CATALYST LIGHTING GROUP INC
Form 10QSB
May 17, 2004

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

FORM 10-QSB

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

For the quarterly period ended March 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)

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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: 3,529,968 shares of Common Stock, par value $.01 per share, outstanding as of April 30, 2004.

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

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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

	MARCH 2004
	(Unaudi

ASSETS	
CURRENT ASSETS:	
Cash	$ 60
Restricted Cash	21
Trade receivables, less allowance for doubtful accounts of $57,132 and $53,892	2,211
Trade receivable - related party	13
Inventories, net of reserve of $23,685 and $64,698	1,772
Prepaid expenses and other	
Deferred tax asset	47
Total current assets	4,126
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $75,277 and $58,410	140
OTHER ASSETS:	
Goodwill	2,971
Deferred tax asset	203
Other	15
Total other assets	3,190
TOTAL ASSETS	$ 7,457
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Revolving note payable	$ 1,685
Current maturities of long-term debt:	
Related party	250
Other	276
Accounts payable	2,336
Accrued commissions	508
Other accrued liabilities	247
Total current liabilities	5,304
LONG-TERM DEBT, less current maturities:	
Related party	70
Other	1,076
Total long-term debt	1,146
DEFERRED TAXES	108
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, 3,529,968 shares issued and outstanding	35
Additional paid-in capital	1,741
Accumulated deficit	(879
Total stockholders' equity	897
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,457

** 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

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

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE S MA
	2004	2003	2004
	(Unaudited)	(Unaudited)	(Unaudited
NET SALES	$ 3,713,626	$ 3,292,002	$ 8,165,53
COST OF SALES	2,536,134	2,222,223	5,627,52
GROSS PROFIT ON SALES	1,177,492	1,069,779	2,538,01
GENERAL, SELLING AND ADMINISTRATIVE EXPENSES	1,586,380	1,079,188	2,916,04
LOSS FROM OPERATIONS	(408,888)	(9,409)	(378,03
OTHER EXPENSE:			
Reverse merger costs	--	59,615	-
Interest expense	84,678	75,658	182,06
LOSS FROM OPERATIONS BEFORE PROVISION FOR INCOME TAXES	(493,566)	(144,682)	(560,09
PROVISION FOR INCOME TAXES	180,098	--	203,65
NET LOSS	$ (313,468)	$ (144,682)	$ (356,43
PRO FORMA INCOME TAX AND NET LOSS:			
Net loss before pro forma income taxes	$ (313,468)	$ (144,682)	$ (356,43
Pro forma income tax benefit (expense)	--	52,646	-
PRO FORMA NET LOSS	$ (313,468)	$ (92,036)	$ (356,43
NET LOSS PER COMMON SHARE:			
Basic	$ (.09)	$ (.05)	$ (.1
Diluted	$ (.09)	$ (.05)	$ (.1
PRO FORMA NET LOSS PER COMMON SHARE:			
Basic	$ (.09)	$ (.03)	$ (.1
Diluted	$ (.09)	$ (.03)	$ (.1
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic	$ 3,456,860	$ 2,958,759	$ 3,423,93
Diluted	$ 3,456,860	$ 2,958,759	$ 3,423,93

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

CATALYST LIGHTING GROUP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE SIX MONTHS ENDED MARCH 31,	
	2004	2003
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (356,437)	$ (210,676)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,866	14,034
Change in operating assets and liabilities:		
Restricted Cash	(21,250)	
Trade receivables, related and other	1,248,367	265,285
Inventories	(461,562)	(461,611)
Prepaid expenses and other	49,489	(38,230)
Deferred taxes	(203,659)	--
Other assets	--	2,018
Accounts payable	(111,457)	364,550
Other accrued liabilities	(50,889)	(197,560)
Net cash provided by (used in) operating activities	109,468	(262,190)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(41,929)	(13,718)
Net cash used in investing activities	(41,929)	(13,718)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in revolving note payable	(386,920)	321,954
Payments on short-term and long-term notes payable	(4,766)	(46,046)
Common stock issuance	288,021	--
Net cash provided by (used in) financing activities	(103,665)	275,908
NET CHANGE IN CASH	(36,126)	--
CASH, at beginning of period	96,591	--
CASH, at end of period	$ 60,465	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 119,870	$ 125,208
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

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 March 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 March 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.

SFAS 123 requires entities to reconcile net loss as reported to pro forma net loss as a result of the difference between stock option expense recorded under the intrinsic value method and what would have been recorded had the entity adopted the fair value method under SFAS 123. All options granted by the Company were issued prior to March 31, 2003. As of March 31, 2003, the Company's stock was not trading, resulting in no volatility in the stock price of the Company. As a result, there was no difference in stock option expense under either the intrinsic or fair value method.

2. RELATED PARTY TRANSACTIONS:

During the three months ended March 31, 2004 and 2003, and for the six months ended March 31, 2004 and 2003, the Company paid $3,600, $18,000, $7,200 and $30,000, respectively, for accounting and administrative services to an entity related through common ownership through May 2002.

During the three months ended March 31, 2004 and 2003, and for the six months ended March 31, 2004 and 2003, the Company had sales of $17,060, $139,982, $121,383 and $235,823, respectively, to an entity whose principal owner is the brother of an employee of the Company. Accounts receivable from this related entity were $13,100 at March 31, 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 may engage broker-dealers to assist with the offering and may receive 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 completed its first closing on February 17, 2004. The closing was for 138,600 shares of common stock at $2.50 per share. The Company incurred $58,479 of offering cost.

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 but it is not accrued as it is contingent upon the Company's common stock trading on the Over-the-Counter Bulletin Board.

4. REVOLVING NOTE PAYABLE:

The Company has a revolving credit agreement with a bank which bears interest at the bank's prime rate plus 2.0% (totaling 6.5% at March 31, 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 $1,685,602 at March 31, 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 March 31, 2004, the Company was not in compliance with certain financial covenants. As it is a demand note, the lender can call the note even in the absence of non-compliance. The lender is aware of this non-compliance and has requested that the Company seek an alternative lender. The Company is in current negotiations with such lenders in addition to seeking financing through its public offering. The agreement also limits the amount of additional third-party borrowings the Company can obtain and the amount of distributions the Company can pay stockholders.

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 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.

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

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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 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. A summary of those significant accounting policies can be found in our Notes to the Consolidated Financial Statements included in this report. 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.

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 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 March 31, 2004 compared to the three months ended March 31, 2003, and six months ended March 31, 2004 compared to the six months ended March 31, 2003

Revenue. For the three months ended March 31, 2004, the recognized revenue was $3,713,626. For the three months ended March 31, 2003, the recognized revenue was $3,292,002. For the six months ended March 31, 2004, the recognized revenue was $8,165,536. For the six months ended March 31, 2003, the recognized revenue was $6,574,408. Cost of goods sold for the three months ended March 31, 2004 was

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$2,536,134, which generated a gross margin of 31.7%, versus 32.5% for the three months ended March 31, 2003. The increase in revenue for the three month period can be attributed to a 46% increase in aluminum sales and a 28% increase in sales to an OEM customer, Lithonia Lighting. The decrease in gross margin percent for the three month period is attributable to an increase in steel prices, start up cost associated with the Company's new manufacturing facility, and a lower margin mix of sales of products. The lower margin mix of sales products is specifically attributable to a 45.6% increase in revenue for aluminum products and a 28.1% increase in revenue for Lithonia Lighting (OEM) sales, which historically are both low gross margin products. During the same three month period revenue from high margin products decreased, including a 7.19% decrease in revenue for sports lighting and a 39.7% decrease in high mast. Cost of goods sold for the six months ended March 31, 2004 was $5,627,536, which generated a gross margin of 31.08%, versus 33.15% for the six months ended March 31, 2003. The increase in sales for the six month period can be attributed to an increase in sales though our sales agents, as well as aluminum, Lithonia Lighting (OEM), steel area lighting poles, and high mast lighting poles. For the six month period aluminum, Lithonia Lighting (OEM), steel area products, and high mast lighting poles sales increased 32.6%, 44.0%,15.1%, and 32.4%, respectively. The decrease in gross margin percent for the six month period is attributable to an increase in steel prices, an increase in freight cost, start up cost associated with the Company's new manufacturing facility, and a lower margin mix of sales of products. The lower margin mix of sales products is specifically attributable to the growth in revenue of aluminum and Lithonia Lighting, historically low gross margin products.

The rapid steel price increases have had a significant effect on Catalyst's quarterly gross margins to date. These prices have been particularly significant on the non-tapered shafts and miscellaneous material categories. Through the month of April, non-tapered square shafts have increased by 100% to 110%, non-tapered round shafts have increased from 100% to 150%, and round tapered

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, thus the decline in the quarterly gross margin.

Other general, selling, and administrative expenses. For the three months ended March 31, 2004, operating expenses totaled $1,586,380, compared to $1,079,188 for the three months ended March 31, 2003. For the six months ended March 31, 2004, operating expenses totaled $2,916,043, compared to $2,179,564 for the six months ended March 31, 2003. The increase in operating expenses for the three month period resulted from an increase in commission expenses paid, salary, wage, and labor related expenses, investor relations, warranty, and board of directors expenses. The increase in operating expenses for the six month period resulted from an increase in commission expenses paid, salary, wage, and labor related expenses, investor relations, warranty, and board of directors expenses.

Commission expense. For the three month periods ending March 31, 2004 and 2003, and the six month periods ending March 31, 2004 and 2003, commission expense was $858,693, $580,585, $1,569,804, and $1,098,255, respectively. The increase in commissions paid for both the three and six month periods is the result of an increase in total revenues as compared to the previous comparative periods.

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Salaries, wages, and labor related. For the three month periods ending March 31, 2004 and 2003, and the six month periods ending March 31, 2004 and 2003, salaries, wages, and labor related expense was $350,218, $310,647, $710,342 and $582,837, respectively. The increase in salaries, wages, and labor related expense for both the three month and six 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 March 31, 2004 and 2003, and the six month periods ending March 31, 2004 and 2003, investor relations expense was $27,747, $0, $48,664, and $0, respectively. The increases in investor relations expense for the comparative periods are related to the registered offering.

Warranty. For the three month periods ending March 31, 2004 and 2003, and the six month periods ending March 31, 2004 and 2003, warranty expense was $45,637, $7,981, $64,424 and $20,388, respectively. The increase in warranty expense for both the three and six 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.

Board of directors expense. For the three month periods ending March 31, 2004 and 2003, and the six month periods ending March 31, 2004 and 2003, accrued compensation related to the board of directors was $83,500, $0, $83,500, and $0, respectively. $75,000 of the accrued compensation, for both the three and six month period ending March 31, 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 $8,500 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.

Interest expense. Interest expense for the three months ended March 31, 2004 was $84,677, compared with $75,658 for the three months ended March 31, 2003. Interest expense for the six months ended March 31, 2004 was $182,061, compared with $147,177 for the six months ended March 31, 2003. The increase in interest

expense for both the three and six month periods reflects an increase in the operating credit line.

Other expense. For the three month periods ending March 31, 2004 and 2003, and the six month periods ending March 31, 2004 and 2003, expenses associated with the merger were $0, $59,615, $0 and $63,386, respectively.

Liquidity and Capital Resources

At March 31, 2004, the Company had a working capital deficit of $1,178,126. The Company also incurred a net loss for both the three month and six periods ending March 31, 2004 of $313,468 and $356,437, 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.

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The Company currently has 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 March 31, 2004 was $1,685,602. The Company can borrow the lesser of $2,000,000 or the aggregate of 80% of eligible accounts receivable and 50% of eligible inventory as defined in the agreement with PNC. The Company currently does 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. As a result, PNC can call the note, although the note can be called at any time in any event, as it is a demand note. PNC is aware of this non-compliance and has requested that the Company seek an alternative lender. The Company is in current negotiations with such lenders and hopes to replace the PNC Bank loan on similar terms, although no assurances thereof can be given or that such financing can be replaced at all. The Company also continues to seek financing through its public offering.

Cash provided by (used in) operations for the six months ended March 31, 2004, and the six months ended March 31, 2003 was $109,468, and ($262,190) respectively. The cash provided by operations for the six months ended March 31, 2004 resulted primarily from a decrease in accounts receivable of $1,248,367. This was partially off-set by a net income loss of $356,437, an increase in inventory of $461,562, an increase in deferred taxes of $203,659, and a decrease in accounts payable of $111,457.

Primarily as a result of purchases of property and equipment, cash used in investing activities for the six month period ending March 31, 2004 was ($41,929).

Cash used in financing activities for the six months ended March 31, 2004 was ($103,665). For the six months ended March 31, 2004 there was a decrease in revolving notes payable of $386,920 which was offset by net proceeds from the first closing of the public offering of $288,021.

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 registered securities offering described herein, product development, and acquisitions. The Company's current maturities of long term debt as of March 31, 2004 is $526,708, consisting of subordinated debt. For the next 12 months, payments of $467,850 are due on June 30, 2004, while the rest 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 three 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.

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, has concluded that, as of the Evaluation Date, 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 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 the Evaluation Date.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS. During the three and six months ended March 31, 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.

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. 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 current $2,000,000 credit facility with PNC Bank, we can 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 currently do 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 March 31, 2004, Whitco owed PNC approximately $1,685,602. Since it is a demand note, PNC can call it at any time, even in the absence of any non-compliance. PNC is aware of this non-compliance and has requested that the Company seek an alternative lender. The Company is in current negotiations with such lenders, however, no assurances can be given that PNC will not decide to declare Whitco in default and seek to enforce its rights pursuant to the agreement. In such event, Whitco may have to pay such debt, be subject to the remedies available to PNC Bank or find alternative financing to replace the PNC Bank debt. Although the Company has received various letters indicating interest from lenders, no assurance can be given that Whitco will be able to close alternative financing on satisfactory terms, if at all.

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 March 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 March 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 March 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 March 31, 2004.

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

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: May 15, 2004

/s/ Dennis H. Depenbusch

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