KRYSTAL DIGITAL CORP
Form 10KSB
January 30, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

[X] Annual Report to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year ended September 30, 2003.

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____________to______________

Commission File No. 000-27773

KRYSTAL DIGITAL CORPORATION
(Exact name of registrant as specified in its charter)

(formerly known as ESCAgenetics Corporation)

Delaware	94-3012230
(State or other jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

925 WEST LAMBERT ROAD, SUITE A
BREA, CA 92821

(Address of principal executive offices)

Registrant's telephone number, including area code: (714) 990-9300.

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each Exchange on which Registered
Not Applicable	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 Par Value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter prior 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-KSB or any amendment to this Form 10-KSB. /X/

The issuer's net sales for the most recent fiscal year were $0.

The aggregate market value of the voting stock held by non-affiliates based upon the last sale price on January 29, 2004 was approximately $110,095.

As of January 29, 2004 there were 22,948,438 shares of Common Stock, par value $0.001 per share, outstanding.

PART I

ITEM 1. BUSINESS

Formed in 1986, Krystal Digital Corporation ("the Company") was organized to develop and commercialize high-value, plant derived products for the agricultural and pharmaceutical markets. The Company actively conducted its business between 1987 and the early part of 1995. In January 1995, the Company scaled back its business activities and became largely a dormant business. In January 1996, the Company filed a bankruptcy petition for protection under Chapter 11 of the U.S. Bankruptcy Code.

The Company's amended plan of reorganization (the "Amended Plan of Reorganization") became effective on August 22, 1996. Under the Amended Plan of Reorganization, GFL Ultra Fund, Ltd. ("Ultra"), the Company's largest debt holder, received 25% of the cash available to unsecured creditors and 90% of the Company's common stock. The remaining cash was distributed proportionately to the remaining unsecured creditors and the remaining 10% of the Company's common stock remained owned by its previous shareholders. The bankruptcy proceeding was officially closed effective March 31, 1997. In July, 1998 Genesee Holdings, Inc. ("Holdings") acquired by merger all the assets of Ultra.

By the end of 1996, the Company sold or disposed of all of its assets other than cash on hand and the stock of PHYTOpharmaceuticals, Inc. (an inactive majority owned subsidiary) and SRE ESCAgenetics Corporation (an inactive wholly owned subsidiary).

The Company has been dormant during the fiscal year ended September 30, 2003. The Company has had no employees since November 1996. The Company does not plan to continue the business activities that it conducted prior to its reorganization.

On November 5, 2003 the Company consummated the acquisition of 100% of the capital stock of Shecom Corporation ("Shecom"). At the time of the transaction, there were 1,000,000 shares of common stock of the Company issued and outstanding and an additional 2,125,000 shares that it had agreed to issue upon consummation of the transaction for investment banking and related financial services. Under the terms of the agreement and plan of reorganization, the Company issued to the former stockholders of Shecom 19,823,438 shares of its common stock and warrants to purchase an additional 2,051,619 such shares, constituting 87.5% of the total issued and outstanding equity securities and shares of common stock underlying options and warrants, respectively.

The transaction was first reported in Schedule 14C sent to the shareholders of the Company and filed with the Securities and Exchange Commission (the "Commission") on October 8, 2003. The Form 8-K reporting the closing of the acquisition of Shecom was filed with the Commission on November 20, 2003. These and other reports filed by the Company are available to the public at www.sec.gov.

ITEM 2. PROPERTIES

None.

ITEM 3. LEGAL PROCEEDINGS

The Company is not subject to any material legal proceedings.

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

The Company did not submit any matters to a vote of its security holders during the fourth quarter of fiscal year 2003.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK

The Company's Common Stock is quoted on the NASD's OTC Bulletin Board under the symbol "KDGC." The market for the Company's Common Stock is limited, sporadic and highly volatile. The following sets forth the high and low bid prices per share of the Company's Common Stock during its last two fiscal years as reported by the OTC Bulletin Board. These prices reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions.

COMMON STOCK

FISCAL 2002		
First Quarter	$2.1	$0.84
Second Quarter	1.26	0.84
Third Quarter	0.84	0.7

Fourth Quarter	0.7	0.7
FISCAL 2003		
First Quarter	$0.84	$0.14
Second Quarter	0.84	0.15
Third Quarter	4.9	0.18
Fourth Quarter	2.00	1.01
FISCAL 2004		
First Quarter	$2.00	$0.65
Second Quarter (through January 29, 2004)	1.10	0.65

On January 29, 2004, there were approximately 500 holders of record of the Company's 22,948,438, outstanding shares of Common Stock.

On January 29, 2004, the last sale price of the Common Stock as reported on the OTC Bulletin Board was $0.65.

DIVIDEND POLICY

The Company has never paid or declared dividends on its common stock. The payment of cash dividends, if any, in the future is within the discretion of the Board of Directors and will depend upon the Company's earnings, its capital requirements, financial condition and other relevant factors. Management of the Company intends, for the foreseeable future, to retain future earnings for use in the Company's business.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY PLANS

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number o remainin future i equity c
Equity compensation plans approved by security holders	None	- - -	None
Equity compensation plans not approved by security holders	None	- - -	None
Total	None	- - -	None

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Form 10-KSB.

This filing contains forward-looking statements. The words "anticipated," "believe," "expect, "plan," "intend," "seek," "estimate," "project," "will," "could," "may," and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect the Company's current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, general economic and business conditions, changes in foreign, political, social, and economic conditions, regulatory initiatives and compliance with governmental regulations, the ability to achieve further market penetration and additional customers, and various other matters, many of which are beyond the Company's control. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated, or otherwise indicated. Consequently, all of the forward-looking statements made in this filing are qualified by these cautionary statements and there can be no assurance of the actual results or developments.

The Company had no revenues from operations since the reorganization date. The Company does not plan to continue the business activities that it previously conducted. The Company has no employees and no fixed assets. The Company does not anticipate hiring any employees or purchasing any assets other than as may be required by its wholly owned subsidiary, Shecom Corporation.

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CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are outlined within Item 7 as Note 1 to the consolidated financial statements. Some of those accounting policies require the Company to make estimates and assumptions that affect the amounts it reports.

RESULTS OF OPERATIONS

YEAR ENDED SEPTEMBER 30, 2003 COMPARED TO SEPTEMBER 30, 2002

REVENUES
The Company did not report any revenues from continued operations for the year ended September 30, 2003.

OPERATING EXPENSES

Accounting and Legal

For the year ended September 30, 2003, the accounting and legal expenses increased to $36,000 from $17,000 for the year ended September 30, 2002. This increase is principally attributable to additional legal expenses incurred in connection with the Merger (see Recent Events).

Selling, General and Administrative

Selling, general and administrative expenses for the year ended September 30, 2003 were $43,000 as compared to $23,000 for the similar period in 2002. The increase in selling, general and administrative expenses is principally attributable to the issuance of 70,000 shares of common stock to the Principal Shareholder and two other directors for services, in lieu of compensation (see Note 2 to the Consolidated Financial Statements).

NET LOSS

Net loss for the year ended September 30, 2003 amounted to $79,000 as compared to a net loss of $40,000 for the year ended September 30, 2002. This increase in net loss is attributable to the increase in operating expenses, as discussed in the preceding paragraphs.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

At September 30, 3003, the Company had a working capital deficit of $3,000 and an accumulated deficit of $464,000. For the year ended September 30, 2003, net cash used in operating activities amounted to $87,000, a $5,000 decrease from the net cash used in operating activities for the comparable period in 2002.

Financing Activities

There were no financing activities during the fiscal year ended September 30, 2003 other than the proceeds from the issuance of 170,675 shares of common stock to two individuals (see Note 2 to the Consolidated Financial Statements). The financing activities for the fiscal year ended September 30, 2002 consisted of advances made by its former majority shareholder, Genesee Holdings, Inc. ("Holdings") on a term loan. The loan, which was converted into a promissory note (the "Note") on December 1, 2002, was subsequently sold to Kevin R. Keating, which in turn, converted the Note into equity during April 2003 (see Note 2 to the Consolidated Financial Statements.)

See below for developments in this regard since September 30, 2003.

RECENT EVENTS

ACQUISITION OF SHECOM

On August 22, 2003, the Company, Shecom Acquisition Corp., a Colorado corporation and wholly owned subsidiary of the Company ("Mergeco") and Shecom Corporation, a Colorado corporation ("SHECOM"), entered into an Agreement and Plan of Reorganization, as amended on September 24, 2003 (as amended, the "MERGER AGREEMENT").

The Merger Agreement provided for the acquisition by the Company of Shecom. In the merger, the former stockholders of Shecom and the holders of warrants to purchase common stock of Shecom received that number of shares of common stock of the Company plus warrants to purchase Company common stock as represented, in the aggregate, 87.5% of the issued and outstanding shares of common stock of the Company after giving effect to the merger.

Immediately prior to the merger, there were 21,257,737 shares of Shecom common stock issued and outstanding, plus an additional 2,200,000 shares of Shecom common stock issuable upon exercise of certain warrants to purchase Shecom common stock, for a total of 23,457,000, fully-diluted outstanding Shecom shares. At the time of the merger, there were 1,000,000 shares of common stock of the Company issued and outstanding and an additional 2,125,000 shares that the Company agreed to issue upon consummation of the merger for investment banking and related financial services.

At the effective time of the merger, to entitle the existing holders of Shecom common stock and Shecom warrants to own 87.5% of the fully-diluted shares of its common stock, the Company issued 0.932558146 such shares and warrants to purchase 0.932558146 such shares for each outstanding share of Shecom common stock and each outstanding Shecom warrant. As a result, the then holders of Shecom equity securities received an aggregate of 19,823,438 shares of common stock and warrants to purchase an additional 2,051,619 shares of common stock. In addition, the Merger Agreement provided that, immediately after the effective date of the merger, the board of directors of the Company will consist of persons designated by the stockholders of Shecom.

LINE OF CREDIT

As of September 30, 2003, borrowings outstanding on Shecom's maximum $35.0 million line of credit with its principal senior lender were approximately $33.6 million, as compared to $34.8 million on June 30, 2003. The line of credit contains covenants that must be complied with on a continuous basis, including the maintenance of certain financial ratios. The ability to draw funds under this credit facility is dependent upon sufficient collateral based on accounts receivable availability. Shecom's senior lender has not agreed to increase Shecom's line of credit. As a result, throughout fiscal 2003, Shecom has been cash constrained and has had to rely on borrowings from its principal shareholder to fund operations. Shecom's principal senior lender has agreed to extend the maturity date of its line of credit to January 31,

2004, but also advised that it did not intend to renew such line of credit on the present terms, if at all. The lender and Shecom are presently in negotiations on the terms of any extension that the lender may offer.

The Company is attempting to negotiate a new line of credit with certain other potential lenders. Shecom recently received a non-binding proposal from another lender regarding a new line of credit. However, the Company has not as of the filing date of this report arranged for such an alternate facility.

There can be no assurance that Shecom will be able to timely refinance its senior credit facility or convince its existing lender to extend the maturity date of the current credit facility on acceptable terms, if at all.

If no financing is raised within the near future, there would be substantial doubt as to the Company's ability to continue as a going concern.

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ITEM 7. FINANCIAL STATEMENTS

The financial statements of the Company are included in this report commencing on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 8A. CONTROLS AND PROCEDURES.

Based on an evaluation as of the date of the end of the period covered by this Form 10-KSB, the Company's Chief Executive Office and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms.

Changes in Internal Controls

There were no significant changes in the Company's internal controls over financial reporting that occurred during the quarter and year ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Management of the Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The following table sets forth the name, age and position of each person who was serving as an executive officer or director of the Company as of January 29, 2004:

NAME	AGE	POSITION
Raju Shewa	48	Chairman of the Board and Chief Executive Officer
Phillip G. Trad	55	President and Director

Fred Anavim	57	Chief Financial Officer and Director
Vincent Franzone	48	Director
John L. Titus	45	Director nominee

RAJU SHEWA. Mr. Shewa is the Chairman of the Board and Chief Executive Officer of Shecom Corporation. Mr. Shewa founded Shecom in 1986 and has guided it from its initial domestic and international sales of computer components and consumer electronics through the import, development and manufacturing of computer memory modules, peripherals and personal computers. Mr. Shewa began his career after obtaining his Bachelor of Commerce Degree in 1975 by forming a Tokyo trading company under the name Shewa Brother's Limited which specialized in the import and export of consumer electronics to the Middle East, Asia, Africa, and Europe with sales growing from $5.0 million to $40.0 million. In 1980, Shewa Brother's Limited moved to Frankfurt, West Germany to expand its base of operation and increase its market share internationally under the name of Shewa Brother's GMBH. Mr. Shewa is presently leading the development of a new computer technology and peripherals in order to provide new and expanding opportunities for Shecom Corporation.

PHILLIP G. TRAD. Mr. Trad is a Director and became the President of Shecom in 2001. For 12 years prior thereto he served as a consultant to Shecom. Mr. Trad is an attorney who has provided legal representation and consulting on a state and federal level to corporations, insurance companies, partnerships and joint venture investments to corporate and business ventures since 1979. Since 1995, Mr. Trad has been a director of PharmaPrint Inc., a Delaware corporation that specialized in the development and advancement of herbal and bio-active supplements and pharmaceutical development. From 1998 to 2001, Mr. Trad was the President of PharmaPrint Inc. having originally started with the corporation as its Senior Vice President and General Counsel in 1998. Mr. Trad's activities included domestic and international contract negotiations, facilities and equipment procurement and fin