CATALYST LIGHTING GROUP INC
Form 10QSB
February 14, 2005

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 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)

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

Traditional Small Business Disclosure Format (Check one): Yes _______ No___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 SHEET

	DECEMBER 2004

	(Unaudit
ASSETS	
CURRENT ASSETS:	
Cash	$ 263,
Trade receivables, less allowance for doubtful accounts of $45,746 and $42,822	2,425,
Inventories, net of reserve of $34,543 and $18,343	1,496,
Prepaid expenses and other	22,
Total current assets	4,207,
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $107,156 and $95,653	155,
OTHER ASSETS:	
Goodwill, net of accumulated amortization of $330,151 and $330,151	2,971,
Restricted Cash	1,332,
Deferred Financing Cost	414,
Other	15,
Total other assets	4,734,
TOTAL ASSETS	$ 9,098,
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Revolving note payable	2,390,
Current maturities of long-term debt:	
Related party	250,
Other	1,041,
Accounts payable	1,976,
Accrued commissions	448,
Other accrued liabilities	253,
Total current liabilities	6,360,
LONG-TERM DEBT, less current maturities:	
Related party	50,
Other	1,880,
Total long-term debt	1,930,
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	38,
Additional paid-in capital	3,290,
Accumulated deficit	(2,521,
Total stockholders' equity	807,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,098,

** 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

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 financial statements

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

	FOR THE THREE MONTHS
	2004
	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (466,386)
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of debt discount and deferred financing cost	60,212
Provision for doubtful accounts	30,633
Depreciation and amortization	11,501
Deferred taxes	--
Change in operating assets and liabilities:	
Trade receivables, related and other	219,946
Inventories	243,459
Prepaid expenses and other	34,099
Deferred financing cost	(13,432)
Accounts payable	(854,782)
Other accrued liabilities	52,196
Net cash used in operating activities	(682,554)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(4,249)
Restricted Cash	595,532
Net cash provided by (used in) investing activities	591,283
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase (decrease) in revolving note payable	(240,635)
Proceeds from (Payments on) long-term notes payable	(53,899)
Common Stock Issuance	147,766
Net cash provided by (used in) financing activities	(146,768)
NET CHANGE IN CASH	(238,039)
CASH, at beginning of period	501,429
CASH, at end of period	$ 263,390
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	$ 71,717
SCHEDULE OF NON-CASH FINANCING ACTIVITIES:	
Common stock issued for debt extension	$ 30,000
Common stock issued for accrued interest	$ 36,962

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, 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
Risk-free interest rate	4.74%
Expected dividend yield	0%
Expected lives	10 years
Expected volatility	34.47%

The total fair value of options granted was computed to be approximately $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)	--
Pro forma net loss	$ (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	--	--
Pro forma net loss per common share	$ (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	--	--
Pro forma net loss per common share	$ (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 Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows.

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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. 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.

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 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," 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 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 of America. 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 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 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 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 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.

OVERVIEW

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 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 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.

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

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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 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, 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 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.

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.

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.

As of December 31, 2004, the Company had a $3,000,000 senior, secured credit facility with Laurus Master Fund, LTD., evidenced by a Secured Revolving Note (the "Revolving Note") and a Secured Convertible Minimum Borrowing Note (together with the Revolving Note, the "AR Notes"). The Company can borrow the lesser of $3,000,000 or the aggregate of 90% of eligible accounts receivable and 50% of eligible inventory up to $1,000,000 as defined in the agreement with Laurus. The Company's outstanding balance at December 31, 2003 was $2,795,492.

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 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, 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 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 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 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 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

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

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: February 14, 2005

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