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CATALYST LIGHTING GROUP INC
Form 10QSB/A
April 06, 2005

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

FORM 10-QSB/A

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

For the quarterly period ended December 31, 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)

1

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: 3,880,949 shares of Common Stock, par value \$.01 per share, outstanding as of February 11, 2005.

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

2

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CATALYST LIGHTING GROUP, INC.

TABLE OF CONTENTS

	PAGE(S)
PART I FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
Condensed Consolidated Balance Sheets as of December 31, 2004 (Unaudited) and September 30, 2004	4
Condensed Consolidated Statements of Operations for the Three Months Ended December 31, 2004 and 2003 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows for the Three Months ended December 31, 2004 and 2003 (Unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7 - 10
ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	11
ITEM 3. CONTROLS AND PROCEDURES	16
PART II OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	17
ITEM 2. CHANGES IN SECURITIES	18
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	18
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	18
ITEM 5. OTHER INFORMATION	18
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	18
SIGNATURES	19
CERTIFICATIONS	20 - 25

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CATALYST LIGHTING GROUP, INC. AND SUBSIDIARY

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CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash
Trade receivables, less allowance for doubtful accounts of \$45,746 and \$42,822
Inventories, net of reserve of \$34,543 and \$18,343
Prepaid expenses and other

Total current assets

PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$107,156 and \$95,653

OTHER ASSETS:

Goodwill, net of accumulated amortization of \$330,151 and \$330,151
Restricted Cash
Deferred Financing Cost
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

STOCKHOLDERS' EQUITY:

Preferred stock - \$.01 par value; authorized 10,000,000 shares, none issued
Common stock - \$.01 par value; authorized 40,000,000 shares,
 3,834,026 and 3,756,051 shares issued and outstanding, respectively
Additional paid-in capital
Accumulated deficit

Total stockholders' equity

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

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** Derived from the Company's audited consolidated balance sheet at September 30, 2004

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

4

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

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	2004	2003
	(Unaudited)	(Unaudited)
NET SALES	\$ 3,706,146	\$ 4,451,910
COST OF SALES	2,558,886	3,091,392
GROSS PROFIT ON SALES	1,147,260	1,360,518
GENERAL, SELLING AND ADMINISTRATIVE EXPENSES	1,395,434	1,329,664
INCOME (LOSS) FROM OPERATIONS	(248,174)	30,854
OTHER EXPENSE:		
Interest expense	218,212	97,385
LOSS BEFORE PROVISION FOR INCOME TAXES	(466,386)	(66,531)
BENEFIT FROM INCOME TAXES	--	23,561
NET LOSS	\$ (466,386)	\$ (42,970)
NET LOSS PER COMMON SHARE:		
Basic	\$ (.12)	\$ (.01)
Diluted	\$ (.12)	\$ (.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	\$ 3,759,441	\$ 3,391,368
Diluted	\$ 3,759,441	\$ 3,391,368

The accompanying notes are an integral part of the condensed consolidated

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financial statements

5

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

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	2004	2003
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (466,386)	\$ (42,900)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount and deferred financing cost	60,212	9,000
Provision for doubtful accounts	30,633	7,000
Depreciation and amortization	11,501	7,000
Deferred taxes	--	(23,000)
Change in operating assets and liabilities:		
Trade receivables, related and other	219,946	479,000
Inventories	243,459	54,000
Prepaid expenses and other	34,099	21,000
Deferred financing cost	(13,432)	--
Accounts payable	(854,782)	(439,000)
Other accrued liabilities	52,196	(183,000)
Net cash used in operating activities	(682,554)	(116,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,249)	(25,000)
Restricted Cash	595,532	--
Net cash provided by (used in) investing activities	591,283	(25,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in revolving note payable	(240,635)	77,000
Proceeds from (Payments on) long-term notes payable	(53,899)	3,000
Common Stock Issuance	147,766	--
Net cash provided by (used in) financing activities	(146,768)	80,000
NET CHANGE IN CASH	(238,039)	(60,000)
CASH, at beginning of period	501,429	96,000
CASH, at end of period	\$ 263,390	\$ 36,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 71,717	\$ 59,000
SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Common stock issued for debt extension	\$ 30,000	\$ --

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Common stock issued for accrued interest	\$	36,962	\$
--	----	--------	----

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 \$ 36,962
 =====

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

6

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 effective in making 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, 2004.

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 December 31, 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 December 31, 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.

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:

Three Months Ended
 December 31, 2004

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Risk-free interest rate	4.74%
Expected dividend yield	0%

Expected lives	10 years
Expected volatility	34.47%

7

The total fair value of options granted was computed to be approximately \$0 and \$0 for the three months ended December 31, 2004 and 2003, respectively. 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 \$4,025 and \$0 for the quarters ended December 31, 2004 and 2003 respectively.

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:

	FOR THE THREE MONTHS ENDED DECEMBER 31	
	2004	2003
Net loss, as reported	\$ (466,386)	\$ (42,970)
Stock based compensation included in net loss	--	--
Fair value of stock based compensation	(4,025)	--
	\$ (470,411)	\$ (42,970)
	=====	=====
 Net loss per common share, basic:		
As reported	\$ (0.12)	\$ (0.01)
Stock based compensation included in net loss	--	--
Fair value of stock based compensation	--	--
	\$ (0.12)	\$ (0.01)
	=====	=====
 Net loss per common share, diluted:		
As reported	\$ (0.12)	\$ (0.01)
Stock based compensation included in net loss	--	--
Fair value of stock based compensation	--	--
	\$ (0.12)	\$ (0.01)
	=====	=====

For the three months ended December 31, 2003 there were no differences between net income and proforma net income.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) is effective for public companies for interim or annual periods beginning after June 15, 2005, supersedes APB

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Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows.

8

SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. The new standard will be effective for the company, beginning July 1, 2005. The company has not yet completed their evaluation but expects the adoption to have an effect on the financial statements similar to the pro-forma effects reported above.

In November 2004, the FASB issued SFAS 151, Inventory Costs, which revised ARB 43, relating to inventory costs. This revision is to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that these items be recognized as a current period charge regardless of whether they meet the criterion specified in ARB 43. In addition, this Statement requires the allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS 151 will have a material impact on the Company's financial statements.

The FASB issued SFAS 153, Exchanges of Nonmonetary Assets, which changes the guidance in APB Opinion 29, Accounting for Nonmonetary Transactions. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS 153 will have a material impact on the Company's financial statements.

2. RELATED PARTY TRANSACTIONS:

During the three months ended December 31, 2004 and 2003, the Company paid \$0 and \$3,600, respectively, for accounting and administrative services to an entity related through common ownership.

During the three months ended December 31, 2004 and 2003, the Company had sales of \$0 and \$104,323, respectively, to an entity whose principal owner is the brother of an employee of the Company. Accounts receivable from this related entity were \$0 and \$83,304 at December 31, 2004 and 2003, respectively.

3. LONG-TERM DEBT

On September 30, 2004, the Company entered into a financing arrangement with Laurus Master Fund, Ltd. ("Laurus") which included (1) a Secured Convertible Term Note in the principal amount of two million dollars (\$2,000,000), (the "Term Note") and (2) a Secured Revolving Note (the "Revolving Note") and a Secured Convertible Minimum Borrowing Note

(together with the Revolving Note, the "AR Notes") in the aggregate principal amount of up to three million dollars (\$3,000,000). The Company's customers are required to remit payments directly to a lock box and amounts received are applied to reduce the AR Note outstanding. The Term Note and AR Notes are convertible into the Company's common stock at an initial fixed conversion price of \$2.66 per share. In connection with the Term Note and AR Notes, the Company issued Laurus a Common Stock Purchase Warrant for the purchase of up to 472,000 shares of our common stock, exercisable until September 30, 2009 at a price of \$3.00 per share (the "Warrant"). On December 3, 2004, the terms of the Term Note and AR Notes were amended such that Catalyst received an advance on \$600,000 of the funds agreed to be advanced in exchange for lowering the fixed conversion price of the Term Note and AR Notes from \$2.66 per share to \$1.50 per share (the fair value of the Company's stock on that date). Additionally, Laurus also acquired an additional Common Stock Purchase Warrant (together with the Warrant, the "Warrants") for the purchase of up to 100,000 shares of Common Stock, exercisable until December 3, 2009 at a price of \$3.00 per share. The fair value of these warrants was stated at approximately \$27,000 using the Black-Scholes pricing model.

The Term Note and AR Notes (collectively, the "Notes") mature on September 30, 2007 and are collateralized by a first priority lien on inventory, accounts receivable, raw materials and all of its ownership interests in Whitco. The Notes accrue interest at a rate per annum equal to the "prime rate" published in The Wall Street Journal from time to time, plus two percent (2%), but shall in no event be less than six percent (6%) per annum. The Company also granted registration rights with respect to all shares of Common Stock underlying the Notes and Warrants.

The Term Note was placed into an escrow account solely controlled by Laurus (the "Escrow Account"). The Company may request that Laurus release all or any portion of the amounts contained in the Escrow Account following, or in connection with, the consummation of an acquisition, joint venture or capital investment (a "Transaction") by the Company. Such a release is subject to Laurus' evaluation of all factors it considers, in its sole discretion, relevant at the time of such requested release. Laurus is under no obligation to release any amounts and the release of such amounts is in Laurus' sole and absolute discretion.

On August 6, 2003, the Company received a bridge loan of \$250,000 from Keating Reverse Merger Fund ("Lender"). In consideration for the note, the Company agreed to issue warrants for the purchase of up to 125,000 shares (the "Warrant Shares") of the common stock of the Company upon consummation of the Merger at a price of \$2.00 per Warrant Share. On August 22, 2004, in consideration for extending the due date on the note to December 31, 2004, we issued an additional 40,000 warrants for purchase of our common stock at a price of \$4.00 per share. On December 29, 2004 in consideration for extending the due date on the note to December 31, 2005, we issued 20,000 shares of our common stock valued at \$1.50 per share. The Company also issued an additional 24,642 shares of our common stock as payment for accrued interest on the original note. The total value of the accrued interest was \$36,962.

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4. STOCKHOLDER'S EQUITY

On October 12, 2004, the Company commenced a private placement offering of up to 2,666,667 units at \$1.50 per unit, each unit consisting of one share of Catalyst common stock and one five year warrant to purchase Catalyst common stock at an exercise price of \$3.00 per share. This offering terminated on January 24, 2005, having sold units worth \$50,000.

5. RESTATED YEAR-END BALANCE SHEET

The Company intends to file a restated balance sheet as of September 30th, 2004, which was included in the Company's Form 10-KSB. This restatement relates to the reclassification of \$3,000,000 debt to a short term liability which was previously recorded as long term. Even though the note is due September 30th, 2007 and the Company does not believe the note holder will call the note, the fact that the note has a "lock box" arrangements whereby customer remittances are deposited directly into the lock box, and utilized by the bank to reduce the \$3,000,000 note. Generally accepted accounting principles require such notes to be reflected as short term.

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

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-QSB contains forward looking statements. Forward looking statements are statements not based on historical information and that relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by us or on our behalf. We disclaim any obligation to update forward looking statements.

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. 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, 2004. 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

11

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 the critical accounting policies of Whitco as described in Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies,"

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which was issued by the Securities and Exchange Commission: inventory, goodwill, allowance for doubtful accounts, and warranty policy.

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 effective, 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 of America. Collateral is generally not required for trade receivables. While we consider our process 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 or replacement or refund of the purchase price. We 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 effective to quantify exposure to warranty claims based on historical performance, changes in warranty claims on a specific or cumulative basis may require us to adjust its reserve for potential warranty costs.

Impact of Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) is effective for public companies for interim or annual periods beginning after June 15, 2005, supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows.

SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. The new

12

standard will be effective for the company, beginning July 1, 2005. The company has not yet completed their evaluation but expects the adoption to have an effect on the financial statements similar to the pro-forma effects reported above.

In November 2004, the FASB issued SFAS 151, Inventory Costs, which revised ARB 43, relating to inventory costs. This revision is to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that these items be recognized as a current period charge regardless of whether they meet the criterion specified in ARB 43. In addition, this Statement requires the allocation of fixed production overheads to the costs of conversion be based on normal capacity of the

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production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS 151 will have a material impact on the Company's financial statements.

The FASB issued SFAS 153, Exchanges of Nonmonetary Assets, which changes the guidance in APB Opinion 29, Accounting for Nonmonetary Transactions. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS 153 will have a material impact on the Company's financial statements.

OVERVIEW

This amended Form 10-QSB is being filed to restate a portion of Management's Discussion and Analysis as it relates to the transaction with Laurus in accordance with comments received from the Securities and Exchange Commission and to respond to certain other comments received from the staff of the Securities and Exchange Commission. The financial statements and notes thereto, as well as all other disclosures herein unrelated to Laurus, remain unchanged.

We are now at a critical inflection point in our business development. First, we are poised to benefit from the investments we have made in our organic business. Secondly, we now have publicly traded stock, which we hope to use to partially fund a series of acquisitions in order to realize our final primary strategic objective. Because of the significant investments we have made in our distribution network, we believe we can now leverage that network by acquiring small niche-technology fixture and accessory businesses and introducing those products into our existing distribution channel. This would be expected to benefit the Company immediately in two ways. First, we will be able to increase sales of new products by virtue of the fact that we believe our distribution network appears to be better developed (both in scale as well as technology) than the ones used by the companies we seek to acquire. Secondly, the added product offerings may help us gain additional consideration with our lighting

13

agency and OEM customers. We believe having specialty products on our Web site and catalogue not only differentiates us from competitors, but also increases the likelihood that customers will place additional orders for more commodity product at the time of purchase of the specialty product.

We have been reviewing business acquisition and alliance opportunities, which is intended to be our primary vehicle for creating long-term growth for investors. Our "opportunistic" growth strategy is targeted to specific candidates in the outdoor lighting (primarily fixtures and accessories) or pole structure industry. More specifically, we intend to focus initially on small, privately owned companies with positive earnings on a stand alone basis or with the ability to be positive immediately after acquisition through operating efficiencies. Without significant incremental expenditure, it is anticipated that annual revenue of the target companies can be increased in the near future by introducing the new products into our existing distribution channels.

We believe we have benefited from initiating our own manufacturing operations

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beginning in December 2004. We have been able to control our production deliveries and quality more closely. Further, we are beginning to see manufacturing efficiencies enhance our gross margin percentage earned on sales.

Our strategy has been further enhanced by the commitment of approximately \$2 million restricted cash investment by Laurus Master Fund Ltd. to finance mergers, joint ventures or other strategic business alliances as the need arises. Laurus has also provided an additional \$3 million revolving line of credit at a floor rate of 6%.

On September 30, 2004, the Company entered into a financing arrangement with Laurus which included (1) a Secured Convertible Term Note in the principal amount of two million dollars (\$2,000,000), (the "Term Note") and (2) a Secured Revolving Note (the "Revolving Note") and a Secured Convertible Minimum Borrowing Note (together with the Revolving Note, the "AR Notes") in the aggregate principal amount of up to three million dollars (\$3,000,000). The Term Note and AR Notes are convertible into the Company's common stock at an initial fixed conversion price of \$2.66 per share. In connection with the Term Note and AR Notes, the Company issued Laurus a Common Stock Purchase Warrant for the purchase of up to 472,000 shares of our common stock, exercisable until September 30, 2009 at a price of \$3.00 per share (the "Warrant"). On December 3, 2004, the terms of the Term Note and AR Notes were amended such that Catalyst received an advance on \$600,000 of the funds agreed to be advanced in exchange for lowering the fixed conversion price of the Term Note and AR Notes from \$2.66 per share to \$1.50 per share. Additionally, Laurus also acquired an additional Common Stock Purchase Warrant (together with the Warrant, the "Warrants") for the purchase of up to 100,000 shares of Common Stock, exercisable until December 3, 2009 at a price of \$3.00 per share.

We were advised on February 11, 2005 by our independent registered public accounting firm that the financial statements contained in our Form 10-KSB filed on December 16, 2004 for our fiscal year ended September 30, 2004 must be restated to reclassify certain of the Company's debt from long term to current. The nature and purpose of the restatement of the financial statements concerned the concept of subjective acceleration as it relates to a portion of the Company's financial arrangements with Laurus, as set forth above.

14

To borrow money from Laurus pursuant to the AR Notes, once Catalyst is entitled to payment from the sale of goods, it submits a copy of such receivable to Laurus, and, if such receivable falls within Laurus' definition of an "eligible" accounts receivable, Laurus will advance Catalyst up to 90% of the net face amount of such eligible account receivable. The account debtor is notified to make payment to a lockbox controlled, and periodically swept, by Laurus. Once payment is received into this lockbox pursuant to an eligible account receivable, such proceeds are used to repay sums advanced against, and interest earned on, such eligible account receivable. The remainder of the payment from such account debtor is, in Laurus' discretion, either remitted to the Company or credited against other costs, fees and expenses then outstanding under the AR Notes.

The specific change reclassifies certain debt associated with Laurus to Current Liabilities from Long Term Debt, in accordance with the accounting pronouncements guiding the change. Although \$2,570,457 of debt was reclassified, this adjustment did not affect Total Assets, Total Liabilities or Stockholders Equity on the Balance Sheet, nor create any change on the Consolidated Statement of Operations. The change also did not affect our borrowing ability with Laurus. Management believes this reclassification could possibly impact the Company by impairing our ability to secure future third party financing, but management

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also believes this is the only impact on the Company as a result of the reclassification itself.

In accordance with generally accepted accounting principles, such an arrangement requires classification as current debt instead of the long term debt classification as it was originally recorded in the Company's Form 10-KSB financial statements. Accordingly, on February 17, 2005, we filed an amended Form 10-KSB for the fiscal year ended September 30, 2004.

THREE MONTHS ENDED DECEMBER 31, 2004 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2003

RESULTS OF OPERATIONS

Revenue. For the three months ended December 31, 2004, the recognized revenue was \$3,706,146. For the three months ended December 31, 2003, the recognized revenue was \$4,451,910. Cost of goods sold for the three months ended December 31, 2004 was \$2,558,886, which generated a gross margin of 31.0%, versus 30.6% for the three months ended December 31, 2003. Excluding commissions from sales (See table below), the decrease in revenue can be attributed to an \$163,606 (11.7%) decrease in steel area lighting poles, a \$731,540 (97.9%) decrease in sales to an OEM customer, and a \$106,150 (10.8%) decrease in sports lighting pole sales. The OEM customer listed previously held a lighting contract with Wal-Mart that expired in March 2003. These decreases were partially offset by a \$36,778 (17.5%) increase in aluminum area lighting pole sales and a \$294,212 (129.7%) increase in highmast lighting pole sales.

Our agents have the ability to sell our products at or above the base price of our products, and our commission structure pays agents 100% of the overage above

15

our base price. The table below itemizes commission revenue generated from the 100% overage and revenue generated from our base price.

	For the Three Months Ended December 31,	
	2004	2003
	-----	-----
Base Price Revenue	\$ 3,046,409	\$ 3,740,799
Commission Revenue	659,738	711,111
	-----	-----
Gross Sales	\$ 3,706,147	\$ 4,451,910
	=====	=====

General, selling, and administrative expense (GSA expense). For the three months ended December 31, 2004, GSA expense totaled \$1,395,434, compared to \$1,329,664 for the three months ended December 31, 2003. The increase in GSA expense resulted from an increase in bad debt expense, property taxes, legal and professional fees, warranty expense, and consideration for extension of subordinated debt. This was partially offset by a decrease in commission expense.

Bad debt expense. For the three months ended December 31, 2004, bad debt expense totaled \$30,633, compared to \$9,370 for the three months ended December 31,

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2003. The increase in bad debt expense is the result of an increase in actual uncollectible accounts during the period as well as an increase in the percentage of sales used to record bad debt expense.

Property tax expense. For the three months ended December 31, 2004, property tax expense totaled \$37,773, compared to \$4,500 for the three months ended December 31, 2003. The increase in property tax expense is the result of taxes on property and equipment associated with the Company's manufacturing facility. The manufacturing facility was opened in late December 2003.

Legal and professional fees. For the three months ended December 31, 2004, legal and professional fees totaled \$39,420, compared to \$23,329 for the three months ended December 31, 2003. The increase in legal and professional fees is the result of outside counsel's review of the restructuring of our AR and Term Notes and services provided in connection with legal proceedings against the company.

Warranty Expense. For the three months ended December 31, 2004, warranty expense totaled \$37,042, compared to \$18,787 for the three months ended December 31, 2003. The increase in warranty expense is related to the actual charges received from various customers to correct field issues.

Consideration for extension of subordinated debt. For the three months ended December 31, 2004, consideration for extension of subordinated debt was \$30,000, compared with \$0 for the three months ended December 31, 2003. The increases in

16

consideration for extension of subordinated debt for the comparative periods reflects charges associated with the extension of a \$250,000 subordinated note due on December 31, 2004 to December 31, 2005. The consideration paid was non-cash as it was paid in common equity securities to the lender.

Commission expense. For the three months ended December 31, 2004, commission expense totaled \$659,738, compared to \$711,111 for the three months ended December 31, 2003. The decrease in commissions is the result of a decrease in total revenues as compared to the previous comparative periods.

Interest expense. Interest expense for the three months ended December 31, 2004 was \$218,212, compared with \$97,384 for the three months ended December 31, 2003. The increase in interest expense for the comparative periods reflect the increase in the operating credit line, the addition of the \$2,000,000 Term Note, as well as amortization of debt discount that was associated with the issue of common stock warrants. The Company also issued stock as payment for \$36,962 in accrued interest.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, we had a working capital deficit of \$2,152,888. We also incurred a net loss for the three month period ending December 31, 2004 of \$466,386. We believe the loss is due to the seasonality of the sports and area lighting pole business and the impact of the loss of Wal-Mart business through an OEM customer.

We are also seeking to increase both cash flow and profitability by growing sales internally as well as through acquisitions. If we do not raise additional equity capital sufficient to provide for positive working capital and are unable to return in the near term to profitability, we 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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Cash used in operations for the three months ended December 31, 2004 and 2003 was (\$682,554) and (\$116,585), respectively. The cash used by operations for the three months ended December 31, 2004 resulted primarily from a loss of \$466,386 and a decrease in accounts payable of \$854,782. This was partially offset by a decrease in trade receivables of \$219,946, and a decrease in inventory of \$243,459.

Cash provided by (used in) investing activities for three months ended December 31, 2004 and 2003, was \$591,283 and (\$25,405), respectively. This was primarily a result of the release of \$600,000 of restricted cash from the Term Note for the three month period ending December 31, 2004.

Cash provided by (used in) financing activities for the three months ended December 31, 2004 and 2003 was (\$146,768) and \$81,455, respectively. For the three months ended December 31, 2004 there was a decrease in revolving notes payable of \$240,635, proceeds from issuance of long-term debt of (\$53,899), and common stock issuance of \$147,766.

17

Material cash requirements for the next twelve months not in the ordinary course of business relate to the soliciting and closing of possible acquisition targets or other strategic opportunities. Regarding repayment of debt, over the next 12 months our current maturities of long term debt as of December 31, 2004 is \$1,291,060, consisting of subordinated debt. For the next 12 months, one \$250,000 payment is due on December 31, 2005, one \$92,850 was due on June 30, 2004, one \$217,850 payment is due on June 30, 2005, and one \$700,000 payment is due on July 31, 2005, while the rest is spread evenly over the entire year. We intend to fund future payments on these obligations through operational cash flow, further utilization of our existing credit facility with Laurus, and adding additional subordinated debt.

On September 30, 2004, the Company entered into the financing arrangements with Laurus, as set forth above, in the aggregate principal amount of up to three million dollars (\$3,000,000). Laurus also received a common stock purchase warrant to purchase up to 472,000 shares of Common Stock at an exercise price of \$3.00 per share.

On December 3, 2004, the terms of the Notes were amended such that Catalyst received an advance on \$600,000 of the funds agreed to be advanced pursuant to the Term Note in exchange for lowering the fixed conversion price of the Notes from \$2.66 per share to \$1.50 per share. Laurus also acquired an additional Common Stock Purchase Warrant for the purchase of up to 100,000 shares of Common Stock, exercisable until December 3, 2009 at a price of \$3.00 per share.

Pursuant to our registration statement filed on Form SB-2 on March 24, 2005 (the "Registration Statement"), we are registering the Common Stock issuable to Laurus underlying the AR Notes, assuming conversion of the maximum amounts thereunder and conversion of all Warrants, plus an additional 250,000 shares of Common Stock to cover any future anti-dilution protection Laurus may receive pursuant to the AR Notes and Warrants. None of the Common Stock underlying the Term Note is being registered in the Registration Statement.

The Notes currently bear interest at "prime" (currently 5.25%) plus 2%, or a current aggregate of 7.25%. Laurus is prohibited from converting money owed under the Notes, in the aggregate, into more than 4.99% percent of the Common Stock. The Term Note and the Borrowing Note also each prohibit conversion into Common Stock until (a) money has been advanced pursuant to any of such notes and (b) the shares of Common Stock underlying the respective Notes have been

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registered for re-sale or are exempt from the registration requirements. Since the Common Stock underlying the Term Note is not being registered in the Registration Statement, the Term Note cannot currently be converted. However, sums advanced pursuant to the AR Notes may be converted into shares of Common Stock being registered hereunder at \$1.50 per share.

The Company's outstanding balance at December 31, 2003 was \$2,795,492. Currently, \$2,821,949 has been advanced pursuant to the AR Notes and \$672,000 (including the \$600,000 referenced above) has been advanced pursuant to the Term Note. Catalyst has the option of prepaying the Term Note and Borrowing Note by paying 120% of all amounts then due and owing to Laurus. The AR Notes, aggregating \$3,000,000, are for accounts receivable financing provided by Laurus and, once received, there is no restriction on the use of such funds. The Term Note provides up to \$2,000,000 for acquisitions and/or general working capital, with its use subject to the approval of Laurus. The Securities Purchase Agreement pursuant to which the Term Note was issued (the "SPA") also contains

18

restrictions for so long as at least 25% of the Term Note is still outstanding. During such time, Catalyst is prohibited from, among other things, (i) declaring or paying any dividends, (ii) issuing any preferred stock that is mandatorily redeemable prior to payment in full of all indebtedness and liabilities of the Company to Laurus, (iii) redeeming any of its preferred stock or other equity interests, (iv) liquidating, dissolving or effecting a material reorganization (it being understood that in no event shall the Company dissolve, liquidate or merge with any other person or entity unless the Company is the surviving entity) and (v) materially altering or changing the scope of the business of the Company.

The existence of the AR and Term Notes could impact our ability to obtain future financing, as Laurus holds a \$5,000,000 first priority security interest in all of our accounts receivable and other assets. Additionally, until the Term Note is paid in full, Laurus holds a right of first refusal to provide any additional debt or equity financing the Company may seek. The further leveraging of our balance sheet and dilution of our Common Stock could prevent future financing arrangements for the Company.

If (i) Catalyst shall have registered all Common Stock underlying the Notes and Warrants and (ii) the market price of the Common Stock for the five trading days immediately preceding the last day of the most recent month exceeds the then applicable fixed conversion price by at least twenty five percent (25%), the interest rate for the succeeding calendar month shall automatically be reduced by 200 basis points, or 2%, for each incremental twenty five percent (25%) increase in the market price of the Common Stock above the then applicable fixed conversion price. If (i) the Company shall not have registered the shares of Common Stock underlying the Notes and Warrants and (ii) the market price of the Common Stock as reported by Bloomberg, L.P. on the principal market for the five trading days immediately preceding the last day of the most recent month exceeds the then applicable fixed conversion price by at least twenty five percent (25%), the interest rate for the succeeding calendar month shall automatically be decreased by 100 basis points, or 1%, for each incremental twenty five percent (25%) increase in the market price of the Common Stock above the then applicable fixed conversion price. As the Common Stock underlying the Term Note is not being registered pursuant to the Registration Statement, we anticipate that we may only be able to reduce the interest rate under the Notes at the 1% rate set forth in the immediately preceding sentence. Failure to decrease the interest rate by 2%, as set forth above, is not expected to affect the Company in a material way as the aggregate annual difference, even if all \$5,000,000 under the Notes were currently outstanding, is only \$50,000. Currently, there is

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only \$3,493,949 outstanding under all Notes, \$2,821,949 having been advanced pursuant to the AR Notes and \$672,000 (including the \$600,000 referenced above) having been advanced pursuant to the Term Note. Interest under the Notes is not payable in shares of Common Stock.

The AR Notes, aggregating \$3,000,000, are for accounts receivable financing provided by Laurus and there is no restriction on the use of such funds. However, the Term Note was to provide up to \$2,000,000 for acquisitions approved by Laurus and general working capital purposes only.

The Security Agreement pursuant to which the AR Notes were issued contains restrictions requiring Laurus' consent in order to (i) create, incur, assume or suffer to exist any indebtedness (exclusive of trade debt) whether secured or

19

unsecured, (ii) cancel any debt owing to it in excess of \$50,000 in the aggregate during any 12 month period, (iii) assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligations of any other Person, except for transactions in the ordinary course of business, (iv) directly or indirectly declare, pay or make any dividend or distribution on any class of its stock or assets, (v) purchase, redeem or retire any Company stock, (vi) directly or indirectly prepay any indebtedness (other than to Laurus and in the ordinary course of business), or repurchase, redeem, retire or otherwise acquire any indebtedness (other than to Laurus and in the ordinary course of business) except to make scheduled payments of principal and interest thereof, (vii) enter into any merger, consolidation or other reorganization with or into any other person or acquire all or a portion of the assets or stock of any person or permit any other person to consolidate or merge with it, unless (1) Company is the surviving entity of such merger or consolidation, (2) no event of default shall exist immediately prior to and after giving effect to such merger or consolidation, (3) Company shall have provided Laurus copies of all documentation relating to such merger or consolidation and (4) Company shall have provided Laurus with at least thirty (30) days' prior written notice of such merger or consolidation, (viii) materially change the nature of the business in which it is presently engaged, (ix) change its fiscal year or make any changes in accounting treatment and reporting practices, except as required by GAAP or in the tax reporting treatment or except as required by law or (x) enter into any transaction with any employee, director or affiliate of Catalyst, except in the ordinary course on arms-length terms.

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)) as of a date (the "Evaluation Date") as of the end of the period covered by this quarterly report, have each independently concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective 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

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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, and the Company must begin to comply with a requirement to perform a quarterly evaluation of changes to internal control over financial reporting that occur thereafter.

We are in the process of performing a detailed assessment of our internal controls as required by the Sarbanes-Oxley Act of 2002. We are in the scoping phase and have identified potential control deficiencies in our system of internal controls and will implement policies and procedures to remediate these deficiencies during the testing and remediation phase. To

20

ensure that we address these issues thoroughly, effectively and timely, we have supplemented our internal project team with the services of an outside specialist.

- (b) Changes in Internal Controls. There were no changes in our internal controls or to our knowledge, in any 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 December 31, 2004.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings. On April 28, 2004, FWT, Inc. sued the Company for breach of contract and attorney's fees. The lawsuit relates to an unpaid purchase order in the amount of \$30,609.00 which is disputed by the Company. The Company filed an answer on June 8, 2004 and in addition to denying liability to FWT, the Company asserted claims for breach of contract and negligence against a third party, Double R Transport and Farms, Inc. The Company has reached an agreement in principle to settle its claims against Double R and it intends to vigorously defend itself against FWT's claims if that settlement is not finalized.

An Application for Mechanic's and Materialman's Lien; Demand for Payment; Notice of Mechanic's and Materialman's Lien and Demand for Payment was filed in the Circuit Court of the Third Circuit, State of Hawaii filed June 4, 2004 (the "Application"). This application was filed by GE Sports Lighting Systems, LLP ("GE") 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 and hired us to provide lighting poles for the project. GE claims it is owed \$313,385. Although it is not expressly stated in the Application, based on subsequent discussions with all parties, it appears the Estate withheld payment from GE due to the installation of the lighting poles using bolts that were different from those originally ordered. We proposed a fix which was approved in writing by both GE and the Estate. We then implemented this fix and have received verbal approval of such fix from all parties, including an independent architect hired by the Estate. Although the next appearance before the court on the Application is currently scheduled for April 13, 2005, we have been notified verbally that once all written approvals have been received by GE, the Application is expected to be withdrawn.

On September 27, 2004, the Trustee for the Warren Electric Group, Ltd. bankruptcy estate sued the Company for recovery of \$17,250.00 allegedly paid to the Company in the 90 days prior to Warren Electric's bankruptcy. The Company

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reached a settlement on December 20, 2004 by which we paid the Warren Liquidating Trust \$8,625 and the suit was dismissed.

ITEM 2. Changes in Securities.
None

ITEM 3. Defaults Upon Senior Securities.
None

21

ITEM 4. Submission of Matters to a Vote of Security Holders.
Not applicable.

ITEM 5. Other Information.
None

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 December 31, 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 December 31, 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 December 31, 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 December 31, 2004.

(b) Reports on Form 8-K.

Form 8-K filed October 5, 2004

Amendment to Form 8-K filed December 3, 2004

22

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: April 6, 2005

/s/ Dennis H. Depenbusch

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

