HY TECH TECHNOLOGY GROUP INC
Form 10QSB
January 20, 2004

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: NOVEMBER 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT

For the transition period from ____________ to ____________

COMMISSION FILE NUMBER 000-33231

HY-TECH TECHNOLOGY GROUP, INC.
(Exact name of small business issuer as specified in its charter)

DELAWARE	95-4868120
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1840 BOY SCOUT DRIVE, FORT MYERS, FLORIDA 33907
(Address of principal executive offices)

(239) 278-4111
(Issuer's telephone number)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: As of January 1, 2004, 78,543,646

Transitional Small Business Disclosure Format (check one). Yes [ ]; No [X]

1

HY-TECH TECHNOLOGY GROUP, INC.
NOVEMBER 30, 2003
QUARTERLY REPORT ON FORM 10-QSB

TABLE OF CONTENTS

2

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

To the extent that the information presented in this Quarterly Report on Form 10-QSB for the quarter ended November 30, 2003, discusses financial projections, information or expectations about our products or markets, or otherwise makes statements about future events, such statements are forward-looking. We are making these forward-looking statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties are described, among other places in this Quarterly Report, in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

In addition, we disclaim any obligations to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report. When considering such forward-looking statements, you should keep in mind the risks referenced above and the other cautionary statements in this Quarterly Report.

3

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HY-TECH TECHNOLOGY GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

	NOVEMBER 30, 2003	FEBRUARY 28, 2003
ASSETS		
Current Assets		
Cash	$ 19,094	$ 165,149
Accounts receivable (net)	303,865	1,468,375
Other receivables	10,321	10,200
Inventories (net)	515,868	1,739,698
Prepaid expenses	76,406	31,114
Total current assets	925,554	3,414,536
Property and equipment, net	426,853	843,080
Other assets	77,893	72,331
Total assets	$ 1,430,300	$ 4,329,947
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	$ 2,075,709	$ 2,079,594
Accrued expenses	318,086	409,512
Line of credit	--	2,886,000
Advances	--	278,236
Loans payable - shareholders	--	105,000
Current portion of loans payable	--	1,479,639
Sales taxes payable	23,554	--
Total current liabilities	2,417,349	7,237,981
Long-term liabilities		

Loan payable, net of current portion	--	81,325
Convertible debt	530,000	--
Total liabilities	2,947,349	7,319,306
Commitment and contingencies		
Shareholders' Deficit		
Common stock	3,045,796	24,028
Accumulated deficit	(4,562,845)	(3,013,387)
Total shareholders' deficit	(1,517,049)	(2,989,359)
Total liabilities and shareholders' deficit	$ 1,430,300	$ 4,329,947

5

HY-TECH TECHNOLOGY GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended November 30,		Nine Mont Novemb
	2003	2002	2003
Net revenues	$ 1,194,696	$ 5,673,483	$ 8,535,553
Cost of revenues	1,040,693	4,810,471	7,481,398
Gross margin	154,003	863,012	1,054,155
General, administrative and selling	1,475,040	837,578	3,856,277
Income (loss) from operations	(1,321,037)	25,434	(2,802,122)
Other income (expense)			
Other income (expense)	133	(4,623)	(36,502)
Gain on settlement of debt	--	--	1,655,601
Interest expense	(235,293)	(39,351)	(366,435)
	(235,160)	(43,974)	1,252,664
Net loss	$ (1,556,197)	$ (18,540)	$ (1,549,458)
Net loss per share:			
Net loss - basic and diluted	$ (0.02)	$ (0.00)	$ (0.04)
Weighted average shares outstanding:			

Basic and diluted	63,517,445	16,000,000	41,356,373

HY-TECH TECHNOLOGY GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended Nov	
	2003	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,549,458)	$
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	306,864	
Gain on settlement of debt	(1,655,601)	
Gain on disposition of assets	(56,686)	
Common stock for services	990,145	
Bad debt expense	20,000	
Changes in assets and liabilities:		
Accounts receivable	1,144,510	
Inventories	1,223,830	
Other receivables	(121)	
Prepaid expenses	(45,292)	
Other assets	(5,562)	
Accounts payable	(3,885)	
Accrued expenses and sales taxes payable	(172,872)	
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	195,872	
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposition of assets	200,310	
Capital expenditures	(34,261)	
CASH FLOWS FROM INVESTING ACTIVITIES	166,049	
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings from (payments on) line of credit	(1,710,385)	
Proceeds from loans	1,530,000	
Payments of loan payable	(327,591)	
CASH FLOWS FROM FINANCING ACTIVITIES	(507,976)	
NET INCREASE (DECREASE) IN CASH	(146,055)	
Cash, beginning of period	165,149	
Cash, end of period	$ 19,094	$

Non-cash transactions:		
Conversion of convertible notes for common stock	$ 1,000,000	$
Stock issued for advances and debt	$ 1,031,623	$

7

HY-TECH TECHNOLOGY GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PRESENTATION

The consolidated condensed balance sheet of the Company as of November 30, 2003, the related consolidated condensed statements of operations for the three and nine months ended November 30, 2003 and 2002 and the consolidated condensed statement of cash flows for the nine months ended November 30, 2003 included in the consolidated condensed financial statements have been prepared by the Company without audit. In the opinion of management, the accompanying condensed financial statements include all adjustments (consisting of normal, recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the three and nine months ended November 30, 2003 are not necessarily indicative of the results of operations for the full year or any other interim period. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and Financial Statements and notes thereto included in the Company's February 28, 2003 Form 10-KSB.

CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Hy-Tech Technology Group and its wholly-owned subsidiary, Hy-Tech Computer Systems. Intercompany accounts and transactions were eliminated in consolidation.

USE OF ESTIMATES

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities as of the date of the financial statements and reporting period. Accordingly, actual results could differ materially from those estimates.

CONVERTIBLE DEBENTURE

In April 2003, Hy-Tech issued a convertible debenture for $1,000,000 due in April 2008. The convertible debenture is convertible into common stock at the lesser of (a) $0.35 per share or 125% of the average closing bid prices per share of the Company's Common Stock during the five trading days immediately preceding April 29, 2003 or (b) 100% of the average of the three lowest closing bid prices for the forty days preceding the date of conversion. In connection with the financing, Hy-Tech paid a fee of $100,000. The convertible debentures if not converted are due in August 2008. As of October 7, 2003, the convertible debentures were fully converted to 25,613,328 shares of common stock.

In November 2003, Hy-Tech issued convertible debentures of $300,000 due in

November 2005. The convertible debentures are convertible into common stock at $0.03 per share.

Hy-Tech has convertible debentures of $230,000 past due as of November 30, 2003. The convertible debentures are convertible into common stock at $.10 per share.

Common Stock

During the nine months ending September 30, 2003, Hy-Tech issued 22,393,382 shares of common stock for services valued at $990,145.

During the nine months ending September 30, 2003, Hy-Tech issued 4,259,445 shares of common stock for advances and debt of $1,031,623.

On April 28, 2003, the Company acquired by merger Sanjay Haryama ("SH"), a company that had completed a $1,000,000 financing transaction pursuant to Rule 504 of Regulation D under the Securities Act of 1933, as amended (the "Act"). Pursuant to the merger, the Company assumed all obligations of SH under the financing transaction and issued to the holder thereof its 1% $1,000,000 Convertible Debenture due April 28, 2008 (the "Debenture"). As of October 7, 2003, the convertible debentures were fully converted to 25,613,328 shares of common stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BACKGROUND

We were formed in 1992 as a supplier to the information technology business. In January 31, 2003, we completed a reverse acquisition into SRM Networks, an Internet service provider, in which we were deemed the "accounting acquirer". We have discontinued SRM Network's Internet business. In connection with the transaction, SRM Networks, Inc. changed its name to Hy-Tech Technology Group, Inc.

In May 2003, Martin Nielson assumed full time responsibilities as CEO, brought new investors to the company, and is attempting to transform Hy-Tech Technology Group, Inc. from a custom systems builder and an authorized distributor of the world's leading computer systems and components to a solutions provider offering an expanding range of services and software to its customer base. During the fiscal first quarter, the Company took steps necessary to design this new business strategy and during the second quarter the Company began to implement this strategy. This new business strategy also seeks growth by acquisition as well as organic growth.

During this period, a number of significant steps were taken to prepare the Company for the launch of this new plan. Among these steps taken were:

- construction of the details of the new plan
- restructuring of the personnel, including identifying new additions to management
- reduction of costs and store closures

- engagement of key professionals, including investment banking teams

- negotiating with sources of new investment

- identifying and negotiating with acquisition targets

The implementation of this plan is dependent upon the Company's ability to raise additional financing. For the nine months ended November 30, 2003, the Company raised approximately $1.5 million from new investors. The net proceeds from this financing were principally used for the settlement of the SunTrust Bank debt and for general working capital purposes. The Company's inability to raise additional financing has resulted in a delayed execution of the new plan and has also caused the Company's obligations to increase. Due to insufficient cash generated from operations, the Company presently does not have cash available to pay its accounts payable and other liabilities. Obligations are being met on a month-to-month basis as cash becomes available. There can be no assurances that the Company's present cash flow will be sufficient to meet current and future obligations.

The Company's limited liquidity has also had a detrimental effect on the Company's sales efforts during the three and nine months ended November 30, 2003. Furthermore, because the Company has experienced a significant deficit in working capital, the Company announced store closures during the past quarter to reduce its fixed overhead.

The Company remains active in discussions to obtain additional financing for working capital and to also enable the launch of the new plan.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere is this report. Except for the historical financial information contained herein, the matters discussed in this Quarterly Report on Form 10-QSB may be considered "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended. Such statements include declarations regarding the intent, beliefs or current expectations of our management. Such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. We undertake no obligation to publicly release the results of any revision to these forward-looking statements, which may be made to reflect events or circumstances after the dates hereof or to reflect the occurrence of unanticipated events.

The following discussion compares the three and nine months ended November 30, 2003 to the three and nine months ended November 30, 2002.

During the three and nine months ended November 30, 2003 (the "2003 Periods") net revenues were $1,194,696 and $8,535,553, respectively, compared to net revenues of $5,673,483 and $19,105,524 for the three and nine months ended November 30, 2002 (the "2002 Periods"). This represents a decrease of approximately 78.9% and 55.3% respectively from the 2002 Periods. The Company's limited liquidity has had a detrimental effect on the Company's sales efforts

during the three and nine months ended November 30, 2003. Furthermore, because the Company has experienced a significant deficit in working capital, the

Company announced store closures during the past quarter to reduce its fixed overhead, which also reduced the Company's sales capacity. During the first half of this fiscal year, we faced restrictions on our inventory purchases that were imposed by our primary lender and our lower sales results were exacerbated by the general decrease in the information technology business.

Gross margins for the three and nine months ended November 30, 2003 were $154,003 and $1,054,155, respectively, compared to gross margins of $863,012 and $2,895,877 for the three and nine months ended November 30, 2002. Gross margins as a percentage of net revenues were 12.9% and 12.4% for the three and nine months ended November 30, 2003, respectively, compared to 15.2% and 15.2% for three and nine months ended November 30, 2002, respectively. The decrease in gross margins for the nine months ended November 30, 2003 resulted in part from the sale of older and slower moving inventory so that we could adjust our product line to more profitable items. During the nine months ended November 30, 2003, the Company has reduced its on-hand inventory by 70.3% from $1,739,698 as of February 28, 2003 to $515,868 as of November 30, 2003. Gross margin improvement going forward is greatly dependent upon the Company's ability to access additional liquidity for inventory purchases at more competitive pricing. During the 2003 period, we were faced with having to purchase inventory from higher cost vendors due to the lack of liquidity.

General, administrative and selling expenses for the three and nine months ended November 30, 2003 were $1,475,040 and $3,856,277, respectively, compared to $837,578 and $2,999,499 for the three and nine months ended November 30, 2002. Employee salaries represent approximately 35% and 54% of total general, administrative and selling expenses for the nine months ended September 30, 2003 and 2002, respectively. Although, employee salaries decreased by $270,084, or 16.7% from $1,618,198 to $1,348,144 for the nine month period ended November 30, 2003 due to reduction in force and store closures, overall total general, administrative and selling expenses increased by $294,762, or 9.8% for the nine month period ended November 30, 2003. This increase was principally due to the Company's reverse acquisition into SRM Networks and its obligations as a reporting company under the securities laws during the 2003 Periods with no comparable expenses during the 2002 Periods.

Other income (expenses) for the three and nine months ended November 30, 2003 were $133 income and $36,502 expense, respectively, compared to other expense of $4,623 and $16,991 for the three and nine months ended November 30, 2002.

Interest expense for the three and nine months ended November 30, 2003 were $235,293 and $366,435, respectively, compared to $39,351 and $191,660 for the three and nine months ended November 30, 2002. This increase in interest expense in 2003 was principally due to the high cost of factoring our receivables.

During the 2003 Periods we had a gain on the settlement of debt of $1,665,601, with no comparable gain during the 2002 Periods. This gain arose from the settlement of our debt with our primary lender, SunTrust Bank.

Net loss for the three and nine months ended November 30, 2003 were $1,556,197 and $1,549,458, respectively, compared to net loss of $18,540 and $312,273 for the three and nine months ended November 30, 2002.

LIQUIDITY AND CAPITAL RESOURCES

At November 30, 2003, we had cash of $19,094, current assets of

$925,554 and current liabilities of $2,417,349. At November 30, 2003, we had negative working capital of $1,491,795, compared to negative working capital of $964,316 as of August 31, 2003.

On April 29, 2003, we settled the claims of our primary lender, SunTrust Bank pursuant to a Settlement Agreement for aggregate payments of $1.5 million. Under the terms of the Settlement Agreement, we delivered $1 million dollars to SunTrust on April 29, 2003. This $1 million represented all of the proceeds of the sale of a convertible debenture that was issued to a private investor. We also agreed to pay the balance owed to SunTrust in three installments. All of these installments have been paid and SunTrust has released the Company from all of its claims.

The Company's inability to raise additional financing has resulted in a delayed execution of the new plan and has also caused the Company's obligations to increase. Due to insufficient cash generated from operations, the Company presently does not have cash available to pay its accounts payable and other liabilities. Obligations are being met on a month-to-month basis as cash becomes available. There can be no assurances that the Company's present cash flow will be sufficient to meet current and future obligations. We are overdue with payments to numerous vendors. Four of our vendors have pending litigation against us for claims of approximately $430,000. One vendor who commenced litigation with a claim of approximately $128,000 settled with us for fifteen payments of $5,000 each, the first payment of which has been made. Two vendors with aggregate claims of approximately $229,000 have threatened to commence litigation. We settled with one of these vendors for a total $36,000 in periodic payments. We are in the process of negotiating payment terms with all of the vendors who have not agreed to terms.

We believe that cash generated from operations will in all likelihood be insufficient to fund our ongoing operations through the next twelve months. Although we have received some equity and debt financing, efforts are underway to secure additional financing to enable us to meet our obligations, as execution of our business plan requires additional capital to fund. We remain active in discussions to obtain additional sources of financing but there can be no assurance that we will be able to successfully raise such additional funds or that such funds will be available on acceptable terms. We have not received any proceeds under the $10,000,000 equity line of funding for the purpose of making acquisitions that we previously announced on December 3, 2003. Management now believes it is unlikely that this particular funding will proceed.

Funds raised through future equity financing will likely be dilutive to our current shareholders. The incurrence of indebtedness would result in an increase in our fixed obligations and could result in borrowing covenants that would restrict our operations. There can be no assurance that financing will be available in sufficient amounts or on terms acceptable to us, if at all. If financing is not available when required or is not available on acceptable terms, we may be unable to launch our new plan. In addition, we may be unable to

take advantage of business opportunities or respond to competitive pressures. Any of these events could have a material and adverse effect on our business, results of operations and financial condition. Lack of additional funds will materially affect our business and may cause us to cease operations. Consequently, shareholders could incur a loss of their entire investment in the Company. Our financial statements were prepared on the assumption that we will continue as a going concern. The report of our independent accountants for the year ended February 28, 2003 acknowledges that we have incurred losses in each of the last two fiscal years and that we will require additional funding to sustain our operations. These conditions cause substantial doubt as to our ability to continue as a going concern. Our financial statements included herein do not include any adjustments that might result should we be unable to continue as a going concern.

RISKS AND UNCERTAINTIES

Our business is subject to the effects of general economic conditions, and in particular, market conditions in the software and computer industries. Our operating results have been and continue to be adversely affected as a result of the recent unfavorable global economic conditions and reduced consumer spending in the high tech sector. These adverse economic conditions in the U.S., may continue in the short term, and they may continue to adversely affect our revenue and earnings. If these economic conditions do not improve, or if we experience a continued weakening of the economy or technology spending, we may experience material adverse impacts on our business.

Other Factors That May Affect Future Results of Operations:

- delays in shipment or availability of existing products
- introduction of new products by major competitors
- weakness in demand for hardware and components
- lack of growth in worldwide personal computer sales
- corporate reductions in IT spending
- inability to integrate companies and products we acquire
- industry transitions to new business and information delivery models
- changes occurring in the global market conditions affecting our customers

Statements included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" which are not historical facts are forward-looking statements. These forward-looking statements involve risks and uncertainties that could render them materially different, including, but not limited to, the risk that new products and product upgrades may not be available on a timely basis, the risk that such products and upgrades may not achieve market acceptance, the risk that competitors will develop similar products and reach the market first, and the risk that the Company would not be able to fund its working capital needs from cash flow.

ITEM 3. CONTROLS AND PROCEDURES

Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures as (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our controls and procedures are effective in providing reasonable assurance that the information required to be disclosed in this report is accurate and complete and has been recorded, processed, summarized and reported as of the end of the period covered by this report. During the fiscal quarter covered by this report, there have not been any significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

RECENT SALES OF UNREGISTERED SECURITIES

On April 28, 2003, the Company acquired by merger Sanjay Haryama ("SH"), a company that had completed a $1,000,000 financing transaction pursuant to Rule 504 of Regulation D under the Securities Act of 1933, as amended (the "Act"). Pursuant to the merger, the Company assumed all obligations of SH under the financing transaction and issued to the holder thereof its 1% $1,000,000 Convertible Debenture due April 28, 2008 (the "Debenture").

During the fiscal quarter covered by this report, the holder of the Debenture converted an aggregate of $424,566 principal amount of the Debenture and accrued interest into an aggregate of 16,651,409 shares of the Company's common stock. As a result of these conversions, the principal balance of the Debenture and accrued interest was fully converted into shares of the Company's common stock.

During the fiscal period covered by this report, the Company issued an aggregate of 1,100,000 shares of it common stock to investor relations firms in consideration of services rendered to the Company. The shares were issued in private placements that were exempt from the registration requirements of the Act pursuant to section 4(2) of the Act.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Executive Officer

31.2 Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

(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, hereunto duly authorized.

Hy-Tech Technology Group, Inc.

Dated: January 19, 2004

By: /s/ Martin Nielson

Martin Nielson
Chief Executive Officer