong Kong and China and is no longer active.

The stock of Go-Gro was purchased by the Company from selling stockholders who represented at the closing that they were, in fact, the actual stockholders of Go-Gro. Subsequent to the date of the closing, the Company discovered that part of the Go-Gro stock acquired had been conveyed to one of the selling stockholders prior to closing by a former officer of a subsidiary of the Company, who ceased employment with such subsidiary in 1993. The Company made a claim for indemnification and return of $1,904,000 of the consideration from Go-Gro. Such funds were deposited into an escrow account at the date of closing and were returned to the Company in November 1994. The purchase price and resulting goodwill recorded for the Go-Gro acquisition were reduced accordingly for the return of these funds. The Company contends such funds are owed to the Company due to certain of the former officer's actions which the Company believes constitute, among other things, breach of fiduciary duty, breach of duty of loyalty, usurpation of corporate opportunity and fraud. The Company has filed a lawsuit against the former officer in the Massachusetts Federal District Court in Boston for recovery of additional damages and adjudication of this matter. In the event the Company is not successful in this action further increases in the purchase price and goodwill recorded for the Go-Gro acquisition could result.

2. ACQUISITIONS (CONTINUED)

Under the terms of the purchase agreement each of the previous Go-Gro shareholders jointly and severally represented and warranted to the Company that as of the date of closing, Go-Gro would possess a minimum specified net worth. The Company has determined, based upon receipt of the audited financial statements of Go-Gro for the year ended July 31, 1994, Go-Gro failed to meet this minimum net worth by approximately $1,850,000. The previous majority shareholder of Go-Gro reimbursed Catalina $1,850,000 for this net worth shortfall in March 1995.

The funds to acquire Go-Gro and Lamp Depot were provided principally from borrowings. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed resulted in goodwill of $6,189,000, which is being amortized on the straight-line basis over 25 years.

In connection with the 1989 acquisition of its Dana subsidiary, the Company issued $1,000,000 in convertible debentures bearing interest at prime, and convertible into 400,000 common shares of the Company. In January 1993, the Company issued amended debentures which increased the principal amount of the debentures by $200,000, representing previously accrued interest through August 1991 on such debentures. In February 1993, the debenture holders elected to convert their debentures, then totaling $1.2 million, into 480,000 shares of the Company's common stock. The Company issued 160,000 of the 480,000 shares in February 1993, and the remaining 320,000 shares were issued in May 1993.

The Dana purchase agreement provided for additional payments to the two former Dana owners through fiscal 1994 based upon the achievement of certain annual earnings targets. In 1993, the payments to one of these former owners ceased. In October 1993, the Company and Dana's current CEO (and former owner) agreed to amend the purchase agreement to provide for additional proceeds for 1993 and 1994 based upon Dana's achievement of the fiscal 1993 earnings target. The aggregate amount due this individual for 1993 and 1994 pursuant to the above change amounted to $1,565,000. Such additional proceeds were recorded in goodwill. Pursuant to the conversion privileges described below, the Company satisfied this liability by issuing 208,720 common shares in fiscal 1994.

In January 1993, the Company and the debenture holders agreed that the conversion feature, including the conversion price, which allowed for the debentures to be converted into stock also applied to certain other accrued obligations to the debenture holders and to the final adjustments to increases in the purchase price of Dana for fiscal years 1993 and 1994. Such other accrued obligations consisted of previously accrued interest on the convertible debentures, cost of living salary increases and increases to the purchase price of Dana (based on Dana's achievement of earnings targets for fiscal years ended September 30, 1991 and 1992). In February 1993, the debenture holders converted such obligations into 149,044 shares of Catalina's common stock and in May 1993 such shares were issued. In connection with the January 1993 agreement described above, the Company recognized a non-recurring charge totaling $509,000 and additional goodwill in the amount $107,000.

In January 1994, the Company purchased the 49% minority equity interest in its Canadian subsidiary for $750,000. The purchase resulted in goodwill of $421,000, which is being amortized over 20 years.

3. INVENTORIES

Inventories consisted of the following:

	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
	(In thousands)	
Raw materials	$ 5,075	$ 3,535
Work-in-progress	1,342	1,030
Finished goods	33,231	35,741
	$ 39,648	$ 40,306

The Company capitalizes certain costs in finished goods inventory associated with acquiring, storing and preparing inventory for distribution. Such costs aggregated approximately $11.1 million, $12.1 million and $10.7 million for the years ended September 30, 1996, 1995 and 1994, respectively, of which $2.6 million and $2.9 million remained in inventory at September 30, 1996 and 1995, respectively.

4. PROPERTY AND EQUIPMENT

Property and equipment and related depreciable lives are as follows:

	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995	DEPRECIABLE LIVES
	(In thousands)		
Land	$ 3,320	$ 3,320	-
Buildings and improvements	10,592	2,834	5 to 30 years
Leasehold improvements	955	1,067	lease terms
Furniture and office equipment	854	1,396	5 to 7 years
Computer software and equipment	2,899	2,611	2 to 3 years
Machinery, molds and equipment	9,915	6,154	1 to 7 years
Display fixtures	1,195	1,689	2 years
Other assets	721	635	4 to 7 years
Construction in progress	2,651	6,067	-
	33,102	25,773	
Less accumulated depreciation	7,099	5,724	
	$ 26,003	$ 20,049	

Depreciation expense for the years ended September 30, 1996, 1995 and 1994 was approximately $4,045,000, $3,140,000, and $1,757,000, respectively.

Interest capitalized during the construction of the manufacturing facilities in China and Mississippi was approximately $463,000 and $221,000 during the years ended September 30, 1996 and 1995, respectively, and is included in construction in progress.

5. NOTES PAYABLE - CREDIT LINES

The Company has a $65 million credit facility with a group of commercial banks. This facility provides credit in the form of a $7.6 million non-revolving loan and $57.4 million in revolving loans, acceptances, and trade and stand-by letters of credit, matures March 31, 1999 and provides for quarterly principal payments of $950,000 commencing on June 1, 1997 on the non-revolving loan.

The non-revolving loan bears interest, payable monthly, at the prime rate plus 1% (9.25% at September 30, 1996) and other borrowings under the facility bear interest, payable monthly, at the Company's preference of either the prime rate or the LIBOR rate plus a variable spread based upon earnings, debt and interest expense levels (7.3% at September 30, 1996), as defined under the credit agreement. Obligations under the facility are secured by substantially all of the Company's U.S. assets, including 100% of the common stock of the Company's U.S. subsidiaries and 49% of the stock of the Company's Canadian subsidiary. The agreement contains covenants requiring that the Company maintain a minimum level of equity and meet certain debt to equity and interest coverage ratios and borrowings are subject to a borrowing base defined as the aggregate of certain percentages of the Company's U.S. receivables and inventory. The agreement prohibits the payment of any cash dividends or other distribution on any shares of the Company's common stock, other than dividends payable solely in shares of common stock, unless approval is obtained from the lenders. The Company pays a quarterly commitment fee of .25% based on the unused portion of the facility.

The Company has a credit facility with a Canadian bank which provides four million Canadian dollars (approximately U.S. $2.9 million) in revolving demand credit. Advances up to $1.1 million bear interest at the Canadian prime rate (5.75% at September 30, 1996). Advances in excess of $1.1 million bear interest at the Canadian prime rate plus 0.5%. The credit facility is secured by substantially all of the assets of the Company's Canadian subsidiary and a standby letter of credit for $1.1 million. The agreement contains certain minimum covenants to be met by the Canadian subsidiary, prohibits the payment of dividends, and limits advances by the bank to a borrowing base calculated based upon receivables and inventory. This facility is repayable upon demand and is subject to an annual review by the bank.

Go-Gro has a credit facility with a Hong Kong bank. The facility provides credit in the form of 20 million Hong Kong dollars (U.S. $2.6 million) in acceptances and trade and stand-by letters of credit, 5 million Hong Kong dollars (U.S. $650,000) in overdraft protection, and 10 million Hong Kong dollars (U.S. $1.3 million) to negotiate discrepant documents presented under export letters of credit issued by banks. Advances bear interest at the Hong Kong prime rate plus .25% (8.75% at September 30, 1996). The facility is secured by a guarantee issued by the Company and requires Go-Gro to maintain a minimum level of equity. This agreement restricts the payment of dividends without the consent of the bank to no more than 40% of Go-Gro's earnings, but does not limit advances or loans from Go-Gro to the Company. This facility is repayable upon demand and is subject to an annual review by the bank.

5. NOTES PAYABLE - CREDIT LINES (CONTINUED)

The Company's availability under its credit lines consisted of the following:

	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
	(In thousands)	
Total lines of credit	$ 72,463	$ 71,762
Less:		
Borrowings	(21,007)	(27,704)
Acceptances issued and pending issuance (included in accounts payable)	(8,639)	(9,275)
Open letters of credit and other	(3,475)	(7,749)
Stand-by letters of credit	(2,945)	(2,945)
Availability under lines of credit	$ 36,397	$ 24,089

The weighted average interest rate on the current portion of notes payable - credit lines was 7.6% and 8.5% at September 30, 1996 and 1995, respectively.

6. BONDS PAYABLE

The Company financed the purchase and improvements of its Meridian manufacturing facility through the issuance of a series of State of Mississippi General Obligation Bonds (Mississippi Small Enterprise Development Finance Act Issue, 1994 Series GG) with an aggregate available principal balance of $1,605,000, a weighted average coupon rate of 6.23% and a contractual maturity of November 1, 2009. The bonds are secured by a first mortgage on land, building and improvements and a $1,713,000 standby letter of credit which is not part of the

Company's credit lines. Interest on the bonds is payable semiannually and principal payments are due annually.

During the 1995 fiscal year, the Company began construction of a 475,000 square foot facility located near Tupelo, Mississippi, to consolidate warehouse operations located in leased facilities in Texas and Massachusetts. The facility became operational during the second quarter of fiscal 1996. The Company completed the move of all inventory from its Texas and Massachusetts facilities and ceased operations therein effective April 30, 1996 and September 30, 1996, respectively. The Company expended $9 million for the building and underlying land, and $3.2 million on machinery and equipment for the facility. The Company has received certain incentives from state and local government entities to locate these operations in Tupelo, including a tax credit from state income taxes to the extent of interest and principal payments on the bonds (with a five year carryforward period) and a ten year partial exemption from real and personal property taxes.

The Company arranged for the issuance in 1995 of $10.5 million in State of Mississippi Variable Rate Industrial Revenue Development Bonds to finance (along with internally generated cash flow and the Company's $1 million leasing facility) the new warehouse and machinery and equipment. The bonds have a stated maturity of May 1, 2010 and require mandatory sinking fund redemption payments, payable monthly, aggregating $900,000 per year, from 1996 to 2002, $600,000 per year in 2003 and 2004, and $500,000 per year from 2005 to 2010. The bonds bear interest at a variable rate (5.6% at September 30, 1996) that is adjustable weekly to the rate the remarketing agent for the bonds deems to be the market rate for such bonds. The bonds are secured by a lien on the land, building, and all other property financed by the bonds. Additional security is provided by a $10.8 million direct pay letter of credit which is not part the Company's credit line.

6. BONDS PAYABLE (CONTINUED)

The aggregate maturities and sinking fund requirements of bonds payable at September 30, 1996, were as follows (in thousands):

1997	$ 970
1998	975
1999	980
2000	985
2001	990
Thereafter	6,235
	$ 11,135

7. OTHER LONG-TERM DEBT

Other long-term debt consisted of the following:
<TABLE>
<CAPTION>

<S>	SEPTEMBER 30, 1996 <C>	SEPTEMBER 30, 1995 <C>
	(In thousands)	
Mortgage note, payable monthly through 1999 based on a 15 year amortization schedule with a balloon payment in 1999, bearing interest at 8%, secured by land and building with a net book value of $1,533,000 at September 30, 1996	$ 1,114	$ 1,161
Borrowings under a leasing facility with a financial institution to finance the purchase of U.S. assets; payable monthly through maturity in 2001, bearing interest at 8.75%, and secured by warehouse equipment with a net book value of $391,000 at September 30, 1996; $576,000 was available for future borrowings at September 30,1996	424	-
Borrowings under a leasing facility with a financial institution to finance the purchase of U.S. assets; payable quarterly, bearing interest at rates ranging from 7.12% to 10%, maturing at various dates through 2001 and secured by office and warehouse equipment and computer hardware and software with a net book value of $478,000 at September 30, 1996; no funds were available for future borrowings at September 30, 1996	587	724
Other	-	48

Subtotal	2,125	1,933
Less current maturities	(363)	(300)
	$ 1,762	$ 1,633

</TABLE>

7. OTHER LONG-TERM DEBT (CONTINUED)

In addition, the Company has a nine million Hong Kong dollar (approximately U.S. $1.2 million) leasing facility with a Hong Kong financial institution to finance the purchase of equipment for its China facilities. The facility is secured by a guarantee issued by the Company. As of September 30, 1996, no amounts had been borrowed under this facility.

The aggregate maturities of other long-term debt at September 30, 1996, were as follows (in thousands):

1997	$ 363
1998	354
1999	1,196
2000	131
2001	81
	$ 2,125

8. CONVERTIBLE SUBORDINATED NOTES

The Company has outstanding $7.6 million of 8% convertible subordinated notes due March 15, 2002. The notes are convertible at the option of the holders into common shares of the Company's stock at a conversion price of $7.31 per share, subject to certain anti-dilution adjustments (as defined in the note agreement) at any time prior to maturity. The notes are subordinated in right of payment to all existing and future senior indebtedness of the Company. The notes are callable at the Company's option with certain required premium payments. Principal payments of approximately $2.5 million are required on March 15 in each of the years 2000 and 2001. The remaining outstanding principal and interest is due in full on March 15, 2002. Interest is payable semiannually. The terms of the note agreement require the Company to maintain specific interest coverage ratio levels in order to increase its credit facilities or otherwise incur new debt and to maintain a minimum consolidated net worth. In addition, the note agreement prohibits the declaration or payment of dividends on any shares of the Company's capital stock, except dividends or other distributions payable solely in shares of the Company's common stock, and the purchase or retirement of any shares of capital stock or other capital distributions.

9. INCOME TAXES

The following table summarizes the differences between the Company's effective income tax rate and the statutory federal income tax rate:

9. INCOME TAXES (CONTINUED)

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
Statutory federal income tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State income taxes, net of federal income tax benefit	8.7	4.5	3.5

Foreign tax differentials	(18.4)	(2.3)	(3.1)
Goodwill amortization	6.0	19.4	0.9
Other	4.3	(3.7)	0.5
	34.6%	51.9%	35.8%

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

	CURRENT	DEFERRED	TOTAL
		(In thousands)	
Year ended September 30, 1996			
Federal	$ 1,454	$ (1,388)	66
State	531	(207)	324
Foreign	199	260	459
	$ 2,184	$ (1,335)	$ 849
Year ended September 30, 1995			
Federal	$ 1,443	$ (1,206)	$ 237
State	304	(247)	57
Foreign	190	(53)	137
	$ 1,937	$ (1,506)	$ 431
Year ended September 30, 1994			
Federal	$ 2,681	$ (17)	$ 2,664
State	456	(3)	453
Foreign	17	(56)	(39)
	$ 3,154	$ (76)	$ 3,078

Income (loss) before income taxes by source consisted of the following:

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
		(In thousands)	
United States	$ (3)	$ 574	$ 7,927
Foreign	2,455	257	661
	$ 2,452	$ 831	$ 8,588

9. INCOME TAXES (CONTINUED)

The tax effects of each type of temporary difference that gave rise to the Company's current net deferred tax asset included in other current assets are as follows:

	SEPTEMBER 30,	
	1996	1995
	(In thousands)	
Accounts receivable allowances	$ 1,542	$ 890
Prepaid expenses	(130)	(135)
Allowance and capitalized costs for inventory	1,245	490
Foreign tax loss carryforward	-	68
Loss on sublease of facilities	-	56
Accrued expenses	306	66
Other	25	15
	$ 2,988	$ 1,450

The tax effects of each type of temporary difference that gave rise to the Company's net long term deferred tax asset (included in other long term assets) are as follows:

SEPTEMBER 30,

	1996	1995
	(In thousands)	
Net loss on sublease of facilities	$ 347	$ 425
Start up costs	128	58
Depreciation:		
U.S. assets	(103)	(122)
Foreign assets	(18)	(26)
Other	(74)	148
	$ 280	$ 483

The Company has not provided for possible U.S. income taxes on $4.5 million in undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Calculation of the unrecognized deferred tax liability related to these foreign earnings is not practicable.

10. STOCK OPTIONS, WARRANTS AND RIGHTS

STOCK OPTIONS

In August 1987, the Company adopted the Stock Option/Stock Appreciation Rights Plan (Employee Plan), which provides for the granting of options to officers and other key employees. Under the Employee Plan, the Company authorized the granting of options for up to 1,750,000 shares of common stock to be granted as either incentive or nonstatutory options at a price of 100% of the fair market value of the shares at the date of grant, 110% in the case of a holder of more than 10% of the Company's stock. As of September 30, 1996, 1,340,301 options were issued and outstanding under the plan, of which 929,801 were exercisable. Approximately 20,000 options remained available for future grants. Options vest ratably over a three-year period commencing on October 1 following the date of grant and are exercisable with cash or previously acquired common stock of the Company, no later than 10 years from the grant date.

10. STOCK OPTIONS, WARRANTS AND RIGHTS (CONTINUED)

In March 1989, the Company adopted the Non-Employee Director Stock Option Plan (Directors' Plan), which provides for the granting of options for up to 50,000 shares of common stock to non-employee directors. Under the Directors' Plan, options to purchase 2,000 common shares are granted to non-employee directors automatically upon their election to the Board of Directors which vest upon the serving of a one year term. The exercise price is the fair market value of the common stock on the date the options are granted. These options are generally exercisable during the terms of the directors, not to exceed ten years, from the date of grant.

Transactions and other information relating to the plans are summarized as follows:
<TABLE>
<CAPTION>

EMPLOYEES' PLAN:	NUMBERS OF OPTIONS	PRICE PER SHARE
<S>	<C>	<C>
Options outstanding at September 30, 1993	989,828	$1.75 to $7.50
Options granted	78,750	$7.50
Options exercised	(103,289)	$1.75 to $4.13
Options terminated	(12,599)	$1.75 to $2.50
Options outstanding at September 30, 1994	952,690	$1.75 to $7.50
Options granted	371,250	$6.75
Options exercised	(70,601)	$1.75 to $4.625
Options terminated	(32,835)	$2.50 to $7.50
Options outstanding at September 30, 1995	1,220,504	$1.75 to $7.50
Options granted	164,750	$4.13 to $5.50
Options exercised	(21,834)	$2.50 to $4.13
Options terminated	(23,119)	$2.50 to $7.50
Options outstanding at September 30, 1996	1,340,301	$1.75 to $6.75

</TABLE>
<TABLE>
<CAPTION>

	NUMBER OF OPTIONS	PRICE PER SHARE

DIRECTORS' PLAN:		
<S>	<C>	<C>
Options outstanding at September 30, 1993	26,000	$3.38 to $12.13
Options granted	6,000	$10.75
Options outstanding at September 30, 1994	32,000	$3.38 to $12.13
Options granted	8,000	$6.63
Options outstanding at September 30, 1995	40,000	$3.38 to $12.13
Options granted	8,000	$6.25
Options exercised	(2,000)	$3.38
Options terminated	(12,000)	$5.38 to $12.13
Options outstanding at September 30, 1996	34,000	$3.38 to $12.13

</TABLE>

10. STOCK OPTIONS, WARRANTS AND RIGHTS (CONTINUED)

The Company has outstanding options for 110,000 shares at an exercise price of $1.75 per share issued to the former shareholders of a subsidiary in connection with the acquisition of such subsidiary. The options expire on January 1, 2000.

On October 1, 1991, the Company issued options to purchase 20,000 shares at $3.38 to an employee. The options expire on October 1, 2001.

In August 1990, the Company issued options outside its Directors' Plan to its non-employee directors to purchase an aggregate of 200,000 shares of common stock, of which 132,000 remained outstanding on September 30, 1996. The options have an exercise price of $1.75 per share and expire August 24, 2000.

On January 3, 1992, the Company issued to certain of its executives and non-employee directors options to purchase 275,000 shares at $4.88 per share. The options expire January 3, 2002.

On January 15, 1993, the Company issued to one of its executives options to purchase 50,000 shares of common stock at an exercise price of $5.25 per share. The options were fully exercisable on September 30, 1996. The options expire on January 14, 2003.

At various dates during fiscal 1995, the Company granted to certain new employees options to purchase 91,000 shares of common stock at prices ranging from $6.75 to $6.875. In most cases, one-third of the options became exercisable on October 1, 1995, with one-third vesting on October 1 of each of the following two years. The options expire in 10 years from the grant date. On October 27, 1995, the exercise price of these options was restated to $4.125, the market value on such date. As of September 30, 1996, 78,500 options remained to be exercised.

On March 4, 1996, the Company issued options to purchase 10,000 shares at $5.38 to a consultant. The options expire on March 4, 2006.

On August 27, 1996, the Company issued to one of its executives options to purchase 5,000 shares of common stock at $3.75 per share. The options expire on August 26, 2006.

STOCK RIGHTS

On November 20, 1990, as amended on January 24, 1991, and on March 16, 1992, the Company adopted a Shareholders' Rights Plan, and rights were distributed as a dividend at the rate of one right for each share of the Company's common stock. Each right entitles the registered holder to purchase from the Company one share of common stock at a purchase price of $20 per share, subject to adjustment. The rights may be exercised beginning 10 days after a person or group acquires 21 percent or more of the Company's common stock or announces a tender offer that could result in the person or group owning at least 21 percent of the Company's common stock. Subject to possible extensions, the rights may be redeemed by the Company at $0.001 per right at any time until 10 days after 21 percent or more of Catalina's stock is acquired by a person or group. The rights are also redeemable upon a vote by the stockholders of the Company if the proposed purchase price for the shares is deemed fair by a recognized investment banker. In the event the Company is acquired in a merger or other business combination transaction, the holder of each right would be entitled to receive common stock of the acquiring company having a value equal to two times the exercise price of the right. Unless redeemed earlier, the rights expire on November 30, 2000.

10. STOCK OPTIONS, WARRANTS AND RIGHTS (CONTINUED)

STOCK WARRANTS

In connection with the Company's initial public offering of common stock in May 1988, the underwriter of such offering obtained a warrant to acquire up to 92,000 shares of common stock exercisable through May 12, 1993, at $4.20 a share. On June 2, 1992, and June 17, 1996, the Company amended the warrant agreement to extend the expiration date of such warrant to December 31, 1997. The Company registered the shares underlying the warrant effective May 24, 1995. No common stock has been issued pursuant to this warrant through September 30, 1996.

11. COMMITMENTS

The Company leases certain of its offices and warehouse facilities under non-cancelable operating leases that expire at various dates through 2001. Certain leases provide for increases in minimum lease payments based upon increases in annual real estate taxes and insurance. Future minimum lease payments under non-cancelable operating leases and minimum rentals to be received under non-cancelable subleases as of September 30, 1996 by fiscal year, were as follows (in thousands):

	MINIMUM RENTAL PAYMENTS	MINIMUM SUBLEASE INCOME	NET
1997	$ 2,374	$ 1,063	$ 1,311
1998	1,512	1,061	451
1999	1,336	1,061	275
2000	1,207	1,061	146
2001	570	454	116
	$ 6,999	$ 4,700	$ 2,299

Total rental expense for all operating leases and public warehouse facilities amounted to approximately $4.1 million, $3.9 million and $2.5 million for the years ended September 30, 1996, 1995 and 1994, respectively, and sublease income amounted to $491,000, $370,000 and $39,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

Shenzhen Jiadianbao Electrical Products Co., Ltd. ("SJE"), a cooperative joint venture subsidiary of Go-Gro, and the Bureau of National Land Planning Bao-An Branch of Shenzhen City entered into a Land Use Agreement covering approximately 467,300 square feet in Bao-An County, Shenzhen City, People's Republic of China on April 11, 1995. The agreement provides SJE with the right to use this land until January 18, 2042. The land use rights are non-transferable. Under the terms of the SJE joint venture agreement, ownership of the land and buildings of SJE is divided 70% to Go-Gro and 30% to the other joint venture partner. Land costs, including the land use rights, approximated $2.6 million of which Go-Gro has paid its 70% proportionate share of $1.8 million.

11. COMMITMENTS (CONTINUED)

Under the terms of this agreement, SJE is obligated to construct approximately 917,000 square feet of factory buildings and 275,000 square feet of dormitories and offices, with 40 percent of the construction required to be completed by April 1, 1997 and the remainder by December 31, 2000. The total construction costs for this project are estimated at $11.3 million, and include approximately $1.6 million for a Municipal Coordination Facilities Fee (MCFF). The MCFF is based upon the square footage to be constructed. The agreement calls for the MCFF to be paid in installments beginning in January 1997 and continuing through June 1998, with 46% of the total fee due by September 1997. SJE plans to file an application to reduce the amount of square footage required to be constructed by approximately 40% and thereby proportionately reduce the MCFF and make the MCFF payable upon the completion of each applicable factory and/or dormitory building. The outcome of the application cannot be presently determined. The first construction phase (a 162,000 square foot factory, a 77,000 square foot warehouse and a 60,000 square foot dormitory) is estimated to be completed in March 1997.

On April 26, 1996, the Company entered into a license agreement with Westinghouse Electric Corporation to market and distribute a full range of lighting fixtures, lamps and other lighting products under the Westinghouse brand name in exchange for royalty payments. The agreement terminates on September 30, 2001. The Company has an option to extend the agreement for an additional ten years. The royalty payments are due quarterly and are based on a percent of the value of the Company's net shipments of Westinghouse branded products, subject to annual minimum payments due. Either party has the right to terminate the agreement during years three through five of the agreement if the Company does not meet the minimum net shipments required under the agreement.

12. RELATED PARTY TRANSACTIONS

The Company leased its two facilities located in Massachusetts from entities in which an officer and a former officer had an ownership interest. One of the leases expired in 1996 and the other one is on a month-to-month basis. Rent expense related to these leases was approximately $530,000, $521,000 and $512,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

The Company leases its Hong Kong office from a company owned by the President and former majority stockholder of Go-Gro. The lease expires in August 1997 but may be extended for an additional two years. Rent expense related to this lease was $258,000, $237,000 and $39,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

During the years ended September 30, 1996 and 1995, Go-Gro purchased $1.8 million and $1.1 million, respectively, in raw materials from an affiliate which is fifty percent owned by the Company and which includes the President of Go-Gro as one of its directors.

In January 1994, the Company delivered 32,644 restricted common shares as consideration for the one-year extension, from May 1993 to May 1994, of its non-compete contract with a former Chairman and Chief Executive Officer of the Company. In January 1994, the Company elected to extend the term of this non-compete agreement for the third year of its three-year option, from May 1994 to May 1995. The consideration for the one-year extension was satisfied in May 1994 by the issuance of 23,112 restricted shares of the Company's common stock.

13. GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS

The Company operates exclusively in the lighting industry with operations based in two principal geographic areas, the United States and Asia. Net sales to unaffiliated customers by U.S.-based operations are made primarily into the United States. Net sales to unaffiliated customers by Asia-based operations are made primarily into Europe. Transfers to other geographic areas primarily represent shipments of finished goods at prices approximating those charged to unaffiliated customers. All transfers have been eliminated from consolidated net sales. Financial information, summarized by geographic area, is as follows:

<TABLE>
<CAPTION>

	UNITED STATES	ASIA	OTHER	ELIMINATIONS	CONSOLIDATED
			(In thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
SEPTEMBER 30, 1996:					
Net sales					
Unaffiliated customers	$ 139,521	$ 29,447	$ 15,662	$ -	$ 184,630
Transfers to other geographic areas	979	34,341	370	(35,690)	-
Total net sales	$ 140,500	$ 63,788	$ 16,032	$ (35,690)	$ 184,630
Operating income	$ 2,153	$ 2,706	$ 563	$ (101)	$ 5,321
Identifiable assets	$ 79,362	$ 31,892	$ 8,562	$ (2,375)	$ 117,441
SEPTEMBER 30, 1995:					
Net sales					
Unaffiliated customers	$ 137,763	$ 30,517	$ 8,012	$ -	$ 176,292
Transfers to other geographic areas	870	17,091	219	(18,180)	-
Total net sales	$ 138,633	$ 47,608	$ 8,231	$ (18,180)	$ 176,292
Operating income	$ 3,062	$ 941	$ 221	$ (173)	$ 4,051
Identifiable assets	$ 89,966	$ 25,178	$ 7,368	$ (2,461)	$ 120,051

SEPTEMBER 30, 1994:					
Net sales					
Unaffiliated customers	$ 124,135	$ 12,048	$ 5,940	$ -	$ 142,123
Transfers to other geographic areas	398	1,280	85	(1,763)	-
Total net sales	$ 124,533	$ 13,328	$ 6,025	$ (1,763)	$ 142,123
Operating income	$ 9,255	$ 1,415	$ (465)	$ (90)	$ 10,115
Identifiable assets	$ 70,558	$ 26,789	$ 4,770	$ (689)	$ 101,428

</TABLE>

13. GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS (CONTINUED)

In fiscal 1996, one customer accounted for 3.9% of the Company's net sales while its affiliate accounted for 7.1% and during fiscal 1995 such customers accounted for 5.9% and 6.9%, respectively, of the Company's net sales. In fiscal 1994, such customer and its affiliates accounted for 6.6% and 13.3%, respectively, of the Company's net sales.

14. EMPLOYMENT AGREEMENTS

The Company has employment agreements with five executive officers. The agreements with four of these officers are for three-year terms renewed each year on October 1. All such officers receive compensation with minimum annual cost of living increases of 5% and acceleration of payments due under the agreements should there be a change in control (as defined) of the Company. These officers participate equally in a bonus pool equal to 6.7% of the Company's consolidated pre-tax income. The bonuses for fiscal 1996, 1995 and 1994 totaled $175,000, $59,000 and $614,000, respectively. The employment agreement with the fifth executive officer expires in March 1998 and also contains provisions concerning acceleration of payments should there be a change in control of the Company.

In connection with the Company's acquisition of Go-Gro, the Company entered into an employment agreement with the previous majority stockholder of Go-Gro, under which such individual serves as President of Go-Gro. The term of the employment agreement is from July 30, 1994 to July 30, 1999, renewable for a successive five-year period upon terms mutually acceptable to the Company and the employee.

Future commitments under employment agreements at September 30, 1996, by fiscal year, excluding the possible effect of bonuses and renewal periods, are as follows (in thousands):

1997	$ 1,359
1998	1,385
1999	1,312
	$ 4,056

15. CONTINGENCIES

On June 4, 1991, the Company was served with a copy of the Complaint in the matter of Browder vs. Catalina Lighting, Inc., Robert Hersh, Dean S. Rappaport and Henry Gayer, Case No. 91-23683, in the Circuit Court of the 11th Judicial Circuit in and for Dade County, Florida. The plaintiff in the action, the former President and Chief Executive Officer of the Company, contends that his employment was wrongfully terminated and as such brought action for breach of contract, defamation, slander, libel and intentional interference with business and contractual relationships. On June 11, 1992, the court dismissed the Complaint and on June 17, 1992, the plaintiff filed an amended Complaint including claims for damages in excess of $5 million against the Company and declaratory relief as well as claims for damages in excess of $3 million against the named directors. On November 24, 1992, the Company filed a Counterclaim in the action. The Counterclaim alleges damages for in excess of $1 million arising out of actions which the Company alleges constituted violation of federal and state securities laws, breach of fiduciary duty, breach of contract, breach of constructive trust, conversion, civil theft, negligence, fraudulent inducement, fraud and extortion. On December 21,

15. CONTINGENCIES (CONTINUED)

1992, Mr. Browder filed his Answer denying the allegations of the Counterclaim. On March 1, 1993, Mr. Browder voluntarily dismissed Count II of his Complaint which sought a Declaratory Judgment. In June, 1995, the Court granted the Company's Motion for Summary Judgment on the plaintiff's claims of libel which reduced the claims for damages against the Company to $3 million.

The case is presently in the discovery stages. The Company's legal counsel has opined that, based on their understanding of the facts, the legal elements necessary to justify a termination of John Browder's employment for "Cause" existed at the time his employment was terminated. Thus, the Company believes that the possibility is remote that any amounts claimed to be due by Mr. Browder will be paid by the Company. Accordingly, no provisions for any amounts which Mr. Browder claims are owed under his employment agreement nor any liability that may result from this litigation have been recorded in the accompanying consolidated financial statements.

On February 23, 1993, Dana Lighting (now Catalina Industries, Inc.), a subsidiary of the Company, and Nathan Katz, President of Dana, were served with a copy of the Complaint in a matter captioned Holmes Products Corp. vs. Dana Lighting, Inc. and Nathan Katz, Case No. 93-0249 in the Superior Court of the Commonwealth of Massachusetts, City of Worcester, Massachusetts. The plaintiff in the action alleges that Dana Lighting engaged in acts constituting tortious interference with contractual actions, interference with prospective economic relationship with plaintiff's supplier and unfair competition. Plaintiff seeks injunctive relief and damages in excess of $10 million. Dana filed its Answer to the Complaint on March 15, 1993 denying all allegations, and Plaintiff's request for a temporary restraining order was denied by the Court. The supplier and Dana's President have filed affidavits with the court denying that Dana engaged in such acts. In July 1994, Holmes Products Corp. amended the Complaint to include allegations of a violation of civil RICO and a violation of the Federal Antitrust laws. On July 22, 1994, Dana Lighting removed the case from State Court to the United States District Court for the District Court of Massachusetts. Dana believes that the Complaint is totally without merit and disputes that any of the alleged acts or damages occurred or that Dana is liable in any matter. Dana intends to defend this case vigorously. The Company believes that the possibility is remote that any significant damages will be paid by the Company in connection with this litigation. Accordingly, no provision for any liability that may result from this litigation has been recorded in the accompanying consolidated financial statements.

On August 8, 1996, the Company was served with a copy of the Complaint in the matter of Black & Decker (U.S.), Inc. vs. Catalina Lighting, Inc., Case No. 96-1042-A, and on October 25, 1996 and December 4, 1996, the Company was served with a second and third complaint entitled Black & Decker vs. Calatina Lighting and Westinghouse Electric Corp., Case Nos. 96-1577-A and 96-1707-A, respectively. All cases are pending in the United States District Court, Eastern Division of Virginia. The plaintiff in these actions contends that the Company has infringed certain of plaintiff's patents in selling its line of flexible flashlights and as such brought action for an unspecified amount of monetary damages and an injunction prohibiting any further acts of infringement. Management believes that damages recoverable by the plaintiff, if any, will not have a material adverse impact on the Company's financial position or annual results of operations. However, no assurances can be given as to the ultimate outcome. The Company does not believe that its design and sale of flexible flashlights violates the property right of others and the Company intends to defend this case vigorously. No provision for any liability that may result from this litigation has been recorded in the accompanying consolidated financial statements.

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

16. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and restricted cash equivalents and short-term investments:

The carrying amount approximates fair value because of the short maturity of those instruments.

Bonds payable and other long-term debt:

The fair value of the Company's bonds payable and other long-term debt is estimated based on the current rates offered to the Company for borrowings with similar terms and maturities.

Estimated fair values of the Company's financial instruments are as follows (in thousands):

	SEPTEMBER 30,			
	1996		1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents	$ 1,766	$ 1,766	$ 807	$ 807
Restricted cash equivalents and short-term investments	378	378	6,339	6,339
Bonds payable	11,135	11,079	11,936	11,905
Other long-term debt	2,125	2,118	1,933	1,931

It was not practicable to estimate the fair value of the $7.6 million convertible subordinated notes.

17. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)
(IN THOUSANDS EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
<S>	<C>	<C>	<C>	<C>
FISCAL 1996				
Net Sales	$ 50,180	$ 40,921	$ 43,882	$ 49,647
Gross Profit	$ 8,189	$ 7,552	$ 7,218	$ 7,973
Operating Income	$ 1,626	$ 1,228	$ 992	$ 1,475
Net Income	$ 588	$ 365	$ 18	$ 632
Earnings Per Share:				
Primary	$ 0.08	$ 0.05	$ -	$ 0.08
Fully Diluted	$ 0.08	$ 0.05	$ -	$ 0.08

</TABLE>
<TABLE>
<CAPTION>

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
<S>	<C>	<C>	<C>	<C>
FISCAL 1995				
Net Sales	$ 44,658	$ 41,903	$ 38,878	$ 50,853
Gross Profit	$ 8,713	$ 7,075	$ 4,830	$ 7,331
Operating Income (Loss)	$ 2,879	$ 1,084	$ (1,151)	$ 1,239
Net Income (Loss)	$ 1,515	$ 226	$ (1,464)	$ 123
Earnings (Loss) Per Share:				
Primary	$ 0.19	$ 0.03	$ (0.21)	$ 0.02
Fully Diluted	$ 0.19	$ 0.03	$ (0.21)	$ 0.02

</TABLE>

CATALINA LIGHTING, INC. AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

<TABLE>
<CAPTION>

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	ADDITIONS OTHER	DEDUCTIONS	BALANCE AT END OF YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Accounts receivable allowances deducted from accounts receivable in the balance sheet:					
Year ended September 30, 1996	$ 4,934	$ 17,135	$ -	$ (14,756)	$ 7,313
Year ended September 30, 1995	$ 2,688	$ 15,385	$ -	$ (13,139)	$ 4,934
Year ended September 30, 1994	$ 2,736	$ 11,672	$ 25 (A)	$ (11,745)	$ 2,688
Allowance for slow-moving items in inventory - deducted from inventory in the balance sheet:					
Year ended September 30, 1996	$ 911	$ 903	$ -	$ (281)	$ 1,533
Year ended September 30, 1995	$ 352	$ 612	$ -	$ (53)	$ 911
Year ended September 30, 1994	$ 272	$ 38	$ 242 (A)	$ (200)	$ 352

<FN>
(A) This amount represents Go-Gro's allowance at the date of acquisition.
</FN>
</TABLE>

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item is incorporated by reference from the definitive proxy statement for the Company for its 1997 Annual Meeting of Stockholders, which will be filed within 120 days of September 30, 1996.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference from the definitive proxy statement for the Company for its 1997 Annual Meeting of Stockholders, which will be filed within 120 days of September 30, 1996.

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

The information required by this item is incorporated by reference from the definitive proxy statement for the Company for its 1997 Annual Meeting of Stockholders, which will be filed within 120 days of September 30, 1996.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is incorporated by reference from the definitive proxy statement for the Company for its 1997 Annual Meeting of

Stockholders, which will be filed within 120 days of September 30, 1996.

PART IV

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

(a) 1. DOCUMENTS FILED AS PART OF THIS REPORT. The following consolidated financial statements of the Company and its subsidiaries are filed as part of this Report:

Independent Auditors' Report

Consolidated Balance Sheets as of September 30, 1996 and 1995

Consolidated Statements of Operations for the years ended September 30, 1996, 1995 and 1994

Consolidated Statements of Stockholders' Equity for the years ended September 30, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the years ended September 30, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULES. The following financial statement schedule is included in this Report:
Schedule II - Valuation and Qualifying Accounts for the years ended September 30, 1996, 1995 and 1994

52

3. EXHIBITS. The following exhibits are filed with this Report or incorporated by reference:

<TABLE>
<CAPTION>

Exhibit Number		Description	Filing In Which Exhibit Is Incorporated By Reference
3	-	Amended and Restated Articles of Incorporated	Registration Statement on Form S-1, Number 33-27861
3.3	-	By-Laws, as amended	Form 10-K dated December 28, 1989
4	-	Certificate Common Shares, par value $.01	Registration Statement on Form S-18, Number 33-17409-A
4.2	-	Werbel Roth Warrant	Registration Statement on Form S-18, Number 33-17409-A
4.3	-	Convertible Debentures	Form 8-K, dated August 31, 1989
4.4	-	Convertible Debentures	Amendment No. 1 to Registration Statement No. 33-34444 on Form S-1
4.5	-	Shareholders' Rights Plan	Form 10-K dated January 14, 1990
4.6	-	Second Amendment to Rights Agreement dated as of November 20, 1990	Form 10-Q for the Quarter Ended March 31, 1992
10.46	-	Employment Agreement between the Company and Robert Hersh, dated as of October 1, 1989	Form 10-K dated December 28, 1989
10.47	-	Employment Agreement between the Company and Dean S. Rappaport, dated as of October 1, 1989	Form 10-K dated December 28, 1989
10.48	-	Employment Agreement between the Company and William D. Stewart, dated as of October 1, 1989	Form 10-K dated December 28, 1989
10.49	-	Leases dated September 27, 1989 between the Company and MP-1989-1 Ltd. Partnership	Form 10-K dated December 28, 1989
10.50	-	Promissory Note from Nathan Katz to the Company, dated November 1989	Form 10-K dated December 28, 1989
10.51	-	Promissory Note from David Hauser to the Company, dated November 1989	Form 10-K dated December 28, 1989
10.52	-	Amendment to Agreement and Option Agreement between the Company and Windmere dated December 14, 1989	Form 10-K dated December 28, 1989
10.53	-	Amendment No. 2 to Credit Agreement dated as of January	Registration Statement No. 33-34444

		31, 1990	on Form S-1
10.54	-	Agreement dated as of January 1, 1990 between the Company, Dana, David Hauser and Nathan Katz	Registration Statement No. 33-34444 on Form S-1
10.55	-	Promissory Note executed in favor of Nathan Katz by the Company dated as of January 1, 1990	Registration Statement No. 33-34444 on Form S-1
10.56	-	Promissory Note executed in favor of David Hauser by the Company dated as of January 1, 1990	Registration Statement No. 33-34444 on Form S-1
10.57	-	Amendment to 1987 Stock Option Plan	Registration Statement No. 33-34444 on Form S-1
10.58	-	Amendment No. 1 dated May 7, 1990 to Employment Agreement between the Company and Robert Hersh	Form 10-Q dated August 17, 1990
10.59	-	Amendment No. 3 to Credit Agreement dated as of March 9, 1990	Form 10-Q dated August 17, 1990

10.60	-	Amendment No. 4 to Credit Agreement dated as of May 31, 1990	Form 10-Q dated August 17, 1990
10.61	-	Assignment of Credit Agreement dated as of May 1, 1990; Credit Facility between the Company and SunTrust	Form 10-Q dated August 17, 1990
10.62	-	Lease between Dana and H & K Realty Trust dated as of April 1, 1990	Form 10-Q dated August 17, 1990
10.63	-	Lease between the Company and Paragon regarding the Dallas Facility, dated October 16, 1989	Form 10-Q dated August 17, 1990
10.64	-	Amendment dated as of April 1, 1990 to Employment Agreement between Dana, the Company and Nathan Katz	Amendment No. 1 to Registration Statement No. 33-34444 on Form S-1
10.65	-	Amendment dated as of April 1, 1990 to Employment Agreement between Dana, the Company and David Hauser	Amendment No. 1 to Registration Statement No. 33-34444 on Form S-1
10.66	-	Amendment dated as of August 27, 1990 to Employment Agreement between the Company and John H. Browder	Amendment No. 1 to Registration Statement No. 33-34444 on Form S-1
10.67	-	Amendment dated as of August 27, 1990 to Employment Agreement between the Company and Robert Hersh	Amendment No. 1 to Registration Statement No. 33-34444 on Form S-1
10.68	-	Amendment dated as of August 27, 1990 to Employment Agreement between the Company and Dean S. Rappaport	Amendment No. 1 to Registration Statement No. 33-34444 on Form S-1
10.69	-	Amendment dated as of August 27, 1990 to Employment Agreement between the Company and William D. Stewart	Amendment No. 1 to Registration Statement No. 33-34444 on Form S-1
10.70	-	Amendment to 1987 Stock Option and Stock Appreciation Rights Plan	Form 10-K dated January 14, 1990
10.71	-	Amendment to dated October 1, 1990 to Employment Agreement between the Company and Dean S. Rappaport	Form 10-K dated January 14, 1990
10.72	-	First Amendment to Credit Agreement dated November 1, 1990 between the Company and Sun Bank	Form 10-K dated January 14, 1990
10.73	-	Second Amendment to Credit Agreement dated January 11, 1991 between the Company and Sun Bank	Form 10-K dated January 14, 1990
10.74	-	Third Amendment to Credit Agreement dated March 7, 1991 between the Company and Sun Bank	Form 10-Q for the quarter ended March 31, 1991
10.75	-	Amendment to Employment Agreement dated April 8, 1991 between the Company and Robert Hersh	Form 10-Q for the quarter ended March 31, 1991
10.76	-	Amended and Restated Credit Agreement dated September 30, 1991 between the Company and Sun Bank	Form 8 Amendment No. 2 to Form 10-Q dated June 30, 1991
10.77	-	Certain equipment leases between the Company and various equipment leasing companies	Form 10-K dated December 18, 1991
10.78	-	First Amendment to Amended and Restated Credit Agreement dated December 1, 1991	Form 10-K dated December 18, 1991
10.79	-	Joint Venture Agreement dated as of January 14, 1992 between Catalina Lighting, Inc. O'Design Ceramics, Inc. Catalina Canada Lighting Inc. and Danny Lavy, as amended	Form 10-Q for the quarter ended March 31, 1992
10.80	-	Employment Agreement dated April 1, 1992 between Catalina Lighting, Inc. and Janet P. Ailstock	Form 10-Q for the quarter ended March 31, 1992

10.81	-	Second Amended and Restated Credit Agreement among the Company and Sun Bank, National Association dated as of June 19, 1992	Form 10-Q for the quarter ended March 31, 1992

10.82	-	Amendments to Employment Agreements between the Company and Messrs Hersh, Rappaport and Stewart dated as of October 1, 1992	Form 10-K dated December 10, 1992
10.83	-	Amendment, dated January 26, 1993 between the Company and David Moss	Form 10-Q for the quarter ended December 31, 1992
10.84	-	First Amendment to Second Amended and Restated Credit Facility dated as of June 19, 1992	Form 10-Q for the quarter ended December 31, 1992
10.85	-	Second Amendment to Second Amended and Restated Credit Agreement Among the Company and Sun Bank, National Association, dated April 30, 1993	Form 10-Q for the quarter ended March 31, 1993
10.86	-	Amendment dated as of October 1, 1993 to Employment Agreement between the Company and Robert Hersh	Form 10-K dated December 28, 1993
10.87	-	Amendment dated as of October 1, 1993 to Employment Agreement between the Company and Dean Rappaport	Form 10-K dated December 28, 1993
10.88	-	Amendment dated as of October 1, 1993 to Employment Agreement between the Company and William D. Stewart	Form 10-K dated December 28, 1993
10.89	-	Agreement dated September 29, 1993 between Catalina Lighting, Inc. and Shunde No. 1 Lamp Factory	Form 10-K dated December 28, 1993
10.90	-	Agreement dated October 1, 1993 between Dana Lighting, Inc., Catalina Lighting, Inc., and Nathan Katz terminating the 1989 Employment Agreement	Form 10-Q for the quarter ended December 31, 1993
10.91	-	The Employment Agreement dated October 1, 1993 between Dana Lighting, Inc., Catalina Lighting, Inc., and Nathan Katz	Form 10-Q for the quarter ended December 31, 1993
10.92	-	Note Agreement dated March 15, 1994 among the Company and Massachusetts Mutual Life Insurance Company, MassMutual Corporate Investors, MassMutual Participation Investors, S.O. P.A.F. International S.A., Prudential Securities, Inc. and Jefferies Group, Inc.	Form 10-Q for the quarter ended March 31, 1994
10.93	-	Second Amended Employment Agreement among the Company and Janet P. Ailstock dated April 1, 1994.	Form 10-Q for the quarter ended March 31, 1994
10.94	-	Agreement dated December 30, 1993 among the Company, Danny Lavy, Susan Lavy and Les Investissements Lavy, Inc.	Form 10-Q for the quarter ended March 31, 1994
10.95	-	Third amended and restated credit agreement among Catalina Lighting, Inc. and Sun Bank, National association, dated May 12, 1994	Form 10-Q for the quarter ended June 30, 1994
10.96	-	Letter of commitment between Catalina Lighting Canada (1992), Inc. and National bank of Canada dated May 19, 1994	Form 10-Q for the quarter ended June 30, 1994
10.97	-	Consulting Agreement between Catalina Lighting, Inc. and Henry Gayer dated July 6, 1994	Form 10-Q for the quarter ended June 30, 1994
10.98	-	Purchase Agreement among Catalina Lighting, Inc. and the Stockholders of Go-Gro Industries, Ltd.	Form 8-K dated August 9, 1994
10.99	-	Employment Agreement by and among Go-Gro Industries and Mr. Lau	Form 8-K dated August 9, 1994
10.100.1	-	Financial statements of Go-Gro Industries Ltd. for the year ended July 31, 1994	Amendment No.2 to Form 8-K filed December 15, 1994
10.100.2	-	Financial statements of Go-Gro Industries Ltd. for the years ended July 31, 1993 and 1992	Amendment No.1 to Form 8-K filed October 13, 1994

10.100.3	-	Financial statements of CIPEL Development Ltd. for the year ended July 31, 1994	Amendment No.1 to Form 8-K filed October 13, 1994
10.100.4	-	Financial Statements of CIPEL Development Limited for the years ended July 31, 1993 and 1992	Amendment No.1 to Form 8-K filed October 13, 1994

10.100.5	-	Financial Statements of Lamp Depot Limited for the period from September 23, 1994 (date of incorporation) to July 31, 1994	Amendment No.1 to Form 8-K filed October 13, 1994
10.100.6	-	Amended Financial Statements of Go-Gro Industries Limited	Amendment No. 2 to Form 8-K/A dated December 15, 1994
10.101	-	First amendment to third amended and restated credit agreement among Catalina Lighting, Inc. and Sun Bank, National Association, dated August 12, 1994	Form 10-K dated December 28, 1994
10.102	-	Contract for the Sale and Purchase of Real Estate by and between Lauderdale County Economic Development District, Meridian Lamps, Inc. and Jansko, Inc. dated November 1, 1994	Form 10-K dated December 28, 1994
10.103	-	Mississippi Small Enterprise Development Finance Act Loan Agreement among Mississippi Business Finance Corporation (acting for and on behalf of the State of Mississippi), Bank of Mississippi as Servicing Trustee) and Meridian Lamps, Inc. dated November 1, 1994	Form 10-K dated December 28, 1994
10.104	-	$1,200,000 Mortgage Deed and Security Agreement and Mortgage Note issued by the Company in favor of Mississippi Business Finance Corporation dated September 28, 1994	Form 10-K dated December 28, 1994
10.105	-	Agreement of Lease by and between Anker Construction Ltd. and Catalina Lighting Canada (1992), Inc. dated October 20, 1994	Form 10-K dated December 28, 1994
10.106	-	Sub-Lease Agreement dated September 23, 1994 by and between the Company and Shippers Warehouse, Inc.	Form 10-K dated December 28, 1994
10.107	-	Plan Administration Support Services Agreement dated September 12, 1994 by and between Catalina Lighting, Inc. and Sun Bank, National Association	Form 10-K dated December 28, 1994
10.108	-	Amended Complaint in the Matter of Holmes Products Corporation versus Dana Lighting, Inc. and Nathan Katz	Form 10-K dated December 28, 1994
10.109	-	Financing agreements between Go-Gro Industries Limited and Standard Chartered Bank dated May 27, 1994	Form 10-K dated December 28, 1994
10.110	-	Financing Agreement between Go-Gro Industries Limited and The Hong Kong and Shanghai Banking Corporation Limited dated May 31, 1993	Form 10-K dated December 28, 1994
10.111	-	Letter of Credit Agreement dated as of November 1, 1994 between Meridian Lamps, Inc., the Company and Sun Bank, National Association	Form 10-K dated December 28, 1994
10.112	-	Second Amendment to Third Amended and Restated Credit Agreement and Third Amended and Restated Stock and Notes Pledge between Sun Bank National Association and the Company dated February 23, 1995	Form 10-Q for the quarter ended March 31, 1995
10.113	-	Financing Agreement between Go-Gro Industries, Ltd. and Standard Chartered Bank dated October 4, 1994 and amendment to Financing Agreement dated January 5, 1995	Form 10-Q for the quarter ended March 31, 1995

10.114	-	Third Amendment to Third Amended and Restated Credit Agreement and Consent dated May 1, 1995 between Catalina Lighting and Sun Bank, National Association	Form 10-Q for the quarter ended June 30, 1995
10.115	-	Fourth Amendment to Third Amended and Restated Credit Agreement and Consent dated June 30, 1995 between Catalina Lighting and Sun Bank, National Association	Form 10-Q for the quarter ended June 30, 1995
10.116	-	First Amendment to Note Agreement between Catalina Lighting and Massachusetts Mutual Life Insurance Company, MassMutual Corporate Investors, MassMutual Participation Investors, MassMutual Corporate Value Partners, Prudential Securities Inc. and SO. P.A.F. International S.A. dated June 28, 1995	Form 10-Q for the quarter ended June 30, 1995
10.117	-	Loan Agreement between Mississippi Business Finance Corporation and Dana Lighting, dated May 1, 1995	Form 10-Q for the quarter ended June 30, 1995
10.118	-	Letter of Credit Agreement between Dana Lighting, Inc. and	Form 10-Q for the quarter ended June 30,

		Sun Bank, National Association dated May 1, 1995, and as amended on June 30, 1995	1995
10.119	-	Shenzhen Municipal Agreement to transfer rights to use land dated April 11, 1995	Form 10-Q for the quarter ended June 30, 1995
10.120	-	Construction Loan Agreement between Sun Bank, National Association and Dana Lighting dated May 1, 1995	Form 10-Q for the quarter ended June 30, 1995
10.121	-	Indenture of Trust dated May 1, 1995, relating to $10.5 million Mississippi Business Finance Corporation Taxable Variable Rate Industrial Development Revenue Bonds Series 1995	Form 10-Q for the quarter ended June 30, 1995
10.122	-	Shenzhen Municipal Construction Contract dated January 4, 1995	Form 10-Q for the quarter ended June 30, 1995
10.123	-	Final Design and Construction Contract between Catalina Industries, Inc., d/b/a Dana Lighting and Jesco, Inc. dated June 20, 1995	Form 10-Q for the quarter ended June 30, 1995
10.124	-	Sublease Agreement between Catalina Lighting, Inc. and Shippers Warehouse and Agreement between Catalina Lighting, Inc. and Shippers Warehouse, Inc. and S & W Warehouse, Inc. effective June 15, 1995 as to sell warehouse equipment.	Form 10-Q for the quarter ended June 30, 1995
10.125	-	Land purchase Agreement dated March 31, 1995 between Community Development Foundation and Dana Lighting, Inc.	Form 10-Q for the quarter ended June 30, 1995
10.126	-	Fifth amendment to Third Amended and Restated Credit Agreement dated December 4, 1995 between Catalina Lighting and SunTrust Bank, Central Florida, National Association f/k/a SunTrust, National Association	Form 10-K dated December 27, 1995
10.127	-	Contract to amend Cooperative Joint Venture Contract between Shenzhen Baoanqu Fuda Industries Co. (SJE) and Go-Gro Industries, Ltd. dated May 27, 1995	Form 10-K dated December 27, 1995
10.128	-	Second Amendment to Note Agreement between Catalina Lighting and Massachusetts Mutual Life Insurance Company, MassMutual Corporate investors, MassMutual Participation Investors, MassMutual Corporate Value Partners, Ltd., Prudential Securities Inc. and So. P.A.F. International S.A. dated September 30, 1995	Form 10-K dated December 27, 1995
10.129	-	Sixth Amendment to third Amended and Restated Credit Agreement dated December 28, 1995, between Catalina Lighting, Inc. and SunTrust Bank, Central Florida, National Association f/k/a SunTrust, National Association	Form 10-Q for the Quarter ended December 31, 1995

10.130	-	Second Amendment to Letter of Credit Agreement and First Amendment to Security Agreement between Catalina Industries, Inc. d/b/a Dana Lighting and SunTrust Bank, Central Florida, National Association f/k/a SunTrust, National Association	Form 10-Q for the Quarter ended December 31, 1995
10.131	-	Seventh Amendment to third Amended and Restated Credit Agreement dated March 18, 1996, between Catalina Lighting, Inc. and SunTrust Bank, Central Florida, National Association	Form 10-Q for the Quarter ended March 31, 1996
10.132	-	Third Amendment to Letter of Credit Agreement dated March 27, 1996 between Catalina Industries, Inc. d/b/a Dana Lighting and SunTrust Bank, Central Florida, National Association f/k/a SunTrust, National Association	Form 10-Q for the Quarter ended March 31, 1996
10.133	-	Third Amendment to Employment Agreement dated April 1, 1996 between Catalina Lighting, Inc. and Janet P. Ailstock	Form 10-Q for the Quarter ended March 31, 1996
10.134	-	License Agreement dated April 26, 1996 between Westinghouse Electric Corporation and Catalina Lighting, Inc.	Form 10-Q for the Quarter ended March 31, 1996
10.135	-	Press Release dated July 18, 1996	Form 8-K dated July 18, 1996
10.136	-	Complaint in the matter of BLACK & DECKER (U.S.), INC., BLACK & DECKER INC. VS. CATALINA LIGHTING, INC., Case No. 96-1042-A, in the United States District Court, Eastern Division of Virginia	Form 10-Q for the Quarter ended June 30, 1996

10.137	-	Financing Agreement between Catalina Lighting Canada (1992), Inc. and National Bank of Canada dated May 1, 1996	Filed herewith
10.138	-	Lease Financing Agreement between Go-Gro Industries Ltd. and The Hong Kong and Shanghai Banking Corporation Limited dated October 30, 1996	Filed herewith
11	-	Computation of Earnings Per Share	Filed herewith
21	-	Subsidiaries of the Registrant	Filed herewith
23	-	Consent of Deloitte & Touche LLP	Filed herewith
27	-	Financial Data Schedule	Filed herewith

</TABLE>

(b) REPORTS ON FORM 8-K:

None.

(c) UNDERTAKING:

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933 (the "1933 Act"), the undersigned Registrant hereby undertakes as follows, which understanding shall be incorporated by reference into Registrant's Registration Statements on Form S-8 Nos. 33-23900, 33-33292, and 33-62373.

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit of proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Section 13 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.

By: /S/ROBERT HERSH

Robert Hersh, Chairman, President,
Chief Executive Officer and Director

December 27, 1996

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

By:/S/ DEAN S. RAPPAPORT — December 27, 1996

Dean S. Rappaport, Director,
Executive Vice President, and
Chief Operating Officer

By:/S/ WILLIAM D. STEWART — December 27, 1996

William D. Stewart, Director
Executive Vice President - Sales and Marketing

By:/S/ DAVID SASNETT — December 27, 1996

David Sasnett,

Chief Financial Officer

By:/S/ LEONARD SOKOLOW December 27, 1996

Leonard Sokolow, Director

By:/S/ HENRY LATIMER December 27, 1996

Henry Latimer, Director

By:/S/ ROBERT WACHS December 27, 1996

Robert Wachs, Director

By:/S/ RYAN BURROW December 27, 1996

Ryan Burrow, Director

EXHIBIT 10.137

NATIONAL BANK OF CANADA
600, rue de La Gauchetiere ouest, Montreal (Quebec) H3B 4L2

Montreal, April 17, 1996

Commercial Lending Centre

CATALINA LIGHTING CANADA, (1992) INC./
LUMIERES CATALINA CANADA, (1992) INC.
c/o Catalina Lighting, Inc.
18191 N.W. 68th Avenue
Miami, Florida 33015
United States of America

ATTENTION OF MR. THOMAS M. BLUTH, TAX DIRECTOR

RE: OFFER OF FINANCING AND BANKING SERVICES

Dear Sir:

We are pleased to confirm you that the National Bank of Canada (the "Bank") agrees to renew the credit facilities presently available to Catalina Lighting Canada, (1992) Inc./Lumieres Catalina Canada, (1992) Inc. (the "Borrower"). Furthermore, the Bank includes hereby its offer of services regarding the administration of the Borrower's accounts held with the Bank.

The terms and conditions of the said financings and banking services are respectively presented in the schedules A and B attached to this offer to form an integral part thereof (collectively the "Offer").

Should the present Offer meet with your approval, please indicate your acceptance thereof by signing and initialling each page of the attached copy of the Offer and returning same to the offices of the Bank, to the attention of Mr. Michel Wistaff, Senior Account Manager, before 5 P.M. on May 3, 1996, failing which the Bank, at its discretion, reserves the right to cancel and/or modify the Offer, without notice.

Once this Offer has been accepted, we will ask our legal advisers to draw up the applicable security documents in accordance with standards acceptable to the Bank.

We hope that our financial support will continue to contribute to your company's development.

NATIONAL BANK OF CANADA

Per: /s/ Alain Charbonneau   Per: /s/ Michel Wistaff

Alain Charbonneau
Senior Manager

Michel Wistaff
Senior Account Manager

ACCEPTANCE

The undersigned hereby accepts the terms and conditions of this Offer dated April 17, 1996 at the City of __________________, Province of Quebec, this 1st day of May, 1996.

CATALINA LIGHTING CANADA, (1992) INC./
LUMIERES CATALINA CANADA, (1992) INC.

Per: /s/ Dean Rappaport

Name: Dean Rappaport
Title: EVP/CFO

Per:

Name:
Title:

SCHEDULE A

TERMS AND CONDITIONS OF FINANCINGS

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1. FACILITY A-OPERATING CREDIT FACILITY

1.1 THE CREDIT

The Bank, subject to the terms and conditions hereof, agrees to make available to the Borrower an operating credit of $4,000,000, in Canadian Dollars, to finance the Borrower's operating requirements.

1.2 TERM

This operating credit may be reviewed from time to time by the Bank and is repayable on demand.

1.3 MODE OF FINANCING

Subject to the terms and conditions provided herein, the Borrower may, within the amount available to it under the present credit, avail itself of Floating Rate advances.

1.4 INTEREST RATE

Advances up to the amount of $1,500,000 shall bear interest, until payment in full, at the Canadian Prime Rate of the Bank and all advances in excess of $1,500,000 shall bear interest, until payment in full, at the Canadian Prime Rate of the Bank plus 0.50%. Any amount in arrears shall bear interest at the Canadian Prime Rate of the Bank plus 0.50%. Interest shall be payable monthly on the 26th day of each month.

1.5 FINANCING CONDITIONS

The aggregate total amount of the Floating Rate advances under this operating credit shall not exceed the total of:

1.5.1 80% of the Borrower's accounts receivable (excluding contra or inter-company accounts, accounts of doubtful quality and those aged 90 days or more); and

1.5.2 50% of the Borrower's inventory of finished products for a maximum of $2,000,000.

The value of the Borrower's accounts receivable and inventory of finished products shall be established, from time to time by the Bank, taking into account claims ranking prior to the security of the Bank. The Borrower shall furnish to the Bank, on the 20th day of each month, a list of its inventory, of its accounts receivable according to age and of its accounts payable for the month ending on the last day of the preceding month.

1.6 DISBURSEMENT AND REPAYMENT

The Borrower may draw upon the amount made available to it by virtue of these presents, at any time during the term of the credit, by satisfying the terms and conditions specified herein and subject to the execution of any document that may reasonably be requested by the Bank in order to give full effect to the provisions contained herein.

Disbursement and repayment of the operating credit shall be made in multiples of $50.000.

The principal amount of the Floating Rate advances shall be payable on demand.

The Borrower may repay all or part of its Floating Rate advances at any time during the term of the credit, without penalty.

2. FACILITY B-CURRENCY CONVERSION RISK FACILITY

2.1 AMOUNT AND PURPOSE

Subject to the terms and conditions hereof, the Bank agrees to make available to the Borrower, a currency conversion risk facility for an aggregate amount not exceeding $500,000, in American Dollars, to conclude transactions with the Bank with respect to the sale or purchase of foreign currencies freely negotiated by the Bank.

2.2 CONDITIONS

The Borrower may, conclude foreign currency transactions subject to the following conditions, namely:

- the Borrower shall give prior notice thereof to the Bank, in accordance with the customs and practices of the market, specifying the amount, currency and effective date of delivery of the chosen currency;

- the maximum amount of foreign currency which the Borrower may sell or purchase by reason hereof shall not exceed the permitted amount, as determined by the Bank in the manner hereinafter set forth; the said permitted amount shall be determined by the Bank by multiplying the face value of the chosen currency by the level of risk, as per the schedule in effect at the Bank expressed in a percentage, (for illustration purpose only: chosen currency of U.S. $50,000.00 at a level of risk of 10% equals a currency conversion risk amount of U.S. $5,000.00);

- the Borrower shall execute, upon presentation, any agreement, contract, document or other writing, including, without limitation, a confirmation, as applicable, of such contract, in accordance with the forms in use at the Bank, providing for, amongst other things, the amount, currency, level of risk and fees payable to the Bank;

- the Borrower undertakes to deposit, in its Bank's U.S.$ current account, sufficient amounts to pay the foreign currencies, at the latest on the date of their deliverance, failing which, the Bank shall be authorized to debit the Borrower's U.S.$ current account for an amount equal to the amount necessary to pay the said currencies and any fees and expenses incurred by the Bank due to the insufficiency of funds in the Borrower's current account; all overdrafts in the Borrower's current account shall bear interest, until payment in full, at the U.S. Base Rate of the Bank plus 0,50%;

- the acceptance by the Bank of any request for the purchase or sale of foreign currencies is subject to the availability of such funds on the foreign exchange market and approval of each request is at the Bank's discretion.

2.3 TERM

The right to the present currency conversion risk option may be reviewed from time to time by the Bank and may be revoked at any time.

3. SECURITY

3.1 EXISTING SECURITY

The repayment of the advances made hereunder, as well as the payment of the interest, fees and all other amounts payable under these presents and the performance of all the borrower's obligations towards the Bank are presently and shall always be secured by the following security:

3.1.1 a first ranking security under Section 427 of the BANK ACT;

3.1.2 an irrevocable letter of credit in the amount of $1,100,000, in American dollars, issued by the Sun Bank, National Association and expiring on March 31, 1997;

3.1.3 a first ranking movable hypothec in the amount of $3,000,000 on the universality of the Borrower's movable property, present and future, tangible and intangible, including, without limitation, a first ranking hypothec in the amount of $3,000,000 on the proceeds of all-risk insurance covering the property given as security and the designation of the Bank as loss payee;

3.1.4 a cession of rank by Catalina Lighting Inc. in favor of the Bank regarding the registrations made in the Register of personal and movable real rights under numbers 94-0082974-0002, 94-0088558-0001, 94-0082974-0003 and 94-0088558-0002 respectively;

3.1.5 a cession of rank by Montreal Trust Company in favor of the Bank regarding the registrations made in the Register of personal and movable real rights under numbers 94-0082974-0001, 94-0088558-0001 and 94-0088558-0002 respectively.

3.2 ADDITIONAL SECURITY

To secure the repayment of advances made hereunder, the payment of interest, fees and all other amounts payable thereunder and in the security documents and the performance of its obligations towards the Bank, the Borrower undertakes to provide the following additional security, in accordance with the forms in use at the Bank:

3.2.1 a general movable hypothec in the amount of $4,600,000 on the universality of the Borrower's movable property, present and future, tangible and intangible, including, without limitation, a first ranking hypothec in the amount of $4,600,000 on the proceeds of all-risk insurance covering the property given as security and the designation of the Bank as loss payee (in replacement of the hypothec mentioned at Section 3.1.3);

3.2.2 a cession of rank by Catalina Lighting, Inc. in favour of the Bank regarding any security held by Catalina Lighting, Inc. taking rank before any of the Bank's security;

3.2.3 a cession of rank by Montreal Trust Company in favour of the Bank regarding any security held by Montreal Trust Company taking rank before any of the Bank's security;

3.2.4 a cession of rank by Anker Construction Ltd. in favour of the Bank regarding any security held by Anker Construction Ltd. taking rank before any of the Bank's security;

3.2.5 a postponement of claims by Catalina Lighting Inc. for all amounts due to it by the Borrower up to an amount of $2,000,000;

4. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower represents and warrants to the Bank that:

4.1 It is a duly constituted and organized company and is in good standing under the laws governing it, and it has the powers, permits and licences required to carry on its business and to own, operate and administer its property.

4.2 There has been no material adverse change in its financial position since the date of its most recent audited annual financial statements dated September 30, 1995 which have been provided to the Bank. These statements represent fairly, at the date they were drawn up, its financial position. The Borrower does not foresee incurring any significant liabilities outside of the ordinary course of its business which have not already been disclosed to the Bank.

4.3 It is not a party to any litigation or legal proceedings which could have a material effect on its financial position or on its ability to carry on its business.

4.4 It has good and marketable title to all its property free and clear of all prior claims, mortgages, hypothecs, pledges, liens or other similar encumbrances except for the Permitted Encumbrances hereunder.

4.5 The Borrower's audited annual financial statements dated September 30, 1995 provided to the Bank are accurate and complete and have been prepared in accordance with generally accepted accounting principles.

4.6 It is not in default under the agreements to which it is a party nor under the legislation and regulations applicable to the conduct of its business including, without limitation, any environmental requirements, except for such default, as applicable, which would not have a material effect on its financial position or its ability to carry on its business.

4.7 All taxes, assessments, deductions at source, income tax or annuities for whch the payment thereof is guaranteed by prior claim and/or legal hypothec have been paid by the Borrower without subrogation or consolidation.

5. CONDITIONS PRECEDENT TO ANY RENEWAL OR DISBURSEMENT

Prior to the renewal or disbursements of the credits described therein, the Borrower, shall provide, execute or perform the following to the satisfaction of the Bank and its legal advisers:

5.1 REPRESENTATIONS AND WARRANTIES

The representations and warranties contained in the Section entitled "Representations and Warranties of the Borrower" hereof shall continue to be true and exact and shall survive the execution of this or any subsequent agreements; no event of default shall have occurred and no other event shall exist that is likely to materially adversely affect the financial position of the Borrower.

5.2 DOCUMENTS REQUIRED

The following documents shall be furnished to the Bank in form and substance satisfactory to it:

- a duly certified copy of the documents of incorporation of the Borrower and Catalina Lighting, Inc., the original, of recent date, of the Borrower's "certificats de regularite" and certificate of registration under the ACT RESPECTING THE LEGAL PUBLICATION OF SOLE PROPRIETORSHIPS, PARTNERSHIPS AND LEGAL PERSONS;

- a duly certified copy of the borrowing by-law and the resolution of the Board of Directors of the Borrower relating to the Borrower's authority to execute these presents, to perform its obligations hereunder and to deliver the security required herein;

- a duly certified copy of the resolution of the Board of Directors of Catalina Lighting, Inc. relating to its authority to execute and to deliver the subordination agreement and the cessions of rank required herein;

- a certificate setting forth the functions and signatures of the individuals authorized to represent the Borrower and Catalina Lighting, Inc. in their dealings with the Bank;

- the security documents and the cessions of rank contemplated in Section 3.2 herein duly executed and duly registered or filed in all places in Canada or elsewhere where such registration or filing is necessary and duly signified or served when such signification or service is required under the terms thereof;

- payment in full of the set-up fees charged by the Bank.

5.3 MATERIAL CHANGE

The financings described herein shall be renewed or disbursed after the aforementioned general and specific provisions have been met to the Bank's satisfaction. If a material change deemed unfavourable by the Bank occurs in the nature of the risk inherent in the financings, the Bank reserves the right to cancel the said financings at its sole discretion and to demand repayment of any sum already advanced in respect thereof.

6. OBLIGATIONS OF THE BORROWER

6.1 POSITIVE COVENANTS

Until payment in full of any amounts due under the terms of this Offer, the Borrower shall:

6.1.1 use the proceeds of the financings for the purpose provided for herein;

6.1.2 carry on its business in a diligent and continuous manner;

6.1.3 keep and maintain books of account and other accounting records in accordance with generally accepted accounting principles and shall furnish to the Bank its audited annual financial statements, within 120 days of the end of its fiscal year, as well as its unaudited financial statements, on a monthly basis, within 30 days of the end of each month;

6.1.4 maintain, at all times, a Shareholders' Equity of at least $2,500,000, as determined in accordance with Section 8.1;

6.1.5 maintain, at all times, a Working Capital Ratio greater than or equal to 1.0:1.0;

6.1.6 at all times, give the Bank's representatives the right to inspect its establishments and provide access thereto, and further permit the Bank's representatives to examine its books of account and other records, and take extracts therefrom and/or copies thereof;

6.1.7 maintain, at all times, insurance coverage on its property against loss or damage caused by fire and any other risk as is customarily maintained by companies carrying on a similar business;

6.1.8 obtain and maintain in effect the permits and licenses required to carry on its business;

6.1.9 notify the Bank, without delay, or any event of default or any event which, following notice or the expiry of a delay, could constitute an event of default;

6.1.10 punctually pay all taxes, assessments, deductions at source, income tax or annuities for which the payment thereof is guaranteed by prior claim and/or legal hypothec, without subrogation or consolidation except as otherwise provided in the security documents granted from time to time pursuant to this offer;

6.1.11 conduct all or the greater part of its business with the Bank.

6.2 NEGATIVE COVENANTS

The Borrower undertakes not to carry out the following transactions or operations without obtaining the prior written consent from the Bank:

6.2.1 substantially change the nature of its operations or business;

6.2.2 change the control of the Borrower, which is currently held by Catalina Lighting, Inc. (100%);

6.2.3 merge with another company; dissolve or wind up the company;

6.2.4 create or permit the existence of security on present and/or future property, except for Permitted Encumbrances;

6.2.5 declare or pay dividends on its shares, purchase or redeem its shares or otherwise reduce its capital except as permitted in accordance with the prior payment of claims referred to in paragraph 3.2.5;

6.2.6 make any capital expenditures or investments outside of the ordinary course of its business;

6.2.7 grant loans to its officers, directors or shareholders other than in the ordinary course of business and those already declared in its financial statements provided to the Bank;

6.2.8 grant a loan or an investment or provide financial assistance to a third party by way of a guarantee or otherwise other than those already declared in its financial statements provided to the Bank.

7. DEFAULT

7.1 EVENTS OF DEFAULT

The occurrence of one or more of the following events, shall constitute a default under this Offer:

7.1.1 if the Borrower fails to make a payment, on demand, of principal under the terms hereof;

7.1.2 if the Borrower fails to make a payment, interest, fees or any other amount which may become due hereunder or under any of the security documents provided for herein;

7.1.3 if the Borrower fails to perform or otherwise breaches any obligation hereunder or pursuant to any of the security documents provided for herein;

7.1.4 if the Borrower becomes subject to the provisions of the BANKRUPTCY and INSOLVENCY ACT (CANADA) or of any other bankruptcy, insolvency or winding up legislation;

7.1.5 if proceedings are instituted for the Borrower's dissolution, winding-up or suspension of its operations, unless such proceedings are contested diligently and in good faith by the Borrower and do not impair the continued operation of its business;

7.1.6 if a creditor takes possession of the Borrower's property or a major portion thereof or if such property is subject to a hypothecary recourse or to receivership or is sized, except if such seizure is contested diligently and in good faith by the Borrower; in the event of such contestation, the Bank reserves its right to require that the Borrower furnish it with an additional guarantee, in form and substance and for an amount acceptable to the Bank, to protect the security granted to the Bank hereunder;

7.1.7 if any representation or warranty made by the Borrower herein or in any document or certificate furnished to the Bank in connection herewith proves to be materially incorrect or erroneous.

7.1.8 if the Borrower is in default under any other contracts, agreements or writings with the Bank or any other financial institution.

7.2 REMEDIES BY THE BANK IN THE EVENT OF DEFAULT

Without limiting the Bank's right to require payment on demand of any amount due hereunder by the Borrower, in the event of default, the principal, interest and any other amounts owing to the Bank hereunder shall become due and payable and the financings and rights under this Offer shall cease and be cancelled as of that moment and the Bank shall no longer have any obligation to advance any further amounts hereunder, the whole without further notice. The rights and recourses of the Bank shall then become enforceable hereunder and under the security documents.

7.3 APPLICATION OF PAYMENTS

The Bank shall be entitled to apply any payment received to reduce any part of the Borrower's indebtedness as it shall deem appropriate.

7.4 RELATIONS BETWEEN THE BANK AND THE BORROWER

The Bank may grant delays, accept or waive security, accept arrangements, grant releases and discharges and transact with the Borrower as it shall deem acceptable without in any way limiting the responsibility of the Borrower or infringing on the rights of the Bank under the security provided for hereunder.

The omission on the part of the Bank to notify the Borrower of any event of default hereunder or to avail itself of any of its rights hereunder shall not be construed as a waiver of such event of default or right.

The acceptance by the Bank following any default by the Borrower of any sum owing to it or the exercise by it of any right or recourse shall not preclude it from exercising any other right or recourse, which it may have, whether pursuant to any agreement or otherwise provided by law.

8. MISCELLANEOUS PROVISIONS

8.1 DEFINITIONS

For the purposes hereof, the following words and phrases shall have the following meaning:

"AMERICAN DOLLARS" "U.S. DOLLARS" "US$": means lawful money of the

United States of America.

"BUSINESS DAY": means any day, other than a Saturday, Sunday or statutory holiday, on which the offices of the Bank are open in the Province of Quebec.

"CANADIAN DOLLARS" "CDN$": means lawful money of Canada.

"CANADIAN PRIME RATE": means the annual variable rate of interest announced from time to time by the Bank and used to determine the interest rates on Canadian dollar commercial loans granted by the Bank in Canada.

"DEBT", "INDEBTEDNESS" OR "TOTAL INDEBTEDNESS": means the aggregate amount of principal, interest and accessories due by the Borrower hereunder.

"FLOATING RATE": means the interest rate applicable to floating rate advances made hereunder in Canadian Dollars or American Dollars, as applicable.

"PERMITTED ENCUMBRANCES": refers collectively to charges created by the security documents granted from time to time by virtue of these presents and any other charge which constitutes a "Permitted Encumbrance", as may be defined in the said documents.

"SHAREHOLDERS' EQUITY": means the aggregate of the paid-up capital, retained earnings of the Borrower and Subordinated Debt, less intangible assets and the advances made by the Borrower to its shareholders or subsidiaries or to any affiliated society or company within the meaning of the CANADA BUSINESS CORPORATION ACT.

"SUBORDINATED DEBT": means any debt of the Borrower towards a shareholder and/or an affiliated company of the Borrower within the meaning of the CANADA BUSINESS CORPORATION ACT, which is entirely subordinated to the amounts due or which could become due to the Bank hereunder.

"U.S. BASE RATE": means the annual variable rate of interest announced from time to time by the Bank and used to determine the interest rates on U.S. dollar commercial loans granted by the Bank in Canada.

"WORKING CAPITAL RATIO": means the ratio between total current assets and total short-term liabilities.

8.2 ACCOUNTING TERMS

Unless another definition is provided hereunder, each accounting term used in this Offer shall have the meaning ascribed to it in accordance with accounting principles generally accepted by the Canadian Institute of Chartered Accountants or by the American Institute of Certified Public Accountants.

8.3 CONVERSION TO U.S. DOLLARS OR CANADIAN DOLLARS

Each time an amount in Canadian dollars must be converted or expressed in U.S, dollars, or the equivalent in U.S. dollars (or inversely) must be determined, such calculation shall be made, on the appropriate date, in accordance with the cash purchase rate of the Bank at about 10:30 a.m.

8.4 CURRENCY AND PLACE OF PAYMENT

All amounts due by the Borrower under this Offer shall be paid by the Borrower to the Bank in Canadian dollars in the case of a financing granted in Canadian dollars, or in U.S. dollars in the case of a financing granted in U.S. dollars.

Should the amount of principal of the indebtedness owing to the bank exceed the credit limit efectively granted hereunder, the Borrower shall reimburse the Bank, on demand, an amount equal to such excess amount.

8.5 CALCULATION OF INTEREST AND ARREARS

8.5.1 Unless otherwise provided for herein, interest on any amount due hereunder shall be calculated daily and not in advance on the basis of a 365-day year.

8.5.2 For the purposes of the Interest Act (Canada) in the case of a leap year, the annual interest rate corresponding to the interest calculated on the basis of a 365-day year is equal to the interest rate thus calculated multiplied by 366 and divided by 365.

8.5.3 any amount of principal, interest, commission, discount or of any other nature remaining unpaid at maturity, shall bear interest at the rate provided for herein.

8.5.4 Interest on arrears shall be compounded monthly and payable on demand.

8.6 RECORDS

The Bank shall keep records evidencing the transactions effected under this financing. such records shall be resumed to reflect these transactions and the amounts due to the Bank.

8.7 LEGAL COUNSEL

The Bank reserves its right to choose its legal counsel for the purposes hereof.

The legal fees and expenses relating to the registration of the deeds and documents required in connection herewith shall be at the Borrower's expense, whether the financing contemplated herein is completed or not, provided, however, the maximum legal fee shall be one thousand dollars.

8.8 NON-BUSINESS DAYS

Should any payment of capital or interest hereunder become due on a day which is not a Business Day, the due date thereof shall be extended to the immediately following Business Day.

8.9 INVALIDITY OF ANY PROVISIONS HEREUNDER

Any decision of a court to the effect that any of the provisions hereunder are null and void or non-executory shall in no way affect, invalidate or render unenforceable the other provisions hereunder.

8.10 FINAL AGREEMENT AND INTERPRETATION

As soon as this Offer has been signed by the Borrower, it shall constitute the final agreement between the parties hereto and replaces and supersedes any prior offers, agreements or discussions between the parties.

Notwithstanding the foregoing, this Offer does not create novation and does not constitute any derogation to the rights, privileges and remedies of the Bank under the terms of any agreements, promissory notes and/or any instruments or contracts creating the security contemplated herein and executed by the Borrower prior to the date of this Offer. The Borrower represents and warrants that the rights, privileges and remedies of the Bank under these agreements, promissory notes and security documents have not been modified and cover the Borrower's obligations comtemplated herein.

8.11 MODIFICATIONS

Any modifications hereto or waiver of a right thereunder is without effect if it is not expressly made and evidenced in a written document executed between the parties hereto.

8.12 OTHER DOCUMENTS

The Borrower shall do all things and sign all documents which may be deemed necessary or appropriate by the Bank for the purposes of giving full effect to the terms, conditions, undertakings and security provided herein.

8.13 ADDITIONAL CHARGES

The Borrower undertakes to pay the Bank for the following charges, as determined by the Bank:

8.13.1 in the event that the cost for the Bank of the credit were to increase as a result of a law, regulation or administrative guideline or decision (including, without limitation, as a result of the application of reserves, taxes or requirements regarding the capital adequacy of the Bank), the Borrower shall pay such additional cost on demand; and

8.13.2 the Borrower shall pay all taxes and additional fees that could result from the application of the Goods and Services Tax (Canada) and of any applicable provincial taxes of a similar nature.

8.14 ASSIGNMENT

All rights and obligations of the Borrower hereunder and all proceeds of the financings may not be transferred or assigned by the Borrower, any such transfer or assignment being null and void insofar as the Bank is concerned and rendering any balance then outstanding of the financings immediately due and exigible at the option of the Bank and relieving the Bank from the obligation of making any further advances hereunder.

8.15 COUNTERPARTS

This Offer may be executed in any number of counterparts, and each of which so executed shall be deemed to be original, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

9. REVIEW

Notwithstanding any provisions to the contrary, the terms and conditions provided for herein are subject by the Bank on January 31, 1997, based upon the Borrower's annual audited financial statements which it shall furnish the Bank, in accordance with Section 6.1.3. of the present Offer.

10. FEES

Non-refundable commitment and set-up fees of $15,000 including, without limitation, the preparation and the execution of this Offer and the security documents required herein shall be payable by the Borrower upon acceptance of this Offer of financing.

11. GOVERNING LAW

This Offer shall be construed and interpreted in accordance with the laws of the Province of Quebec.

12. LANGUAGE (QUEBEC)

The parties declare that they have requested and do hereby confirm their request that the present Offer and the ancillary documents related thereto be in English; les parties declarent qu'elles ont exige et par la presente confirment leur demande que la presente offre ainsi que les documents connexes soient rediges en anglais.

SCHEDULE B

TERMS AND CONDITIONS OF BANKING SERVICES

1. ACCOUNTS NUMBER COVERED BY THIS AGREEMENT

U.S. $ account number: 772-60
Can $ accounts number: 518-21,602-27

2. SERVICES INCLUDED

2.1 certified cheques;
2.2 items, bank notes and coin deposited;
2.3 stop payments;
2.4 commercial inter-access deposits;

2.5 cheques items returned unpaid;
2.6 current account management fees;
2.7 transactions Dt/Ct (CAN & US).

3. INTEREST PAYMENT ON THE COVERED ACCOUNTS

Can $ account: Canadian Prime Rate less 3.50%
U.S. $ Account: U.S. Base Rate less 3.50%

4. SERVICE CHARGES

Fixed monthly charges of $145 plus $50 for each wire transfers.

EXHIBIT 10.138

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
[LETTERHEAD]

Ref: Corporate Banking Centre

CONFIDENTIAL

The Directors
Go-Gro Industries Ltd
6/F Kenning Ind Bldg
19 Wang Hoi Road
Kowloon Bay Kowloon

30 October 1996

ATTN: MR CLARENCE NQ

Dear Sir

LEASE FINANCE FACILITY
(A/C No. 030-322689)

With reference to our recent discussion, we are pleased to offer you the following lease finance facility for the below-mentioned Goods.

HIBOR LEASING LINE	HKD9,000,000.-
1) Lessee	Go-Gro Industries Ltd
2) Details of Goods	Machinery (subject to the Lease Agreements)
3) Location of Goods	China
4) Cost of Goods	HKD9,000,000.- to be amortised by rental payments over the Primary Period.
5) Lease Period - Primary Period	60 months
6) Initial Rental	NIL
7) Rental - Primary Period	up to approximately HKD179,275.- per month if the leasing line is fully drawn (adjusted according to individual drawdown) including interest at 2.5% over 1 month HIBOR (Hong

Kong Interbank Money Market Offer Rate), currently 5.3125% per annum, and payable monthly in arrears to the debit of your Current Account 030-322689-001 with us. The Lease Agreement provides for the adjustment of rental in certain instances, including an alteration in the Cost of the Goods and a change in HIBOR.

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8) Arrangement Fee

HKD45,000.- (to be collected upon acceptance of this facility letter)

9) Condition Precedent

The Lease will come into effect upon receipt by us of:-

a) a HIBOR Lease Agreement as referred to below duly executed on behalf of the Lessee; and

b) the documents and evidence referred to in the Appendix to this letter, in form and content satisfactory to us.

10) Other Conditions

This facility will be made available to you on our standard Terms and Conditions as set out in the attached HIBOR Lease Agreement.

The terms and conditions of this offer are based on the current laws and regulations. In the event of any material change in any law or regulation which takes place between the date of the offer and the drawdown under the relevant Lease Agreement and which may affect this facility, the Bank reserves the right to renegotiate the said terms and conditions.

Your acceptance of this offer will confirm your agreement that, if when the

Lease Agreement is signed the exact Hong Kong Dollar Cost of the leased goods is not known, the bank is authorised to complete the Terms Sheets of the Lease Agreement in this regard once the Hong Kong Dollar cost is known (by the Bank converting the Cost of Goods referred to in this letter in foreign currency to a Hong Kong Dollar amount using an exchange rate determined by the Bank in good faith) and to calculate the Lease Rentals.

As security for the foregoing facility, we require to hold:-

1) a Corporate Guarantee for HKD9,000,000.- from Catalina Lighting Inc together with:-

   (i) a certified copy of a Board Resolution, signed sealed by the Secretary or Assistant Secretary of Catalina Lighting Inc authorising a named person to execute the guarantee.

   (ii) a Certificate of Incumbency signed sealed by the Secretary or Assistant Secretary identifying the individual authorized to issue the guarantee.

   (iii) a Counsel Opinion in the form substantially similar to that attached.

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2) a Letter of Undertaking from the company to maintain a minimum net worth of HKD50,000,000.- and that no dividends in excess of 40% of recurrent profit should be paid/declared without our written consent.

If you wish to accept this offer, the authorised signatories of your Company, in accordance with the terms of the mandate given to the Bank, must sign and return the attached copy of this letter to us by 29 November 1996. If no acceptance is received by that date, this offer will be deemed to have lapsed.

We look forward to the development of a mutually beneficial and lasting relationship.

Yours faithfully

For and on behalf of
GO-GRO INDUSTRIES LIMITED

/s/ Robert Hersh

AUTHORIZED SIGNATURE

/s/ SAM CY LEUNG

Sam C Y Leung

Corporate Relationship Manager

PC/uw
Encl

CATALINA LIGHTING, INC. AND SUBSIDIARIES

EXHIBIT 11

SCHEDULE OF COMPUTATION OF PRIMARY EARNINGS PER COMMON SHARE

	Years Ended September 30,		
	1996	1995	1994
Net income	$1,603,000	$ 400,000	$5,510,000
Add: Interest on debt assumed to be repaid (net of income taxes)	59,000	-	-
Net income for primary earnings per common share	$1,662,000	$ 400,000	$5,510,000
Weighted average number of common shares outstanding during the year	7,016,500	6,960,933	6,129,257
Add: Common equivalent shares determined using the "Modified Treasury Stock" method representing shares issuable upon exercise of stock options and warrants and shares issuable under contractual agreements	781,000	839,536	1,188,084
Weighted average number of shares used in calculation of primary earnings per share	7,797,500	7,800,469	7,317,341
Primary earnings per common share	$ 0.21	$ 0.05	$ 0.75

CATALINA LIGHTING, INC. AND SUBSIDIARIES

EXHIBIT 11
(CONTINUED)
SCHEDULE OF COMPUTATION OF FULLY DILUTED EARNINGS PER COMMON SHARE

Years Ended September 30,

	1996	1995	1994
Net income	$1,603,000	$ 400,000	$5,510,000
Add: Interest on convertible subordinated notes (net of income taxes)	-	-	434,000
Interest on debt assumed to be repaid (net of income taxes)	49,000	-	-
Net income for primary earnings per common share	$1,652,000	$ 400,000	$5,944,000
Weighted average number of common shares outstanding during the year	7,016,500	6,960,933	6,129,257
Add: Common equivalent shares determined using the "Modified Treasury Stock" method representing shares issuable upon exercise of stock options and warrants and shares issuable under contractual agreements	788,000	839,536	1,277,320
Shares issuable upon conversion of convertible subordinated notes	-	-	643,523
Weighted average number of shares used in calculation of fully diluted earnings per share	7,804,500	7,800,469	8,050,100
Fully diluted earnings per common share	$ 0.21	$ 0.05	$ 0.74

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT*

Catalina Industries, Inc.(formerly Dana Lighting, Inc.), a Florida corporation
Catalina Real Estate Trust, Inc., a Florida corporation
Catalina Merchandising, Inc., a Florida corporation
Catalina Realty Trust, a Hong Kong Trust
Catalina Realty Hong Kong Limited, a Hong Kong company
Catalina Industrial, Ltd., a Hong Kong company
Catalina Lighting Canada (1992), Inc., a Quebec corporation
Trade World Industrial, Ltd., a Hong Kong company
Angel Station, Inc., a Florida corporation
Go-Gro Industries Limited, a Hong Kong company
Lamp Depot Limited, a Hong Kong company
Meridian Lamps, Inc., a Florida corporation
Meridian Lamps Development, Inc., a Florida corporation
Catalina Asia, a Hong Kong partnership
Audiopro Ltd., a Hong Kong company
Catalina Lighting Mexico, S.A. de C.V., a Mexican corporation
Golda Metal Industries Limited, a Hong Kong company
Shenzhen Jiadianbao Electrical Products Company, Limited ("SJE"), a cooperative joint venture organized under the laws of the People's Republic of China

* All subsidiaries, except for Golda Metal Industries which is 50% owned and the SJE joint venture which is 100% owned as to production and 70% owned as to real estate, are wholly-owned by the registrant.

INDEPENDENT AUDITORS' CONSENT

Catalina Lighting, Inc.

We consent to the incorporation by reference in Registration Statement Nos. 33-23900, 33-33292 and 33-62378 of Catalina Lighting, Inc. on Form S-8 of our report dated December 12, 1996 appearing in this Annual Report on Form 10-K of Catalina Lighting, Inc. for the year ended September 30, 1996.

/s/ Deloitte & Touche LLP

Miami, Florida
December 26, 1996

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extracted from 10-K and is qualified in its entirety by
reference to such financial statements.
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