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CATALYST LIGHTING GROUP INC

Form 10QSB

August 16, 2004

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2004

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

For the transition period from [\_\_\_\_\_ to \_\_\_\_\_]

Commission file number 333-75044

CATALYST LIGHTING GROUP, INC.

-----  
(Exact name of small business issuer as specified in its charter)

Delaware

84-1588927

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

-----  
(I.R.S. employer  
identification number)

7700 Wyatt Drive  
Forth Worth, TX

76108

-----  
(Address of principal  
executive offices)

-----  
(Zip Code)

Issuer's telephone number, including area code: (817) 738-8181

-----  
(Former name, former address and former  
fiscal year, if changed since last report)

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APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,646,869 shares of Common Stock, par value \$.01 per share, outstanding as of August 10, 2004.

Traditional Small Business Disclosure Format (Check one): Yes  No .

CATALYST LIGHTING GROUP, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CATALYST LIGHTING GROUP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

Current Assets:

Cash  
Trade receivables, less allowance for doubtful accounts of \$60,646 and \$53,892  
Trade receivable - related party  
Inventories, net of reserve of \$17,877 and \$64,698  
Prepaid expenses and other  
Deferred tax asset

Total current assets

Property and Equipment, net of accumulated depreciation of \$84,696 and \$58,410

Other Assets:

Goodwill  
Deferred tax asset  
Other

Total other assets

Total Assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Revolving note payable  
Current maturities of long-term debt:  
    Related party  
    Other  
Accounts payable  
Accrued commissions  
Other accrued liabilities

Total current liabilities

Long-Term Debt, less current maturities:

Related party  
Other

Total long-term debt

Deferred Taxes

Commitments (Note 5)

Stockholders' Equity:

Preferred stock - \$.01 par value; authorized 10,000,000 shares, none issued  
- - Common stock - \$.01 par value; authorized 40,000,000 shares,  
    3,646,869 shares issued and outstanding  
Additional paid-in capital  
Accumulated deficit

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Total stockholders' equity

Total Liabilities and Stockholders' Equity

\*\* Derived from the Company's audited consolidated balance sheet at September 30, 2003

The accompanying notes are an integral part of the condensed consolidated financial statements

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CATALYST LIGHTING GROUP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED JUNE 30, FOR	
	2004	2003
	(Unaudited)	(Unaudited)
	-----	-----
Net Sales	\$ 4,275,000	\$ 4,069,887
Cost of Sales	2,884,195	2,882,794
	-----	-----
Gross Profit on Sales	1,390,805	1,187,092
General, Selling and Administrative Expenses	1,456,853	1,349,216
	-----	-----
Income (Loss) from Operations	(66,048)	(162,124)
Other Expense:		
Reverse merger costs	--	21,991
Interest expense	70,837	73,800
	-----	-----
Loss from Operations before Provision for Income Taxes	(136,885)	(257,915)
Provision for Income Taxes	50,142	--
	-----	-----
Net Loss	\$ (86,743)	\$ (257,915)
	=====	=====
Pro Forma Income Tax and Net Loss:		
Net loss before pro forma income taxes	\$ (86,743)	\$ (257,915)
Pro forma income tax benefit (expense)	--	93,766
	-----	-----
Pro Forma Net Loss	\$ (86,743)	\$ (164,149)
	=====	=====
Net Loss Per Common Share:		
Basic	\$ (.02)	\$ (.09)

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Diluted	=====	=====	=====
	\$	(.02)	\$ (.09)
	=====	=====	=====
Pro Forma Net Loss Per Common Share:			
Basic	\$	(.02)	\$ (.05)
	=====	=====	=====
Diluted	\$	(.02)	\$ (.05)
	=====	=====	=====
Weighted Average Number of Shares Outstanding:			
Basic		3,601,809	2,991,972
	=====	=====	=====
Diluted		3,601,809	2,991,972
	=====	=====	=====

The accompanying notes are an integral part of the condensed consolidated financial statements

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CATALYST LIGHTING GROUP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE NINE MONTHS ENDED JUNE 30,	
	2004	2003
	-----	-----
	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities:		
Net loss	\$ (443,179)	\$ (468,590)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
(Gain)loss on sale of equipment		17,768
Depreciation and amortization	26,803	21,878
Deferred taxes	(253,801)	--
Change in operating assets and liabilities:	--	
Trade receivables, related and other	561,074	(360,643)
Inventories	(390,768)	(469,902)
Prepaid expenses and other	18,565	(5,545)
Other assets	--	2,018
Accounts payable	412,944	726,510
Other accrued liabilities	(57,718)	(10,357)
	-----	-----
Net cash (used in) operating activities	(126,080)	(546,863)
	-----	-----
Cash Flows from Investing Activities:		
Purchase of property and equipment	(58,290)	(19,846)
	-----	-----
Net cash used in investing activities	(58,290)	(19,846)
	-----	-----
Cash Flows from Financing Activities:		
Net increase (decrease) in revolving note payable	(354,088)	586,859
Payments on short-term and long-term notes payable	(45,347)	(20,150)

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Common stock issuance, net of offering cost	567,849	--
	-----	-----
Net cash provided by financing activities	168,414	566,709
	-----	-----
Net Change in Cash	(15,956)	--
Cash, at beginning of period	96,591	--
	-----	-----
Cash, at end of period	\$ 80,634	\$ --
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 178,594	\$ 187,143
	=====	=====
Schedule of Non-Cash Financing Activities:		
Conversion of long term debt to equity interest	\$ --	\$ 375,000
	=====	=====

The accompanying notes are an integral part of the condensed consolidated financial statements

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Catalyst Lighting Group, Inc. and Subsidiary  
Notes to Condensed Consolidated financial statements (Unaudited)

1. Basis of Presentation

The financial statements included herein have been prepared by Catalyst Lighting Group, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. A description of the Company's accounting policies and other financial information is included in the audited consolidated financial statements as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2003.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2004 and the results of operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the quarter ended June 30, 2004 are not necessarily indicative of the results that may be achieved for a full fiscal year and cannot be used to indicate financial performance for the entire year.

The Company accounts for stock options using the intrinsic value method wherein compensation expense is recognized on stock options granted only for the excess of the market price of our common stock over the option exercise price on the date of grant. All options of the Company are granted at amounts equal to or higher than the fair-value of our stock so no compensation expense is recorded.

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Some companies also recognize compensation expense for the fair value of the option right itself. The Company has elected not to adopt this accounting method because it requires the use of subjective valuation models which the Company believes are not representative of the real value of the option to either the Company or the optionees. However, we are required to disclose the pro forma effect of accounting for stock options using such a valuation for all options granted. The fair value of the options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	Nine Months Ended June 30, 2004
Risk-free interest rate	4.74%
Expected dividend yield	0%
Expected lives	10 years
Expected volatility	34.47%

The total fair value of options granted was computed to be approximately \$48,300 for the nine months ended June 30, 2004. These amounts are amortized ratably over the vesting periods of the options or recognized at the date of grant if no vesting period is required. Pro forma stock-based compensation was \$16,100 for the quarter ended June 30, 2004.

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If the Company had accounted for its stock-based compensation plans in accordance with SFAS No. 123, the Company's net income and net income per common share would have been reported as follows:

	Three Months Ended June 30, 2004	Nine Months Ended June 30, 2004
Net income, as reported	\$ (86,743)	\$ (443,179)
Stock based compensation included in net income	--	--
Fair value of stock based compensation	(16,100)	(48,300)
	-----	-----
Pro forma net income	\$ (102,843)	\$ (491,479)
	=====	=====
Net loss per common share, basic:		
As reported	\$ (0.02)	\$ (0.13)
Stock based compensation included in net income	--	--
Fair value of stock based compensation	(0.01)	(0.01)
	-----	-----
Pro forma	\$ (0.03)	\$ (0.14)
	=====	=====
Net loss per common share, diluted:		
As reported	\$ (0.02)	\$ (0.13)
Stock based compensation included in net income	--	--

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Fair value of stock based compensation	(0.01)	(0.01)
	-----	-----
Pro forma	\$ (0.03)	\$ (0.14)
	=====	=====

For the fiscal year ended September 30, 2003 and the nine months ended June 30, 2003 there were no differences between net income and proforma net income.

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### 2. Related Party Transactions:

During the three months ended June 30, 2004 and 2003, and for the nine months ended June 30, 2004 and 2003, the Company paid \$0, \$19,315, \$7,200 and \$49,315, respectively, for accounting and administrative services to an entity related through common ownership through May 2002.

During the three months ended June 30, 2004 and 2003, and for the nine months ended June 30, 2004 and 2003, the Company had sales of \$83,682, \$80,151, \$205,066 and \$262,223, respectively, to an entity whose principal owner is the brother of an employee of the Company. Accounts receivable from this related entity were \$44,746 at June 30, 2004.

### 3. Stockholder's equity and reverse merger:

The Company has filed a registration statement with the Securities and Exchange Commission for the sale of up to 1,200,000 shares of common stock at \$2.50 per share in a self-underwritten offering (the Offering). The Securities and Exchange Commission declared the registration statement effective on February 2, 2004. The Company engaged broker-dealers to assist with the offering and they received up to a 7 % cash placement fee of securities placed by such broker-dealer in the Offering and four-year common stock purchase warrants entitling such broker-dealer to purchase up to 10% of the securities sold by such broker-dealer in the Offering, at an exercise price of 125% of the per share price of the Offering.

The Company closed the Offering on May 28, 2004. 235,500 shares of common stock at \$2.50 were issued. The Company incurred \$58,479 of offering cost in addition to \$12,425 in cash placement fees and 7,100 warrants at an exercise price of \$3.125 to a broker-dealer.

Keating Investments LLC was the investment advisor for the reverse merger and will be receiving an investment banking fee of \$100,000, which is due in 10 monthly payments of \$10,000, and was contingent upon the Company's common stock trading on the Over-the-Counter Bulletin Board. The stock began trading on June 26, 2004 and payments to Keating Investments will begin in August 2004.

### 4. Revolving Note Payable:

As of June 30, 2004, the Company had a revolving credit agreement with a bank which bears interest at the bank's prime rate plus 2.0% (totaling 6.5% at June 30, 2004) which enables the Company to borrow up to the lesser of \$2,000,000 or the aggregate of 80% of eligible accounts receivable and 50% of eligible inventory as defined by the agreement. Borrowings outstanding on the revolving loan were \$1,718,433 at June 30, 2004.



Borrowings under the revolving credit agreement are collateralized by essentially all assets of the Company including accounts receivable and inventory. The agreement requires the Company to maintain certain financial covenants which include tangible net worth, cash flow coverage and debt ratios as defined in the agreement. As of June 30, 2004, the Company was not in compliance with certain financial covenants. The lender was aware of this non-compliance and has requested that the Company seek an alternative lender.

The Company entered into a factoring agreement on July 13, 2004 with Marquette Commercial Finance, Inc. (MCF). On July 16, 2004 Marquette repaid the loan balance with the previous lender. The factoring agreement allows the Company to sell to MCF certain of its accounts receivable arising out of sales of goods, or services rendered. A maximum of 85% of the approved invoice amount may be advanced to the Company with the remainder held in reserve by MCF. The gross amount of accounts purchased, which remains outstanding, may not exceed \$3,000,000. A fixed discount fee of .75% is incurred for proceeds received and deposited by MCF prior to the 60th day from the date of the initial purchase of the account. The fixed discount fee increases to .85% thereafter. A variable discount fee is also incurred at a rate of MCF'S base rate plus 2% per annum with respect to any account purchased by MCF. The variable discount may not be less than 7.0%.

5. Commitments

The Company entered into a leasing agreement with BMF, LLC on December 31, 2003 to lease approximately 38,171 square feet of office and manufacturing space located in White Settlement, Texas. The rent is payable in monthly installments at \$10,338 and is for a term of five years terminating on November 30, 2008. The lease includes a clause which gives the Company a one-time right to terminate the lease in June of 2006. A termination fee, equal to the unamortized portion of certain allowances given to the Company for improvements to the property, shall be paid upon exercising the termination clause. The allowances totaled \$22,500.

ITEM 2. Management's Discussion and Analysis or Plan of Operation.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, the industries in which we operate, our beliefs and our management's assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by or on behalf of us. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. These risks and uncertainties include, but are not limited to: general economic indications to improve or improve at the pace we anticipate; continued net losses may increase

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our deficit; our ability to secure additional sources of funds on reasonable terms; our credit ratings; our ability to compete effectively; our reliance on a limited number of key customers; our exposure to the credit risk of our customers' accounts receivable; our ability to retain and recruit key personnel; existing and future litigation; changes in environmental health and safety law; changes to existing regulations or technical standards; and the social, political and economic risks of our foreign operations. Please see the risk factors set forth in the Company's Form 10-KSB for the fiscal year ended September 30, 2003 for a more thorough discussion of some of the most important risks and uncertainties we face. Except as otherwise required under federal securities laws and the rules and regulations of the Securities and Exchange Commission (the "Commission"), we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this MD&A, whether as a result of new information, future events, changes in assumptions or otherwise.

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### OVERVIEW

The Company was formed as a Delaware corporation in March 2001 as a "blank check" company to effect a merger, exchange of capital stock, asset acquisition or other similar business combination with an operating business which the Company believes has significant growth potential. The Company filed a registration statement on Form SB-2 (the "Registration Statement") with the Commission, which became effective August 6, 2002, and the Company commenced an offering of its common stock pursuant to the Registration Statement (the "Offering"). The Offering closed in November 2002, raising proceeds of \$50,000 from the sale of 50,000 shares of common stock. The Offering was a "blank check" offering due to management's broad discretion with respect to the specific application of the net proceeds thereof. Management had sole discretion in determining which businesses to acquire, and the terms of such acquisition. The Offering was subject to Rule 419 of Regulation C ("Rule 419") under the Securities Act of 1933, as amended (the "Securities Act"). Rule 419 requires that offering proceeds (except for an amount up to 10% of the deposited funds) and the securities issued to investors must be deposited in an escrow account and not released until an acquisition conforming to certain specified criteria has been consummated and a sufficient number of investors reconfirm their investment in accordance with the procedures set forth in that rule.

As of February 12, 2003, we entered into a merger agreement with Whitco Company, L.L.P., a Texas limited liability partnership which manufactures, markets and distributes outdoor lighting poles. The Company filed a post-effective amendment to the Registration Statement with the Commission describing Whitco and its business, and included audited financial statements which, upon being declared effective by the Commission, were delivered to all investors in the Offering. Those investors were given the opportunity to evaluate the merits and risks of the Whitco acquisition and all investors elected to remain investors in the Company. On August 27, 2003, we acquired Whitco Company, LP (successor in interest as a result of the conversion of Whitco Company, L.L.P. to a limited partnership) through an exchange of all of Whitco's partnership units, and options to purchase partnership units, for 2,991,368 shares of common stock, and options to purchase 808,632 shares of common stock. Whitco became our wholly-owned subsidiary.

On August 29, 2003, we formed Catalyst Lighting Group, Inc., a Delaware corporation and purchased 200 shares of its common stock for an aggregate of \$2,000. On September 2, 2003, we entered into an Agreement of Merger with Catalyst. On September 3, 2003, we filed with the Delaware Secretary of State a

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Certificate of Ownership and Merger of Catalyst Lighting Group, Inc. into Wentworth III, Inc. Pursuant to such certificate, and in accordance with Section 253(b) of the Delaware General Corporation Law, we changed our name to Catalyst Lighting Group, Inc.

Whitco is a nationwide marketer and distributor of steel and aluminum outdoor lighting poles. Founded in 1969, Whitco sells poles directly to original equipment manufacturers (OEM's) and indirectly to other third parties through its own contracted sales representatives. We seek to have Whitco become the preferred marketer and distributor of steel and aluminum lighting pole structures and accessories, and we may attempt to acquire or develop subsidiaries to pursue additional market opportunities. We believe the necessary systems and people are in place to aggressively grow and expand in Whitco's defined markets.

### RESULTS OF OPERATIONS

#### Critical Accounting Policies and Estimates

Our condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and the related disclosures. The estimates used by management are based upon their historical experiences combined with management's understanding of current facts and circumstances. Certain of our accounting policies are considered critical as they are both important to the portrayal of our financial condition and the results of our operations and require significant judgments on the part of management. Management believes the following represent our critical accounting policies as described in Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," which was issued by the Commission: inventory, goodwill, allowance for doubtful accounts, and warranty policy.

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The Company states inventory at the lower of cost or market, determined under the first-in, first-out method. We maintain a significant amount of raw material inventory to serve future order demand of customers. While management believes its processes for ordering and controlling inventory are adequate, changes in economic or industry conditions may require us to hold inventory longer than expected or write outdated inventory off as the result of obsolescence.

During fiscal 2001, we amortized goodwill using a fifteen-year life. Beginning January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 (SFAS 142) "Goodwill and Other Intangible Assets," and as a result ceased amortizing goodwill. We test goodwill for impairment annually or on an interim basis if an event or circumstance occurs between the annual tests that may indicate impairment of goodwill. Impairment of goodwill will be recognized in operating results in the period it is identified.

We utilize our best estimate for allowance for doubtful accounts based on past history and accruing the expense as a percentage of sales. We grant credit to distributors of sports and area lighting poles located throughout the United States. Collateral is generally not required for trade receivables. While we consider our process to be adequate to effectively quantify its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require an adjustment of the allowance for doubtful accounts.

Our customers receive a one year product warranty for defects in material and workmanship, providing repair, replacement or refund of the purchase price. We

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provide an accrual as a reserve for potential warranty costs based on historical experience and accruing as a percentage of sales. While management considers our process to be adequate to effectively quantify its exposure to warranty claims based on historical performance, changes in warranty claims on a specific or cumulative basis may require us to adjust our reserve for potential warranty costs.

Impact of Recently Issued Accounting Pronouncements - Management of the Company observed no new recently issued accounting pronouncements that it believes will materially impact the Company.

Three months ended June 30, 2004 compared to the three months ended June 30, 2003, and nine months ended June 30, 2004 compared to the nine months ended June 30, 2003

Revenue. For the three months ended June 30, 2004, the recognized revenue was \$4,275,000. For the three months ended June 30, 2003, the recognized revenue was \$4,069,887. For the nine months ended June 30, 2004, the recognized revenue was \$12,440,537. For the nine months ended June 30, 2003, the recognized revenue was \$10,644,295. Cost of goods sold for the three months ended June 30, 2004 was \$2,884,195, which generated a gross profit of \$1,390,805 or 32.5% of revenue, versus \$1,187,092 or 29.17% of revenue for the three months ended June 30, 2003. Excluding commissions from sales, the increase in revenue for the three month period can be attributed to a \$342,000 (27%) increase in steel area lighting poles, a \$172,347 (159.3%) increase in aluminum sales, and a \$94,148 (375.5%) increase in high mast lighting pole sales. These increases were partially offset by a \$513,400 (75.3%) decrease in sales to an OEM customer, Lithonia Lighting. Lithonia Lighting held the contract to supply our lighting poles to Wal-Mart, however the contract was not renewed with Lithonia by Wal-Mart. The increase in gross margin percent for the three month period is attributable to a higher margin mix of sales of products and a decrease in freight as a percent of sales. The higher margin mix of sales products is specifically attributable to a 27% increase in revenue for steel area lighting poles, and a 375.5% increase in high mast lighting poles, both of which are historically high gross margin products. During the same three month period revenue from low margin products decreased, including a 75.3% decrease in revenue for Lithonia Lighting (OEM). Cost of goods sold for the nine months ended June 30, 2004 was \$8,511,721, which generated a gross profit of \$3,928,816 or 31.6% of revenue. Gross profit was \$3,366,545 or 31.6% of revenue for the nine months ended June 30, 2003. Excluding commissions from sales, the increase in sales for the nine month period can be attributed to an increase in sales for steel area lighting poles, aluminum area lighting poles, and high mast lighting poles of \$711,193, \$336,965, and \$214,319 or 21.3%, 75.1%, and 77.5%, respectively.

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General, selling, and administrative expenses. For the three months ended June 30, 2004, operating expenses totaled \$1,456,853, compared to \$1,349,216 for the three months ended June 30, 2004. For the nine months ended June 30, 2004, operating expenses totaled \$4,372,896 compared to \$3,528,781 for the nine months ended June 30, 2003. The increase in operating expenses for the three month period resulted from an increase in commission expenses paid, bad debt expense, warranty expense, investor relations expense, board of director's expenses, investment advisory expenses. These increases were partially offset by a decrease in accounting expense. The increase in operating expenses for the nine month period resulted from an increase in commission expenses paid, salary, wage, and labor related expenses, bad debt expense, warranty expense, investor relations expense, board of director's expenses, and investor advisory expenses. These expenses were partially offset by a decrease in accounting expense and a

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decrease in research and development expenses associated with a new product line that was discontinued.

Commission expense. For the three month periods ending June 30, 2004 and 2003, and the nine month periods ending June 30, 2004 and 2003, commission expense was \$803,717, \$712,426, \$2,373,521, and \$1,810,681, respectively. The increase in commissions paid for both the three and nine month periods is the result of an increase in total revenues as compared to the previous comparative periods.

Salaries, wages, and labor related. For the three month periods ending June 30, 2004 and 2003, and the nine month periods ending June 30, 2004 and 2003, salaries, wages, and labor related expense was \$332,157, \$350,366, \$1,061,570 and \$941,612, respectively. The increase in salaries, wages, and labor related expense for nine month periods can be attributed to additional individuals hired in customer service, accounting, and production to properly manage the increased volume of sales and transactions incurred by the Company.

Investor relations expense. For the three month periods ending June 30, 2004 and 2003, and the nine month periods ending June 30, 2004 and 2003, investor relations expense was \$25,403, \$0, \$74,067, and \$0, respectively. The increases in investor relations expense for the comparative periods are related to the registered offering and the transition to a publicly traded company.

Bad debt expense. For the three month periods ending June 30, 2004 and 2003, and the nine month periods ending June 30, 2004 and 2003, bad debt expense was \$28,713, (\$8,739), \$58,616 and (\$4,239), respectively. The increase in bad debt expense for both the three and nine month periods is the result of an increase in total revenues as compared to the previous comparative periods and an increase in actual uncollectible accounts during the periods.

Warranty expense. For the three month periods ending June 30, 2004 and 2003, and the nine month periods ending June 30, 2004 and 2003, warranty expense was \$28,913, \$10,774, \$93,337 and \$31,162, respectively. The increase in warranty expense for both the three and nine month periods is the result of an increase in total revenues as compared to the previous comparative periods and an increase in actual warranty work performed during the periods.

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Board of directors expense. For the three month periods ending June 30, 2004 and 2003, and the nine month periods ending June 30, 2004 and 2003, compensation related to the board of directors was \$12,750, \$0, \$96,250, and \$0, respectively. \$75,000 of the compensation, for the nine month period ending June 30, 2004, related to a non-cash charge. This charge represented 10,000 shares of common stock granted to the three independent members of the board of directors. The remaining \$21,250 in accrued compensation is for direct compensation to three members of the board of directors which began accruing upon the first closing of the registered offering, which occurred on February 17, 2004.

Investor advisory expense. For the three month periods ending June 30, 2004 and 2003, and the nine month periods ending June 30, 2004 and 2003, expenses associated with investment advisory services were \$78,836, \$0, \$78,836, and \$0, respectively. Keating Investments was the investment advisor for the reverse merger and will be receiving an investment banking fee of \$100,000, which is due in 10 monthly payments of \$10,000 and was contingent upon the Company's common stock trading on the Over-the-Counter Bulletin Board. The stock began trading on June 26, 2004 and payments to Keating Investments will begin in August 2004. \$21,164 of the \$100,000 expense was previously accrued.

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Interest expense. Interest expense for the three months ended June 30, 2004 was \$70,837, compared with \$73,800 for the three months ended June 30, 2003.

Interest expense for the nine months ended June 30, 2004 was \$252,900, compared with \$220,977 for the nine months ended June 30, 2003. The variances reflect fluctuations in the use of the Company's credit facility.

Other expense. For the three month periods ending June 30, 2004 and 2003, and the nine month periods ending June 30, 2004 and 2003, expenses associated with the merger were \$0, \$21,991, \$0 and \$85,377, respectively.

### Liquidity and Capital Resources

At June 30, 2004, the Company had a working capital deficit of \$1,288,255. The Company also incurred a net loss for both the three month and nine periods ending June 30, 2004 of \$86,743 and \$443,179, respectively. Management of the Company believes that the loss is due to the seasonality of the sports and area lighting pole business and the impact of significant increases in steel prices. The rapid steel price increases have had a significant effect on Catalyst's net loss for the nine months ended June 30, 2004. These prices have been particularly significant on the non-tapered shafts and miscellaneous material categories. Through the month of June 2004, non-tapered square shafts cost has increased by 100% to 110%, non-tapered round shafts cost has increased from 100% to 150%, and round tapered shafts cost has increased from 20% to 45%. These increases in costs have been passed on to the Company's customers in the form of a price increase on all steel poles. However, the Company was not able to react quickly enough to cover the initial increases. The Company believes those price increases are now in place.

As of June 30, 2004 the Company had a \$2,000,000 senior, secured credit facility with PNC Bank, evidenced by a demand promissory note, and secured by all of our assets. The outstanding balance at June 30, 2004 was \$1,718,433. The Company can borrow the lesser of \$2,000,000 or the aggregate of 80% of eligible accounts receivable and 50% of eligible inventory up to \$500,000 as defined in the agreement with PNC. As of June 30, 2004, the Company currently did not comply with certain portions of its agreement with PNC relating to maintaining (1) a tangible net worth of not less than \$300,000, (2) a ceiling on debt to net worth ratio and (3) defined cash flow coverage of at least 1 to 1. PNC was aware of this non-compliance and has requested that the Company seek an alternative lender.

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The Company entered into a factoring agreement on July 13, 2004 with Marquette Commercial Finance, Inc. (MCF). On July 16, 2004 Marquette repaid the loan balance with the previous lender. The factoring agreement allows the Company to sell to MCF certain of its accounts receivable arising out of sales of goods, or services rendered. A maximum of 85% of the approved invoice amount may be advanced to the Company with the remainder held in reserve by MCF. The gross amount of accounts purchased, which remain outstanding, may not exceed \$3,000,000. A fixed discount fee of .75% is incurred for proceeds received and deposited by MCF prior to the 60th day from the date of the initial purchase of the account. The fixed discount fee increases to .85% thereafter. A variable discount fee is also incurred at a rate of MCF'S base rate plus 2% per annum with respect to any account purchased by MCF. The variable discount may not be less than 7.0%.

Cash (used in) operations for the nine months ended June 30, 2004, and the nine months ended June 30, 2003 was (\$126,080), and (\$546,863) respectively. The cash used in operations for the nine months ended June 30, 2004 resulted primarily

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from net loss of \$443,179, an increase in inventory of \$390,768, an increase in Deferred tax asset of \$253,801, and a decrease in accrued liabilities of \$57,718. This was partially off-set by a decrease in accounts receivable of \$561,074, and an increase in accounts payable of \$412,944.

Primarily as a result of purchases of property and equipment, cash used in investing activities for the nine month period ending June 30, 2004 was \$58,290.

Cash provided by financing activities for the nine months ended June 30, 2004 was \$168,414. For the nine months ended June 30, 2004 there was net proceeds from the the public offering of \$567,849. This was partially off-set by a decrease in revolving note payable of \$354,088.

Material cash requirements for the next twelve months not in the ordinary course of business relate to expenses incurred in connection with the completion of the sale of equity or securing debt financing for the Company, product development, and acquisitions. The Company's current maturities of long term debt as of June 30, 2004 is \$732,775, consisting of subordinated debt. Payments of \$467,850 were due on June 30, 2004, \$217,850 is due on June 30, 2005, and the remainder is spread evenly over the entire year. Whitco and the Company intend to fund future payments on these obligations through operational cash flow and capital provided through possible future equity sales.

Management of the Company believes that many of the costs incurred in fiscal 2003 and for the first nine fiscal months of 2004 will not be incurred in the future and that the Company will return to profitability in the fourth fiscal quarter of 2004, although no assurances thereof can be given.

The Company is also pursuing additional equity through a variety of methods. It is anticipated that the proceeds, if any, will be used to pay down subordinated debt, provide working capital and product development. If the Company does not raise additional equity capital sufficient to provide for positive working capital and is unable to return in the near term to profitability, it may be required to curtail future operations and/or liquidate assets or enter into credit arrangements on less than favorable terms than would normally be expected, to provide for future liquidity.

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### ITEM 3. Controls and Procedures.

- (a) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and our chief financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) , has concluded that, as of June 30, 2004, our disclosure controls and procedures were adequate and designed to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities.

Internal Control over Financial Reporting. Under Rules 13a-15 and 15d-15 of the Exchange Act, companies are required to maintain internal control over financial reporting, as defined, and company management is required to evaluate and report on internal control over financial reporting. Under an extended compliance period for these rules, the Company must begin to comply with the evaluation and disclosure requirements with its annual report for the fiscal year ending September 30, 2005.

- (b) Changes in Internal Controls. There were no significant changes in our

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internal controls or to our knowledge, in other factors that could materially affect, or would be reasonably likely to materially affect, our disclosure controls and procedures, or our internal control over financial reporting, subsequent to June 30, 2004.

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### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS.

During the three and nine months ended June 30, 2004, there were no material legal proceedings to which the Company was a party or to which any of its assets or properties were subject. On April 29, 2004, a petition was filed in County Court for Tarrant County, Texas by FWT, Inc. ("FWT"), a lighting pole manufacturer and vendor of the Company. The complaint alleges breach of contract by the Company for alleged non-payment for six lighting poles manufactured by FWT for the Company. The complaint seeks \$30,609, plus reasonable attorney's fees and expenses. We believe the claim is without merit and intend to defend it vigorously if it is not settled. We do not believe this litigation will have a material adverse effect upon our business, financial condition or results of operations.

On June 4, 2004, GE Sports Lighting Systems, LLP ("GE") filed an Application for Mechanics and Materialman's Lien ("Application") in the Circuit Court of the Third Circuit of the State of Hawaii against Whitco and Kamehameha Schools/Bernice Pauahi Bishop Estate (the "Estate"), Hawaiian Dredging/Kajima and Does 1-50. GE is a contractor of a project to build sports complexes at two different schools on property owned by the Estate. GE hired Whitco to provide lighting poles for the project. GE claims it is owed \$313,385. The hearing date on the Application is September 22, 2004. We intend to defend against this claim vigorously if it is not settled. We do not believe this litigation will have a material adverse effect upon our business, financial condition or result of operations.

#### ITEM 2. CHANGES IN SECURITIES.

On March 25, 2004, Keating Reverse Merger Fund, LLC agreed to an extension of its \$250,000 unsecured promissory note held against Whitco Company, L.L.P. (predecessor of Whitco Company, LP, our wholly-owned subsidiary) through June 30, 2004. The Company is negotiating with Keating Reverse Merger Fund, LLC to extend the promissory note to December 31, 2004. This note was issued to Keating Reverse Merger Fund, LLC as consideration for a \$250,000 loan made to Whitco Company, L.L.P. on July 8, 2003.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Under the former \$2,000,000 credit facility with PNC Bank, we could borrow the lesser of \$2,000,000 or the aggregate of 80% of eligible accounts receivable and 50% of eligible inventory, as those terms are defined in the agreement with PNC. We did not comply with the following covenants of the agreement: (1) Whitco has a tangible net worth (as defined in the PNC agreement) of less than \$300,000 and (2) the ratio of (Total Debt - Subordinated Debt) to (Book Net Worth + Subordinated Net Worth - Intangible Assets) is greater than 8 to 1. As of June 30, 2004, Whitco owed PNC approximately \$1,718,433. PNC was aware of this non-compliance and requested that the Company seek an alternative lender. The Company entered into a factoring agreement on July 13, 2004 with Marquette Commercial Finance, Inc. On July 16, 2004 Marquette repaid the loan balance to



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PNC Bank and are now collateralized by essentially all assets of the Company including accounts receivable and inventory.

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

Not applicable.

ITEM 5. OTHER INFORMATION.

None

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004.

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004.

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes- Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004.

32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes- Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004.

(b) Reports on Form 8-K. None.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: CATALYST LIGHTING GROUP, INC.

Date: August 13, 2004

/s/ Dennis H. Depenbusch

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Dennis H. Depenbusch  
Chief Executive Officer, Chairman of the  
Board of Directors, and Secretary

/s/ Brady Basil

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Brady Basil  
Chief Financial Officer