

Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

HY TECH TECHNOLOGY GROUP INC  
Form 10KSB  
July 21, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934

FOR THE FISCAL YEAR ENDED FEBRUARY 29, 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: 000-33231

HY-TECH TECHNOLOGY GROUP, INC.

-----  
(EXACT NAME OF THE COMPANY 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) 851-0111

-----  
(ISSUER TELEPHONE NUMBER)

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS REGISTERED: NAME OF EACH EXCHANGE ON WHICH REGISTERED:

-----  
NONE

-----  
NONE

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE ACT:

COMMON STOCK, PAR VALUE \$.001

-----  
(TITLE OF CLASS)

Indicate by check mark whether the Company (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 period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

# Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.  Yes  No

State issuer's revenues for its most recent fiscal year. \$8,985,425 State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) As of May 31, 2004, approximately \$480,000.

As of May 31, 2004, there were 98,677,406 shares of the issuer's \$.001 par value common stock issued and outstanding.

Documents incorporated by reference. There are no annual reports to security holders, proxy information statements, or any prospectus filed pursuant to Rule 424 of the Securities Act of 1933 incorporated herein by reference.

Transitional Small Business Disclosure format (check one):

Yes  No

2

-----  
TABLE OF CONTENTS  
-----

| ITEM NUMBER AND CAPTION<br>-----  | PAGE<br>---- |
|---|--------------|
| Special Note Regarding Forward-Looking Statements.....  | 4            |
| PART I  |              |
| 1. Description of Business.....   | 5            |
| 2. Description of Property.....   | 9            |
| 3. Legal Proceedings.....   | 9            |
| 4. Submission of Matters to a Vote of Security Holders.....                                   | 10           |
| PART II   |              |
| 5. Market for Common Equity and Related Stockholder Matters.....                              | 11           |
| 6. Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 13           |
| 7. Financial Statements.....  | 16           |
| 8. Changes in and Disagreements with Accountants on Accounting and                            |              |

# Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

|                           |    |
|---------------------------|----|
| Financial Disclosure..... | 16 |
|---------------------------|----|

## PART III

|  |    |
|--|----|
| 9. Directors, Executive Officers, Promoters and Control Persons;<br>Compliance with Section 16(a) of the Exchange Act..... | 17 |
| 10. Executive Compensation.....  | 18 |
| 11. Security Ownership of Certain Beneficial Owners and Management.....  | 20 |
| 12. Certain Relationships and Related Transactions.....  | 21 |
| 13. Exhibits and Reports on Form 8 K.....  | 21 |
| 14. Controls and Procedures.....   | 23 |

3

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain financial information and statements regarding our operations and financial prospects of a forward-looking nature. Although these statements accurately reflect management's current understanding and beliefs, we caution you that certain important factors may affect our actual results and could cause such results to differ materially from any forward-looking statements which may be deemed to be made in this report. For this purpose, any statements contained in this Report which are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as, "may", "will", "intend", "expect", "believe", "anticipate", "could", "estimate", "plan" or "continue" or the negative variations of those words or comparable terminology are intended to identify forward-looking statements. There can be no assurance of any kind that such forward-looking information and statements will be reflective in any way of our actual future operations and/or financial results, and any of such information and statements should not be relied upon either in whole or in part in connection with any decision to invest in the shares.

4

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS.

#### BACKGROUND AND CURRENT PLANS

Beginning in July 2004, Hy-Tech Technology Group, Inc. (the "Company") will operate under the new name of Innova Holdings. This new name is more synonymous with the Company's plan to grow by acquisition and to differentiate the Company with unique technologies.

In July 2004, the Company will increase its authorized shares to 900 million from 100 million. The increase would allow the company to issue new shares for acquisitions, or to secure financing for operations or strategic partnerships.

In February 2004, the Company announced it had entered into a Letter of Intent

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

to acquire Robotic Workspace Technologies, Inc. (RWT). RWT, based in Fort Myers, Florida, is a privately-held company founded in 1994 to enhance the field of robotics with commercially available, patented products to improve robot performance, applicability, and productivity.

In February 2004, the Company announced it had entered into a Letter of Intent for the sale of its wholly owned subsidiary, Hy-Tech Computer Systems (HTCS) to Aegis Funds, Inc.

The Company remains in discussion with various financing sources to allow it access to the financing needed to complement the use of its stock in achieving these plans.

In February 2004, the Company announced its planned changes which included its planned acquisition of Robotic Workspace Technologies (RWT) and the intended divestiture of Hy-Tech Computer Systems (HTCS). Such changes support the Company's plan to grow by acquisition and differentiate the company with unique technologies, by converting to e-commerce selling and distribution techniques and by adding complementary, higher margin services. The Company intends to raise additional working capital through private placements, public offerings and/or bank financing.

### OUR BUSINESS FROM 1992 THROUGH 2003

HTCS was formed in 1992 in Fort Myers, Florida, as a supplier to the information technology business. In January 31, 2003, HTCS completed a reverse acquisition into SRM Networks, an Internet service provider and web hosting business, in which HTCS was 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.

From 1992 through 2002, HTCS was a leading custom systems builder and authorized distributor of the world's leading computer system and components. HTCS is headquartered in Fort Myers, Florida and operated seventeen locations throughout Florida, Alabama, Tennessee, Kentucky, Wisconsin and Colorado. HTCS supplied a full line of computer components and peripherals and employed technicians capable of building and servicing systems that range in scope from basic desktop systems to very sophisticated server applications. Throughout its history, HTCS had demonstrated its technical capability as an award-winning reseller of the industry's leading technology products and by earning a variety of accreditations such as Intel Premier Provider, Microsoft System Builder Gold Member, Symantec Authorized Education Reseller, and Iomega Premier Partner.

At the end of 2003, management concluded that the existing business was not viable as a 'brick and mortar' operation, and initiated the changes necessary to adopt the new strategy, including closing the stores, laying off employees and transferring all business to e-commerce. Negotiations were initiated to acquire a new business and to divest the old HTCS business.

### FISCAL YEAR ENDING FEBRUARY 29, 2004 EVENTS

On April 22, 2003, we entered into an Advisory Agreement (the "Advisory Agreement") with AltosBancorp Inc. ("Altos") pursuant to which Altos agreed to act as our exclusive business advisor for a one year period. Altos advised us regarding equity and debt financings, strategic planning, mergers and acquisitions, and business developments. The Company and certain of its principal shareholders agreed to pay Altos the following:

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

(1) an option to purchase 10,000,000 of the principal shareholders' shares of Common Stock and an irrevocable proxy to vote all 15,838,448 of their shares in the event that financing was obtained that the Company used to satisfy HTCS's obligations to SunTrust Bank'

(2) a cash fee equal to 10% of the gross proceeds of the financing and warrants to acquire a number of shares of Common Stock equal to 10% of the Common Stock sold in such financing, such warrants to have an exercise price of \$.01 per share and a term of five years, if Altos introduces the Company to any provider of equity financing which the Company agreed to;

(3) a cash fee equal to 10% of the gross cash proceeds of the merger and warrants to acquire a number of shares of Common Stock equal to 10% of the Common Stock issued in such merger, such warrants to have an exercise price of \$.01 per share and a term of five years, if Altos introduced the Company to any merger candidate with which the Company closes a transaction;

(4) a cash fee equal to 6% of any debt, 3% of any revolving credit line, 2% of any credit enhancement instrument and 10% of any revenue producing contract if Altos introduces the Company to any source of capital, which it closes. This obligation survives for a period of two years from the date of the Advisory Agreement;

(5) a retainer fee of \$30,000, of which \$10,000 was paid upon the settlement of The Company's obligations to SunTrust Bank and \$20,000 was to be paid when the Company closes a financing of at least \$800,000; and

(6) a termination fee equal to 50% of the fee that Altos would have been paid had the transaction closed in the event that the Company does not proceed with a transaction arranged by Altos without just cause.

In conjunction with the decision to proceed with the RWT acquisition, the agreement with Altos has now been concluded.

On April 28, 2003, a merger between the Company and Sanjay Haryama ("SH"), a Wyoming corporation, was effected. The merger was based upon an Agreement and Plan of Merger dated April 28, 2003 among the parties. Pursuant to the merger (i) SH was merged with and into the Company; (ii) the SH shareholder exchanged 1,000 shares of common stock of SH, constituting all of the issued and outstanding capital stock of SH, for an aggregate of 1,000 shares of the Company's restricted common stock; and (iii) SH's separate corporate existence terminated. The SH shareholder was Coachworks Auto Leasing, which is wholly owned by Jehu Hand. The determination of the number of shares of the Company's stock to be exchanged for the SH shares was based upon arms' length negotiations between the parties.

Prior to the merger, SH completed a \$1,000,000 financing transaction pursuant to Rule 504 of Regulation D of the General Rules and Regulations under the Securities Act of 1933 as amended pursuant to a Convertible Debenture Purchase Agreement (the "Purchase Agreement") dated April 21, 2003 between SH and an accredited Colorado investor (the "Investor"). In connection therewith, SH sold a 1% \$1,000,000 Convertible Debenture due April 20, 2008 (the "SH Debenture") to the Investor. The unpaid principal amount of the SH Debenture was convertible into unrestricted shares of SH common stock to be held in escrow pending the repayment or conversion of the SH Debenture. Pursuant to the merger, the Company assumed all obligations of SH under the SH Debenture and issued the holder thereof its 1% \$1,000,000 Convertible Debenture due April 28, 2008 (the "Convertible Debenture") in exchange for the SH Convertible Debenture. The material terms of the Convertible Debenture are identical to the terms of the SH Convertible Debenture except that the unpaid principal amount of the Convertible

Debenture is convertible into unrestricted shares of the Company's Common Stock (the "Common Stock"). The per share conversion price for the Convertible Debenture in effect on any conversion date is the lesser of (a) \$0.35 or one-hundred twenty-five percent (125%) of the average of the closing bid prices per share of the Company's Common Stock during the five (5) trading days immediately preceding April 29, 2003 or (b) one hundred percent (100%) of the average of the three (3) lowest closing bid prices per share of the Company's Common Stock during the forty (40) trading days immediately preceding the date on which the holder of the Convertible Debenture provides the escrow agent with a notice of conversion. The number of shares of the Company's Common Stock issuable upon conversion is also subject to anti-dilution provisions. The Investor's right to convert the Convertible Debenture is subject to the limitation that the Investor may not at any time own more than 4.99% of the outstanding Common Stock of the Company, unless the Company is in default of any provision of the Convertible Debenture or the Investor gives seventy five (75) days advance notice of its intent to exceed the limitation.

Between the date of the merger and the end of November, 2003, the Convertible Debenture was fully converted to Common Stock of the Company.

On April 28, 2003, the Company announced it had entered into a financing transaction in which it has received a firm commitment from a private equity fund for the purchase of a \$750,000 convertible debenture from the Company (the "Second Debenture"). The Second Debenture was not closed and the Company arranged for alternative financing under a Factoring Line of Credit with Platinum Funding Corporation.

On April 29, 2003, the Company entered into an agreement called an "Option to Purchase" ("Settlement Agreement") with SunTrust Bank under which the Company agreed to settle all pending litigation and satisfy all judgments obtained against the HTCS subsidiary by SunTrust Bank. The Company agreed to pay a total of \$1.5 million by August 28, 2003 in full settlement of all of SunTrust's claims of approximately \$3.7 million. Under the terms of the Settlement Agreement, the Company delivered \$1.0 million dollars to SunTrust on April 29, 2003. This \$1.0 million represents all of the proceeds of the sale of the Convertible Debenture. The Company also agreed to pay SunTrust three installments of \$65,000 each in June, July and August, and the balance of \$305,000 on or before August 28, 2003. The Company used part of the proceeds from the Factoring Line of Credit to pay the August 28, 2003 installment of \$305,000 due to SunTrust Bank, and all other amounts were paid.

As a result of this settlement, the Company reduced its current liabilities by approximately \$4.8M, and obtained the ownership of the Sun Trust judgement, per the Settlement Agreement.

In May 2003, Martin Nielson assumed full time responsibilities as Chief Executive Office, brought new investors to the company, and was chartered to transform the Company away from being a custom systems builder. During the fiscal year, the Company took steps necessary to design the new business strategy and commenced the implementation of this strategy, which also included growth by acquisition. Among these steps taken were:

- o construction of the details of the new plan which led to the decision to transform and then divest HTCS
- o restructuring of the personnel o reduction of costs and writing off unproductive assets

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

- o engagement of key professionals
- o negotiating with sources of new investment
- o identifying and negotiating with acquisition targets

Concurrent with the steps taken, the Company aggressively pursued new financing from debt and equity sources to increase working capital, further reduce liabilities, and to help negotiate acquisitions to provide a platform for growth.

In November, the Company signed an agreement to provide acquisition financing. This agreement was announced publicly but was never concluded when the lender failed to perform. The Company announced in its quarterly filing that this it had doubts that this transaction would close.

7

At the same time and due to the substantial requirement for capital to keep inventory in multiple outlets and to finance receivables, the Company faced significant challenges to produce an adequate return on investment from HTCS. The Company restructured operations by shifting its sales operations to an online store operated by a third party. This change was important. It was much more cost effective and far less capital intensive. We eliminated the overhead of the local wholesale outlets, and all local costs became variable. Key employees in the local operations were offered positions with the contracting company, yet HTCS retained benefit of the sales as part of the deal.

In February 2004, the Company announced its planned changes which included its planned acquisition of Robotic Workspace Technologies (RWT) and the intended divestiture of HTCS. Such changes were in keeping with the Company's new plan to grow by acquisition-to differentiate the company by adding unique technologies, by converting to e-commerce selling and distribution techniques and by adding complementary, higher margin services. The Company remains in discussion with various financing sources to allow it access to the financing needed to complement the use of its stock in achieving these plans.

### HISTORIC PRODUCTS & SERVICES

The products sold by HTCS have been "Hy-Tech" branded computer systems - desktops, notebooks and servers, computer components and peripherals, computer storage products; computer operating systems and office software; Compaq computer systems - desktop and servers; computer service; and computer warranty work.

The Company is no longer actively selling any of these products.

### COMPETITIVE SITUATION

HTCS has different competitors in the two basic markets - the reseller market and direct to the IT market.

Primary competitors for the reseller customers are the national or large regional distribution companies. The main advantages of these competitors are size and price. In its direct sales to IT departments, be they in the commercial, government or education fields, HTCS competed primarily with the large computer manufacturers. The large computer manufacturers have the advantage of size and name recognition. When the IT departments require parts rather than systems, HTCS competed for this business primarily with on-line computer components suppliers. These companies treat this business as a

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

commodity and compete strictly on price. Competition in HTCS's two primary markets is very active.

### INTELLECTUAL PROPERTY

We hold no patents, or trademarks. We do hold the appropriate business licenses to operate.

### GOVERNMENT AUTHORIZATION

The only government approvals required for our operations are local business licenses.

### RESEARCH AND DEVELOPMENT

HTCS developed two web sites for providing technical information to its customers, selling product to its existing customers, and the second site has been developed for selling product to the end user customers that we have not previously targeted.

### EMPLOYEES

The Company currently employs no full-time employees.

8

## ITEM 2. DESCRIPTION OF PROPERTY

During fiscal year ended February 29, 2004, HTCS leased two buildings from related parties. The building located at 1826 Boy Scout Drive, Fort Myers, FL consists of 4,600 square feet, and HTCS leased it for \$3,400.00 monthly. The lease expires December 31, 2010, and HTCS has the option of extending it for five more years with a rent escalation equal to the consumer price index increase over the term of the first lease period. The building located at 1840 Boy Scout Drive, Fort Myers, FL consists of 11,320 square feet, and HTCS leases it for \$6,325 monthly. The lease expires December 31, 2010, and Hy-Tech has an option to extend it for five years with a rent escalation equal to the consumer price index increase over the term of the first lease period. Both of these buildings are owned by Lee Coast Enterprises, Inc. Margaret L. Conklin, (wife of Craig Conklin), as trustee, owns 33% of the stock of Lee Coast Enterprises. Susan McNear, (wife of Gary McNear), as trustee, owns 33% of the stock of Lee Coast Enterprises. Gary McNear is President of Lee Coast Enterprises, Inc. Both of these buildings are leased at market rates. Gary McNear is our vice president, chief financial officer, secretary and a director. Craig Conklin is our vice president, chief operating officer and director.

The following table sets forth the locations, monthly rent and expiration dates for the leases at our distribution centers:

| City           | Expiration Date | Monthly Rent | Square Feet |
|----------------|-----------------|--------------|-------------|
| Birmingham, AL | 09/30/2003      | \$2,500.00   | 3,113.00    |
| Pensacola, FL  | 12/31/2003      | \$2,000.00   | 2,200.00    |
| Knoxville, TN  | 02/28/2004      | \$2,585.00   | 3,000.00    |
| Ocala, FL      | 09/30/2003      | \$1,527.54   | 2,550.00    |



## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

|                      |                   |            |           |
|----------------------|-------------------|------------|-----------|
| Lexington, KY        | 04/30/2004        | \$2,000.00 | 3,000.00  |
| -----                | -----             | -----      | -----     |
| Madison, WI          | 03/31/2005        | \$2,458.00 | 2,900.00  |
| -----                | -----             | -----      | -----     |
| Fort Myers, FL       | 12/31/2010        | \$6,325.00 | 11,320.00 |
| -----                | -----             | -----      | -----     |
| Fort Myers, FL       | 12/31/2010        | \$3,400.00 | 4,600.00  |
| -----                | -----             | -----      | -----     |
| West Palm Beach, FL  | 08/31/2005        | \$2,337.00 | 2,850.00  |
| -----                | -----             | -----      | -----     |
| Naples, FL           | 12/31/2004        | \$2,170.00 | 3,000.00  |
| -----                | -----             | -----      | -----     |
| Nashville, TN        | 03/31/2004        | \$5,054.00 | 4,700.00  |
| -----                | -----             | -----      | -----     |
| Colorado Springs, CO | 05/31/2005        | \$2,736.00 | 3,200.00  |
| -----                | -----             | -----      | -----     |
| Chattanooga, TN      | 02/28/2004        | \$2,275.00 | 2,240.00  |
| -----                | -----             | -----      | -----     |
| Melbourne, FL        | Monthly occupancy | \$1,823.00 | 2,000.00  |
| -----                | -----             | -----      | -----     |
| Sarasota, FL         | Monthly occupancy | \$1,718.00 | 2,200.00  |
| -----                | -----             | -----      | -----     |
| Mobile, AL           | 03/31/2004        | \$1,710.00 | 2,400.00  |
| -----                | -----             | -----      | -----     |
| Louisville , KY      | 06/30/2004        | \$1,425.00 | 2,300.00  |
| -----                | -----             | -----      | -----     |

### ITEM 3. LEGAL PROCEEDINGS

There are multiple lawsuits against HTCS by Vendors seeking to recover money for product delivered to HTCS.

HYTT is not involved in any other material pending legal proceedings, other than routine litigation incidental to our business, to which we are a party or of which any of our property is subject.

9

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

10

## PART II

### ITEM 5. MARKET PRICE FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

#### Reports to Security Holders

We are a reporting company with the Securities and Exchange Commission, or SEC. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street N.W., Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

### Prices of Common Stock

Since February 2002, we have been eligible to participate in the OTC Bulletin Board, an electronic quotation medium for securities traded outside of the Nasdaq Stock Market, and prices for our common stock were published on the OTC Bulletin Board under the trading symbol "SRMW" until such time as our acquisition of Hy-Tech Technology Group, Inc. on January 31, 2003 when our symbol became HYTT.

The following table sets forth, for the fiscal quarters indicated, the high and low closing sales price of our Common Stock as reported on the NASD Over-the-Counter Bulletin Board for each quarterly period during fiscal year ended February 29, 2004.

| Year Ended February 29, 2004 | Common Stock |         |
|------------------------------|--------------|---------|
|                              | High         | Low     |
| First quarter                | \$ 1.00      | \$ 0.12 |
| Second quarter               | \$ 0.19      | \$ 0.02 |
| Third Quarter                | \$ 0.08      | \$ 0.04 |
| Fourth Quarter               | \$ 0.07      | \$ 0.02 |

There are approximately 50 record holders of common equity.

We have outstanding 98,677,406 shares of our common stock. Of these shares, 98,677,406 shares are freely tradable without restriction under the Securities Act unless held by our "affiliates" as that term is defined in Rule 144 under the Securities Act. These shares will be eligible for sale in the public market, subject to certain volume limitations and the expiration of applicable holding periods under Rule 144 under the Securities Act. Non-affiliates currently hold 56,246,129 shares of our common stock, or fifty-seven percent (57%), of our outstanding shares. In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned restricted shares for at least one year (including the holding period of any prior owner or affiliate) would be entitled to sell within any three-month period a number of shares that does not exceed the greater of (1)% of the number of shares of common stock then outstanding or (2) the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been an affiliate of us at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner except an affiliate), is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

We can offer no assurance that an active public market in our shares will develop. Future sales of substantial amounts of our shares in the public market could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through the sale of our equity securities.

### Dividend Policy

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

We have never declared or paid any cash dividends on our common stock. We anticipate that any earnings will be retained for development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Our board of directors has sole discretion to pay cash dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors.

There are no outstanding options or warrants to purchase, or securities convertible into, shares of our common stock. There are no outstanding shares of our common stock that we have agreed to register under the Securities Act for sale by security holders.

### Penny Stock Regulation

Shares of our common stock are subject to rules adopted by the Securities and Exchange Commission that regulate broker-dealer practices in connection with transactions in "penny stocks". Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in those securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure document prepared by the Securities and Exchange Commission, which contains the following:

- o a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- o a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of securities' laws;
- o a brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and the significance of the spread between the "bid" and "ask" price;
- o a toll-free telephone number for inquiries on disciplinary actions;
- o definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and
- o such other information and is in such form (including language, type, size and format), as the Securities and Exchange Commission shall require by rule or regulation.

Prior to effecting any transaction in penny stock, the broker-dealer also must provide the customer the following:

- o the bid and offer quotations for the penny stock;
- o the compensation of the broker-dealer and its salesperson in the transaction;

- o the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

market for such stock; and

- o monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Holders of shares of our common stock may have difficulty selling those shares because our common stock will probably be subject to the penny stock rules.

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

#### BACKGROUND

Beginning in July 2004, Hy-Tech Technology Group, Inc. will operate under the new name of Innova Holdings. This new name is more synonymous with the Company's plan to grow by acquisition and to differentiate the company with unique technologies.

In July 2004, the Company will increase its authorized shares to 900 million from 100 million. The increase would allow the company to issue new shares for acquisitions, or to secure financing for operations or strategic partnerships.

In February 2004, the Company announced it had entered into a Letter of Intent to acquire Robotic Workspace Technologies, Inc. (RWT). RWT, based in Fort Myers, Florida, is a privately-held company founded in 1994 to enhance the field of robotics with commercially available, patented products to improve robot performance, applicability, and productivity.

In February 2004, the Company announced it had entered into a Letter of Intent for the sale of its wholly owned subsidiary, Hy-Tech Computer Systems (HTCS) to Aegis, Inc.

The Company remains in discussion with various financing sources to allow it access to the financing needed to complement the use of its stock in achieving these plans.

In February 2004, the Company announced its planned changes which included its planned acquisition of Robotic Workspace Technologies (RWT) and the intended divestiture of Hy-Tech Computer Systems (HTCS). Such changes support the Company's plan to grow by acquisition and differentiate the company with unique technologies, by converting to e-commerce selling and distribution techniques and by adding complementary, higher margin services. The Company intends to raise additional working capital through private placements, public offerings and/or bank financing.

There is presently no on-going business being carried on directly by the Company while it seeks to conclude these two transactions.

#### CRITICAL ACCOUNTING POLICIES

The Company prepared its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

disclosure of

13

contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

### VENDOR PROGRAMS

Funds received from vendors for price protection, product rebates, marketing and training, product returns and promotion programs have been recorded as adjustments to product costs, revenue or sales and marketing expenses according to the nature of the program. HTCS recorded estimated reductions to revenues for incentive offerings and promotions.

### ACCOUNTS RECEIVABLE

HTCS recognized revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility was probable. HTCS recorded estimated reductions to revenue for incentive offerings and promotions.

In order to determine the value of HTCS's accounts receivable, HTCS recorded a provision for doubtful accounts to cover probable credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectibility of outstanding accounts receivable.

### INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined by using the average cost method. HTCS maintains a perpetual inventory system which provides for continuous updating of average costs. HTCS evaluates the market value of its inventory components on a regular basis and reduces the computed average cost if it exceeds the component's market value. Inventories consist primarily of computer parts and components purchased from vendors.

### INCOME TAXES

HTCS records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. In the event the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of its recorded amount, an adjustment to the deferred tax assets would be credited to operations in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to operations in the period such determination was made.

### RESULTS OF OPERATIONS

During the fiscal year ended February 28, 2004 (the "2004 Period") revenues were

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

\$8,985,425, compared to revenues of \$23,954,115 during the fiscal year ended February 28, 2003 (the "2003 Period"). This represents a decrease of approximately 62.5%. This decrease is due to restrictions on our inventory purchases that were imposed by our primary lender, SunTrust Bank and the general decrease in the information technology business that occurred during this period.

Gross margins were \$1,041,770 during the 2004 Period compared to \$3,112,371 during the 2003 Period. Gross margins as a percentage of revenues decreased from approximately 13.0% during the 2003 Period to 11.6% during the 2004 Period. The decrease in gross margin was due to HTCS having to purchase inventory from higher cost vendors due to the lack of liquidity that resulted from its lending arrangements.

14

General, administrative and selling expenses were \$6,461,493 during the 2004 period compared to \$4,551,570 during the 2003 period. Included in general, administrative and selling expenses during the 2004 period was \$287,210 of costs directly related to maintaining the public company.

Interest expense was \$482,405 during the 2004 Period and \$216,616 during the 2003 Period. This increase was due to higher interest costs associated with the Factoring Line of Credit entered into with Platinum Funding Corporation in 2004.

Net loss for the 2004 Period was \$2,403,201, compared to a net loss of \$1,661,617 for the 2003 Period, due to the factors described above.

### LIQUIDITY AND CAPITAL RESOURCES

At February 29, 2004, we had cash of \$0, current assets of \$114,650 and current liabilities of \$2,585,402. At February 29, 2004, we had negative working capital of \$2,470,752.

On April 29, 2003, we settled our claims with SunTrust pursuant to a Settlement Agreement for aggregate payments of \$1.5 million. Under the terms of the Settlement Agreement, the Company delivered \$1.0 million dollars to SunTrust on April 29, 2003. This \$1.0 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 SunTrust three installments of \$65,000 each in June, July and August. The balance of \$305,000 was paid from the portion of proceeds received under the Factoring Line of Credit with Platinum Funding Corporation.

We are overdue with payments to numerous vendors. As of February 29, 2004, we had outstanding accounts payable of \$2,081,774 and accrued expenses of \$367,375, reflecting our inability to pay our vendors. Our main source of funds during fiscal year ended February 28, 2003 was our credit facility which was terminated. During fiscal year ended February 29, 2004, we raised \$1.0 million through the sale the Convertible Debenture. All of the proceeds from the sale of the Convertible Debenture were used to pay SunTrust. The Company also used part of the proceeds from the Factoring Line of Credit to pay the remaining installments due to SunTrust Bank.

Currently, because of both our low stock price and our losses, we have not been able to raise funds through the sale of our equity securities. We may not be able to obtain any additional funding, and, if we are not able to raise funding, we may be unable to continue in business. Furthermore, if we are able to raise funding in the equity markets, our stockholders will suffer significant dilution and the issuance of securities may result in a change of control. Management's plans with respect to these matters include its attempts to settle claims with

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

vendors where possible. Management cannot provide any assurance that its plans will be successful in alleviating its liquidity concerns. Further, we cannot guaranty that additional funding will be available on favorable terms, if at all. If we are unable to obtain debt and/or equity financing upon terms that our management deems sufficiently favorable, or at all, it would have a materially adverse impact upon our ability to pursue our business strategy and maintain our current operations.

### Going Concern Qualification

In their review of our financial statements for the period ended February 28, 2004, included in this report, our independent accountants have noted factors which raise substantial doubt about our ability to continue as a going concern. Our accountants have noted that we will require additional working capital to develop and support our technologies and business until we either (1) achieve a level of revenues adequate to generate sufficient cash flows from operations; or (2) obtain additional financing necessary to support our working capital requirements.

15

### ITEM 7. FINANCIAL STATEMENTS

The audited financial statements, together with the independent accountants report thereon of Malone & Bailey, PLLC appears herein, immediately following the Exhibits to this Report.

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS.

Effective March 5, 2003, the client-auditor relationship between Hy-Tech Technology Group, Inc., formerly SRM Networks and Quintanilla, a Professional Accountancy Corporation ("Quintanilla") ceased as the former accountant was dismissed. On that date, the Company engaged Malone & Bailey, PLLC as its principal independent public accountant. The decision to engage Malone & Bailey, PLLC was made by the Company's Finance and Audit Committee in accordance with Section 301 of the Sarbanes-Oxley Act of 2002. The change is based on the relocation of the Company's principal place of business from California to Florida.

Malone & Bailey, PLLC is succeeding Quintanilla. Quintanilla's report on the financial statements of SRM Networks since its inception on June 8, 2001 through December 31, 2001 and any later interim period up to and including the date the relationship with Quintanilla ceased, did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles.

In connection with the audit of SRM Network's first and most recent fiscal year ending December 31, 2001 and any later interim period, including the interim period up to and including the date the relationship with Quintanilla ceased, there have been no disagreements with Quintanilla on any matters of accounting principles or practices, financial statement disclosure of auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Quintanilla would have caused Quintanilla to make reference to the subject matter of the disagreements in connection with its report on the Company's financial statements. Since the Company's inception on June 8, 2001, there have been no reportable events as defined in Item 301(a)(1)(v) of Regulation S-K.

The Company has authorized Quintanilla to respond fully to any inquiries of any new auditors hired by the Company relating to their engagement as the Company's independent accountant. The Company has requested that Quintanilla review the

Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

disclosure and Quintanilla has been given an opportunity to furnish the Company with a letter addressed to the Commission containing any new information, clarification of the Company's expression of its views, or the respect in which it does not agree with the statements made by the Company herein.

The Company has not previously consulted with Malone & Bailey, PLLC regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or (ii) the type of audit opinion that might be rendered on the Company's financial statements; or (iii) any matter that was either the subject matter of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between the Company and Quintanilla, the Company's previous independent accountant, as there were no such disagreements or another reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K) from the Company's inception through December 31, 2001 and any later interim period, including the interim period up to and including the date the relationship with Quintanilla ceased. The Company has not received any written or oral advice concluding there was an important factor to be considered by the Company in reaching a decision as to an accounting, auditing, or financial reporting issue. Malone & Bailey, PLLC has reviewed the disclosure required by Item 304(a) before it was filed with the Commission and has been provided an opportunity to furnish the Company with a letter addressed to the Commission containing any new information, clarification of the Company's expression of its views, or the respects in which it does not agree with the statements made by the Company in response to Item 304(a). Malone & Bailey, PLLC did not furnish a letter to the Commission.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS.

Our directors and principal executive officers are as specified on the following table:

| Name             | Age | Position  |
|------------------|-----|---|
| Martin Nielson   | 52  | Previously Chief Executive Officer and Chairman of the Board of Directors; Director |
| Gary F. McNear   | 59  | Chief Financial Officer, Vice President, Secretary and Director                     |
| Craig W. Conklin | 54  | Chief Operating Officer, Vice President and Director                                |

MARTIN NIELSON was our Chief Executive Officer and Chairman of the Board of Directors since May 2003. He resigned effective June 1, 2004. Mr. Nielson is a principal of Altos Bancorp, Inc., serving as its Chairman and Chief Executive Officer since November 2002. He has also served as Chief Executive Officer and director of Inclusion Inc. since September 2000. Mr. Nielson and Altos were instrumental in assisting the Company in the negotiations that led to the Company's settlement of its litigation with SunTrust Bank and in securing the financing that funded that settlement. Mr. Nielson will continue as a director of the Company. Mr. Nielson is a senior executive with extensive experience in operations and finance. He has been a business builder for 30 years with such companies as Gap, Businessland, and Corporate Express and now will bring that very relevant fast-growth, public company experience to Hy-Tech.

Altos, which is an outgrowth of Nielson's M&A practice during his ten years in London is engaged in providing investment banking and business development



## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

services to growth oriented, emerging companies throughout the United States and Europe. Altos had been retained by the Company to act as its business advisor, but that contract has now been concluded to coincide with the planned acquisition of RWT.

GARY F. MCNEAR has been our Chief Financial Officer, Vice President, Secretary and Director since May 2003. From January 2003, through May 2003 he served as Chief Executive Officer and Director of the Company. Mr. McNear has served as the Chief Executive Officer, Chairman of the Board, and Treasurer of Hy-Tech Computer Systems since HTCS's inception in November 1992, and was a founding shareholder. Mr. McNear has also served as Secretary of Hy-Tech Computer Systems since March 2001. Hy-Tech Computer Systems aquired us in a reverse acqusition in January 2003. Mr. McNear's duties include banking relationships, cash management, and financial reporting. Mr. McNear's formal education is in Industrial Administration at Iowa State University. Mr. McNear is a former officer and pilot in the U.S. Air Force, and a former airline pilot.

CRAIG W. CONKLIN has been our Chief Operating Officer, Vice President and Director since May 2003. From January 2003 through May 2003, he served as President and Director of the Company. Mr. Conklin has served as President and Director of Hy-Tech Computer Systems since HTCS's inception in November 1992, and was a founding shareholder. Hy-Tech Computer Systems aquired us in a reverse acqusition in January 2003. Mr. Conklin's duties include marketing and operations of the Company. Mr. Conklin holds a B.S. in engineering from the Dartmouth College, and an MBA from the Amos Tuck School of business. Mr. Conklin was formerly employed by Owens-corning Fiberglas, inc. and he successfully operated and sold Golf & Electric Carriages, Inc., a local distributorship for Club Car Golf Carts.

There is no family relationship between any of our officers or directors. There are no orders, judgments, or decrees of any governmental agency or administrator, or of any court of competent jurisdiction, revoking or suspending for cause any license, permit or other authority to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining any of our officers or directors from engaging in or continuing any conduct, practice or employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanor involving a security, or any aspect of the securities business or of theft or of any felony. Our officers and directors serve the same functions of our wholly-owned subsidiary HTCS.

17

Our directors will serve until the next annual meeting of stockholders. Our executive officers are appointed by our Board of Directors and serve at the discretion of the Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance. We believe that our officers, directors, and principal shareholders have filed all reports required to be filed on, respectively, a Form 3 (Initial Statement of Beneficial Ownership of Securities), a Form 4 (Statement of Changes of Beneficial Ownership of Securities), or a Form 5 (Annual Statement of Beneficial Ownership of Securities).

### ITEM 10. EXECUTIVE COMPENSATION

Any compensation received by our officers, directors, and management personnel will be determined from time to time by our board of directors. Our officers, directors, and management personnel will be reimbursed for any out-of-pocket expenses incurred on our behalf.

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

### Summary Compensation Table

The table set forth below summarizes the annual and long-term compensation for services payable to our executive officers during the years ending February 28, 2003, 2002 and 2001. Our board of directors may adopt an incentive stock option plan for our executive officers which would result in additional compensation.

#### SUMMARY COMPENSATION TABLE

| Name &<br>Principal Position                               | Year | Annual Compensation |               |                                      | Long Term<br>Awards                   |  |
|--|------|---------------------|---------------|--------------------------------------|---------------------------------------|--|
|  |      | Salary<br>(\$)      | Bonus<br>(\$) | Other Annual<br>Compensation<br>(\$) | Restricted<br>Stock<br>Awards<br>(\$) | Securities<br>Underlying<br>Options/<br>SARs (#) |
| Gary F. McNear,<br>Chief Executive Officer<br>and Director | 2003 | -75,000-            | -0-           | -0-                                  | -0-                                   | -0-  |
|  | 2002 | -0-                 | -0-           | -0-                                  | -0-                                   | -0-  |
|  | 2001 | -0-                 | -0-           | -0-                                  | -0-                                   | -0-  |
| Craig W. Conklin,<br>President and Director                | 2003 | -75,000-            | -0-           | -0-                                  | -0-                                   | -0-  |
|  | 2002 | -0-                 | -0-           | -0-                                  | -0-                                   | -0-  |
|  | 2001 | -0-                 | -0-           | -0-                                  | -0-                                   | -0-  |

#### Compensation of Directors.

Our directors receive no compensation for their service on our board of directors.

On April 28, 2003, we entered into an employment agreement with Gary F. McNear, our Chief Financial Officer, Vice President, Secretary and Director. Mr. McNear is paid a base salary of \$1,500 per week, and is also paid \$500 per week for each week during any month in which earnings (defined as "EBITDA") exceeds 5% of our sales. The agreement is for a term of two years. The agreement restricts Mr. McNear from competing with us, soliciting our customers or employees, and interfering with our business during the term of the agreement and for one year thereafter. Mr. McNear agreed to keep our business trade secrets confidential and not to make use of them. In the event we terminate Mr. McNear without cause,

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

we must pay him severance, consisting of our choice of \$250,000 or 250,000 shares of our common stock. Under the agreement, Mr. McNear was also granted an option to acquire 500,000 shares of our common stock, at a price of \$.01 per share, expiring five years from the date of grant. The options vest at the rate of 25% per year provided Mr. McNear remains our employee, and 25% of the options also vest during any quarter in which earnings (defined as "EBITDA") exceeds 5% of our sales.

On April 28, 2003, we entered into an employment agreement with Craig W. Conklin, our Chief Operating Officer, Vice President, and Director. Mr. Conklin is paid a base salary of \$1,500 per week, and is also paid \$500 per week for each week during any month in which earnings (defined as "EBITDA") exceeds 5% of our sales. The agreement is for a term of two years. The agreement restricts Mr. Conklin from competing with us, soliciting our customers or employees, and interfering with our business during the term of the agreement and for one year thereafter. Mr. Conklin agreed to keep our business trade secrets confidential and not to make use of them. In the event we terminate Mr. Conklin without cause, we must pay him severance, consisting of our choice of \$250,000 or 250,000 shares of our common stock. Under the agreement, Mr. Conklin was also granted an option to acquire 500,000 shares of our common stock, at a price of \$.01 per share, expiring five years from the date of grant. The options vest at the rate of 25% per year provided Mr. Conklin remains our employee, and 25% of the options also vest during any quarter in which earnings (defined as "EBITDA") exceeds 5% of our sales.

In January 2003, Craig W. Conklin, our President, and Gary F. McNear, our Chief Executive Officer, entered into a consulting agreement with Hy-Tech Computer Systems relating to the negotiation of a reduced loan amount due SunTrust Bank. Pursuant to the consulting agreement, Hy-Tech Computer Systems agreed to pay each of Messrs. Conklin and McNear six percent of the discounted amount of the loan due SunTrust Bank. In consideration for six percent of the discounted amount, Messrs. Conklin and McNear agreed to forego any compensation due them for the past two years.

### Options Granted During Fiscal Year Ending February 29, 2004

The following table sets forth information concerning stock options granted to our executive officers and directors named in the summary compensation table for the fiscal year ending February 28, 2004:

| NAME             | Number of<br>Shares Underlying<br>Options Granted | Percentage of Total of<br>Options Granted to<br>Employees During<br>Fiscal Year | Exercise Price<br>Per Share | Expiration Date |
|------------------|---|---|-----------------------------|-----------------|
| Gary F. McNear   | None  | _____   | _____                       | _____           |
| Craig W. Conklin |   |   |                             |                 |

### Options Exercised In Last Fiscal Year and Fiscal Year-End Option Values

Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

| Name             | Shares<br>Acquired on<br>Exercise | Value<br>Realized | Number of Shares Underlying<br>Unexercised Options at<br>Fiscal Year-End |               | Value of Unexe<br>In-the-Money Opt<br>Fiscal Year- |               |
|------------------|-----------------------------------|-------------------|--|---------------|--|---------------|
|                  |                                   |                   | Exercisable  | Unexercisable | Exercisable  | Unexercisable |
| Gary F. McNear   | 0                                 | 0                 | 0  |               | 0  |               |
| Craig W. Conklin | 0                                 |                   |  |               |  |               |

None of our directors or officers was granted or exercised an option during the fiscal year ended February 29, 2004.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information regarding the beneficial ownership of our common stock as of May 31, 2004, by each person or entity known by us to be the beneficial owner of more than 5% of the outstanding shares of common stock, each of our directors and named executive officers, and all of our directors and executive officers as a group. Beneficial ownership has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended. Generally, a person is deemed to be the beneficial owner of a security if he has the right to acquire voting or investment power within 60 days.

| Name and Address of Beneficial Owner   | Amount and Nature of Beneficial Ownership |
|--|---|
| Altos Bancorp, Inc.<br>101 First Street, #493<br>Los Altos, CA 94022   | 10,000,000                                |
| Martin Nielson, formerly Chief Executive Officer and Chairman of the Board of Directors, now Director<br>Hy-Tech Technology Group, Inc.<br>1840 Boy Scout Drive<br>Fort Myers, Florida 33907 | 0 (2)                                     |
| Gary F. McNear, Chief Financial Officer, Vice President, Secretary and Director<br>Hy-Tech Technology Group, Inc.<br>1840 Boy Scout Drive<br>Fort Myers, Florida 33907                       | 5,176,948 (3)                             |
| Craig W. Conklin, Chief Operating Officer, Vice President and Director<br>Hy-Tech Technology Group, Inc.<br>1840 Boy Scout Drive<br>Fort Myers, Florida 33907                                | 5,176,948 (4)                             |

Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

(1) On April 29, 2003, the Gary F. McNear Revocable Trust ("Gary Trust"), the Susan M. McNear Revocable Trust ("Susan Trust"), the Craig M. Conklin Revocable Trust ("Craig Trust") and the Margaret L. Conklin Revocable Trust ("Margaret Trust") (collectively the "Trusts") entered into a Stock Option and Irrevocable Proxy Agreement with Altos. Gary McNear is the Chief Financial Officer, Vice President, Secretary and Director of The Company and Susan McNear is his wife. Craig M. Conklin is the Chief Operating Officer, Vice President and a Director of the Company and Margaret Conklin is his wife. The Trusts own an aggregate of 15,838,444 shares of the Company's Common Stock. The Trusts granted to Altos an option to acquire 10,000,000 of their shares of Common Stock for \$.01 per share for a period of three years. The Trusts also granted to Altos an irrevocable proxy to vote their shares. The irrevocable proxy is for a term of three years with respect to the 10,000,000 shares of Common Stock held by the Trusts that are subject to the option to purchase and for a term of six months with respect to the 5,838,444 shares of Common Stock held by the Trusts that are not subject to the option to purchase. The following table summarizes the options and proxies granted by the Trusts to Altos:

20

|                | Shares Subject to Altos Option | Shares Subject to Three Year Proxy | Shares Subject to Six Month Proxy |
|----------------|--------------------------------|------------------------------------|-----------------------------------|
| Gary Trust     | 3,959,612                      | 3,959,612                          | -                                 |
| Susan Trust    | 1,040,388                      | 1,040,388                          | 2,919,224                         |
| Craig Trust    | 3,959,612                      | 3,959,612                          | -                                 |
| Margaret Trust | 1,040,388                      | 1,040,388                          | 2,919,224                         |
| Total          | 10,000,000                     | 10,000,000                         | 5,838,448                         |

(2) Mr. Nielson is deemed to be the beneficial owner of the shares of common stock owned by Altos by virtue of being an affiliate of Altos.

(3) Includes 2,959,224 shares owned by the Susan Trust that are subject to the Altos proxy for six months from April 29, 2003, but which are not subject to the Altos option to purchase and may be sold subject to the proxy. Does not include option for 500,000 shares granted under employment agreement, no portion of which is vested.

(4) Includes 2,959,224 shares owned by the Margaret Trust. that are subject to the Altos proxy for six months from April 29, 2003, but which are not subject to the Altos option to purchase and may be sold subject to the proxy. Does not include option for 500,000 shares granted under employment agreement, no portion of which is vested.

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

As of May 31, 2004, there were 98,677,406 shares of the Company's stock issued and outstanding.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

HTCS currently leases a building from related parties. The building located at 1840 Boy Scout Drive, Fort Myers, FL consists of 11,320 square feet, and HTCS leases it for \$6,325 monthly. The lease expires December 31, 2010, and Hy-Tech has an option to extend it for five years with a rent escalation equal to the consumer price index increase over the term of the first lease period. Due to non-payment of rents, HTCS and the landlord have agreed to an early termination of this lease on July 31, 2004. This building is owned by Lee Coast Enterprises, Inc. Margaret L. Conklin, (wife of Craig Conklin), as trustee, owns 33% of the stock of Lee Coast Enterprises. Susan McNear, (wife of Gary McNear), as trustee, owns 33% of the stock of Lee Coast Enterprises. This building was leased at market rates. Gary McNear is our vice president, chief financial officer, secretary and a director. Craig Conklin is our vice president, chief operating officer and director.

In April 2002, Bradley Conklin, the son of our President Craig W. Conklin, Margaret Conklin, the wife of our President Craig W. Conklin, and Susan McNear, the wife of our Chief Executive Officer Gary McNear, loaned Hy-Tech Computer Systems, our wholly-owned subsidiary, an aggregate of \$105,000 which loan bears interest at 6%, is due on December 31, 2003, and was secured by second mortgages on the building occupied by Hy-Tech Computer System's Tallahassee, Florida store. This building was sold in August of 2003, and all mortgages paid off at closing of the transaction.

In January 2003, Craig W. Conklin, our President, and Gary F. McNear, our Chief Executive Officer, entered into a consulting agreement with Hy-Tech Computer Systems relating to the negotiation of a reduced loan amount due SunTrust Bank. Pursuant to the consulting agreement, Hy-Tech Computer Systems agreed to pay each of Messrs. Conklin and McNear six percent of the discounted amount of the loan due SunTrust Bank. In consideration for six percent of the discounted amount, Messrs. Conklin and McNear agreed to forego any compensation due them for the past two years.

### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit No.

21

-----

- 2.1 Exchange Agreement (1)
- 2.1 Agreement and Plan of Merger dated as of April 29, 2003 between The Company and Sanjay Haryama (4)
- 2.2 Certificate of Merger between The Company and Sanjay Haryama as filed with the Delaware Secretary of State on April 29, 2003. (4)
- 3.1 Articles of Incorporation (2)
- 3.2 Bylaws (2)
- 3.3 Certificate of Amendment (3)

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

- 10.1 Advisory Agreement between The Company and Altos Bancorp Inc. dated April 22, 2003 (5)
- 10.2 Stock Option and Irrevocable Proxy Agreement among Altos Bancorp, Inc., the Gary F. McNear Trust, the Susan M. McNear Trust, the Craig W. Conklin Trust and the Margaret L. Conklin Trust (5)
- 10.3 Convertible Debenture Purchase Agreement dated as of April 21, 2003 between Sanjay Haryama and HEM Mutual Assurance LLC. (4)
- 10.4 Convertible Debenture Purchase Agreement dated as of April 28, 2003 between The Company and HEM Mutual Assurance Fund Limited. (4)
- 10.5 Option Purchase Agreement between The Company and SunTrust Bank (4)
- 10.6 Employment Agreement with Gary F. McNear
- 10.7 Employment Agreement with Craig W. Conklin
- 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 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350

-----

- (1) Incorporated by reference to the Form 8-K filed on February 4, 2003.
- (2) Incorporated by reference to the Form SB-2 filed on August 7, 2001.
- (3) Incorporated by reference to the Form 10-KSB filed on April 24, 2003.
- (4) Incorporated by reference to the Form 8-K filed on May 13, 2003.

(b) Reports on Form 8-K

A report on Form 8-K was filed on February 4, 2003, relating to the acquisition of Hy-Tech Computer Systems, Inc. and the change in control to the former Hy-Tech Computer Systems shareholders.

A report on Form 8-K and an amended Form 8-K were filed on March 10 and March 13 of 2003, respectively, relating to a change in auditors from Quintanilla, a Professional Accountancy Corporation to Malone & Bailey, PLLC.

A report on Form 8-K was filed on May 13, 2003, relating to a change in control, item 1, involving the acquisition by Altos of a controlling interest in the Company and relating to other events, item 5, involving a financing of the Company and a settlement with SunTrust Bank.

22

### ITEM 14. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Our chief executive officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934

Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

Rules 13a-14(c) and 15-d-14(c)) as of a date (the "Evaluation Date") within 90 days before the filing date of this annually 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.

(b) Changes in internal controls. There were no significant changes in our internal controls or to our knowledge, in other factors that could significantly affect our disclosure controls and procedures subsequent to the Evaluation Date.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned in the City of Fort Myers, Florida, on July 20,2004.

HY-TECH TECHNOLOGY GROUP, Inc.

By: /s/ Martin Nielson  
-----  
Martin Nielson

Its: Chief Executive Officer and Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

By: /s/ Gary F. McNear  
-----  
Gary F. McNear

July 20,2004

Its: Chief Financial Officer, Vice President, Secretary and Director

By: /s/ Craig W. Conklin  
-----  
Craig W. Conklin

July 20,2004

Its: Chief Operating Officer, Vice President and Director

By: /s/ Martin Nielson  
-----  
Martin Nielson

July 20,2004

Its: Chief Executive Officer and Director

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Hy-Tech Technology Group, Inc.  
Fort Myers, Florida



## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

We have audited the accompanying consolidated balance sheet of Hy-Tech Technology Group, Inc. as of February 29, 2004, and the related consolidated statements of operations, shareholders' deficit, and cash flows for each of the two years then ended. These consolidated financial statements are the responsibility of Hy-Tech's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hy-Tech Technology Group, Inc. as of February 29, 2004, and the results of its consolidated operations and its cash flows for each of the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Hy-Tech will continue as a going concern. As discussed in Note 2 to the financial statements, Hy-Tech has incurred losses for the years ended February 29, 2004 and February 28, 2003 totaling \$4,246,527 and \$1,661,617 and had negative working capital of \$2,470,752 as of February 29, 2004. These conditions raise substantial doubt about Hy-Tech's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 2. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Malone & Bailey, PLLC  
Houston, Texas  
www.malone-bailey.com

June 25, 2004

F-1

### HY-TECH TECHNOLOGY GROUP, INC. CONSOLIDATED BALANCE SHEETS FEBRUARY 29, 2004

#### ASSETS

##### Current Assets

|                             |    |         |
|-----------------------------|----|---------|
| Accounts receivable, net    | \$ | 45,431  |
| Inventories, net            |    | 56,868  |
| Prepaid expenses            |    | 12,351  |
|                             |    | -----   |
| Total current assets        |    | 114,650 |
| Property and equipment, net |    | 10,000  |

Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

|   |             |
|---|-------------|
| Other assets  | 524         |
|   | -----       |
| Total assets  | \$ 125,174  |
|   | =====       |
| LIABILITIES AND SHAREHOLDERS' DEFICIT   |             |
| Current Liabilities   |             |
| Bank overdraft  | \$ 17,249   |
| Accounts payable  | 2,083,264   |
| Accrued expenses  | 369,901     |
| Current portion of loans payable  | 93,626      |
| Sales taxes payable   | 21,362      |
|   | -----       |
| Total current liabilities   | 2,585,402   |
| Long-term liabilities   |             |
| Convertible debt  | 733,300     |
|   | -----       |
| Total liabilities   | 3,318,702   |
|   | -----       |
| Commitment and contingencies  |             |
| Shareholders' deficit   |             |
| Preferred stock, \$.0001 par value, 32,000,000 shares authorized, no shares issued and outstanding      | -           |
| Common stock, \$.001 par value, 900,000,000 shares authorized, 83,443,656 shares issued and outstanding | 83,444      |
| Additional paid in capital  | 3,982,942   |
| Accumulated deficit   | (7,259,914) |
|   | -----       |
| Total shareholders' deficit   | (3,193,528) |
|   | -----       |
| Total liabilities and shareholders' deficit   | \$ 125,174  |
|   | =====       |

See accompanying summary of accounting policies and notes to consolidated financial statements.

F-2

HY-TECH TECHNOLOGY GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

|                                     | 2004         | 2003          |
|-------------------------------------|--------------|---------------|
|                                     | -----        | -----         |
| Net revenues                        | \$ 8,985,425 | \$ 23,954,115 |
| Cost of revenues                    | 7,943,655    | 20,841,744    |
|                                     | -----        | -----         |
| Gross margin                        | 1,041,770    | 3,112,371     |
| General, administrative and selling | 6,461,493    | 4,551,570     |
|                                     | -----        | -----         |

Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Loss from operations                 | (5,419,723)    | (1,439,199)    |
|                                      | -----          | -----          |
| Other income (expense):              |                |                |
| Other income (expense)               | --             | (5,802)        |
| Gain on settlement of debt           | 1,655,601      | --             |
| Interest expense                     | (482,405)      | (216,616)      |
|                                      | -----          | -----          |
|                                      | 1,173,196      | (222,418)      |
|                                      | -----          | -----          |
| Net loss                             | \$ (4,246,527) | \$ (1,661,617) |
|                                      | =====          | =====          |
| Net loss per share:                  |                |                |
| Net loss - basic and diluted         | \$ (0.08)      | \$ (0.10)      |
|                                      | =====          | =====          |
| Weighted average shares outstanding: |                |                |
| Basic and diluted                    | 52,042,676     | 16,967,699     |
|                                      | =====          | =====          |

See accompanying summary of accounting policies and notes to consolidated financial statements.

F-3

HY-TECH TECHNOLOGY GROUP, INC.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT  
YEARS ENDED FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

|  | Common Stock |           | Additional | Accumu   |
|--|--------------|-----------|------------|----------|
|  | Shares       | Amount    | Paid-In    | Defi     |
|  | -----        | -----     | -----      | -----    |
| Balance,   |              |           |            |          |
| February 28, 2002  | 16,000,000   | \$ 16,000 | \$ 689,500 | \$ (1,08 |
| Issuance of common stock<br>in connection with<br>recapitalization | 8,027,501    | 8,028     | (689,500)  | (26      |
| Net loss   | -            | -         | -          | (1,66    |
|  | -----        | -----     | -----      | -----    |
| Balance,   |              |           |            |          |
| February 28, 2003  | 24,027,501   | 24,028    | -          | (3,01    |
| Issuance of common stock<br>for services                           | 30,352,827   | 30,353    | 1,899,283  |          |
| Issuance of common stock<br>for conversion of debt                 | 27,563,328   | 27,563    | 1,806,923  |          |

Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

|  |            |           |              |          |
|--|------------|-----------|--------------|----------|
| Issuance of common stock<br>for advances | 1,500,000  | 1,500     | 276,736      |          |
| Net loss                                 | -          | -         | -            | (4,24    |
| Balance,<br>February 29, 2004            | 83,443,656 | \$ 83,444 | \$ 3,982,942 | \$ (7,25 |

See accompanying summary of accounting policies  
and notes to consolidated financial statements.

F-4

HY-TECH TECHNOLOGY GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

|   | 2004           | 2003           |
|---|----------------|----------------|
|   | -----          | -----          |
| CASH FLOWS FROM OPERATING ACTIVITIES  |                |                |
| Net loss  | \$ (4,246,527) | \$ (1,661,617) |
| Adjustments to reconcile net loss to cash provided by<br>(used in ) operating activities: |                |                |
| Depreciation and amortization   | 411,476        | 351,886        |
| Bad debt expense  | 47,791         | 217,940        |
| Gain on settlement of debt  | (1,655,601)    | --             |
| Common stock for services   | 1,929,636      | --             |
| Non-cash interest expense   | 834,486        | --             |
| Impairment  | 245,555        | --             |
| Changes in assets and liabilities:  |                |                |
| Accounts receivable   | 1,375,153      | 663,307        |
| Inventories   | 1,682,830      | 942,392        |
| Other receivables   | 10,200         | 22,834         |
| Prepaid and other assets  | 90,570         | 4,961          |
| Accounts payable  | 114,545        | 296,368        |
| Accrued expenses  | (18,250)       | (501,251)      |
| CASH FLOWS PROVIDED BY (USED IN)<br>OPERATING ACTIVITIES                                  | 821,864        | 336,820        |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                |                |
| Disposition of assets   | 210,310        | --             |
| Capital expenditures  | (34,261)       | (468,335)      |
| CASH FLOWS FROM INVESTING ACTIVITIES  | 176,049        | (468,335)      |
| CASH FLOWS FROM FINANCING ACTIVITIES  |                |                |
| Net proceeds (payments) on line of credit   | (1,230,399)    | (184,000)      |

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

|   |              |            |
|---|--------------|------------|
| Proceeds from advances                                | --           | 195,236    |
| Proceeds (payments) from loans payable - shareholders | (105,000)    | 105,000    |
| Proceeds from loans                                   | 1,733,300    | 228,400    |
| Payments of loans payable                             | (1,560,963)  | (113,934)  |
|   | -----        | -----      |
| CASH FLOWS FROM FINANCING ACTIVITIES                  | (1,163,062)  | 230,702    |
|   | -----        | -----      |
| NET INCREASE (DECREASE) IN CASH                       | (165,149)    | 99,187     |
| Cash, beginning of period                             | 165,149      | 65,962     |
|   | -----        | -----      |
| Cash, end of period                                   | \$ --        | \$ 165,149 |
|   | =====        | =====      |
| SUPPLEMENTAL CASH FLOW INFORMATION                    |              |            |
| Interest paid   | \$ --        | \$ 216,616 |
|   | =====        | =====      |
| Supplemental disclosure of non-cash transactions:     |              |            |
| Issuance of common stock for convertible debt         | \$ 1,000,000 | \$ --      |
| Issuance of common stock for shareholder advances     | \$ 278,236   | \$ --      |
| Stock issued for net liabilities in recapitalization  | \$ --        | \$ 943,656 |

See accompanying summary of accounting policies  
and notes to consolidated financial statements.

F-5

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

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### BUSINESS AND BASIS OF PRESENTATION

###### Nature of business.

Hy-Tech Computer Systems, Inc. ("Hy-Tech") is a wholly owned subsidiary of Hy-Tech Technology Group, Inc. ("HYTT"). Hy-Tech was incorporated in Florida on May 22, 1991. Hy-Tech is a distributor of computers and computer parts to customers who specialize in computer maintenance. Hy-Tech had nine locations in Florida, three locations in Tennessee, two locations in Alabama, two locations in Kentucky, one location in Wisconsin and one location in Colorado. Hy-Tech has sold or liquidated all of its stores during the year ended February 28, 2004 and returned any unsold inventory to its Ft. Myers warehouse. Subsequent to February 2004, Hy-Tech liquidated all of its remaining inventory and property and equipment in June 2004 at a public auction. Hy-Tech is currently looking for merger or acquisition candidates.

###### Principles of Consolidation

The consolidated financial statements include the accounts of HYTTs wholly owned subsidiary. All significant intercompany transactions and balances have been eliminated. HYTT's consolidated financial statements include the results of operations from the respective dates of acquisition through divestiture or February 28, 2004, as applicable.

###### Use of Estimates

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash equivalents include highly liquid, temporary cash investments having original maturity dates of three months or less.

### Inventories

Inventories consist of components of computer hardware and prepackaged software and are stated at the lower of cost, determined by average cost method, or market.

### Other Receivables

Other receivables consist primarily of credits generated upon Hy-Tech's return of products to the vendor or original equipment manufacturer which are under warranty.

### Long-Lived Assets

F-6

Property, plant and equipment are stated at cost less accumulated depreciation. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed by applying the straight-line method over the estimated useful lives of machinery and equipment (3 to 39 years). Leasehold improvements are amortized over the shorter of the useful life of the improvement or the life of the related lease.

### Revenue Recognition

Hy-Tech's revenue is generated primarily from the sale of computer equipment to resellers and end users. Hy-Tech recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable.

Hy-Tech recognizes product sales generally at the time the product is shipped. Concurrent with the recognition of revenue, Hy-Tech provides for the estimated cost of product warranties and reduces revenue for estimated product returns. Sales incentives are generally classified as a reduction of revenue and are recognized at the later of when revenue is recognized or when the incentive is offered. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. Shipping and handling costs are included in cost of goods sold.

Hy-Tech's suppliers generally warrant the products distributed by Hy-Tech and allow returns of defective products, including those that have been returned to Hy-Tech by its customers. Hy-Tech does not independently warrant the products that it distributes, but it does provide warranty services on behalf of the supplier.

### Advertising

Costs incurred in connection with advertising are charged to expense as

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

incurred. Advertising expense was approximately \$10,751 and \$50,701 for the years ended February 29, 2004 and February 28, 2003, respectively.

### Income Taxes

The asset and liability approach is used to account for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Hy-Tech records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

### Basic Loss per Share

Basic loss per share has been calculated based on the weighted average number of shares of common stock outstanding during the period.

### Fair Value of Financial Instruments

The recorded amounts of cash and cash equivalents, short-term borrowings, accounts payable and accrued expenses approximate their respective fair values because of the short maturity of those instruments and the variable nature of any underlying interest rates. The rates of fixed obligations approximate the rates of the variable obligations. Therefore, the fair value of these loans has been estimated to be approximately equal to their carrying value.

F-7

### Concentrations of Credit Risk

Financial instruments which potentially subject Hy-Tech to concentrations of credit risk consist primarily of cash, cash equivalents, and trade accounts receivable. Hy-Tech maintains its cash and cash equivalents with high quality financial institutions as determined by Hy-Tech's management. To reduce risk of trade accounts receivable, ongoing credit evaluations of customers' financial condition are performed, guarantees or other collateral may be required and Hy-Tech maintains a broad customer base.

### Recent Accounting Pronouncements

Hy-Tech does not expect the adoption of recently issued accounting pronouncements to have a significant impact on Hy-Tech's results of operations, financial position or cash flow.

### NOTE 2 - FINANCIAL CONDITION AND GOING CONCERN

For the years ended February 29, 2004 and February 28, 2003, Hy-Tech incurred net losses totaling \$4,246,527 and \$1,661,617, respectively, and at February 29, 2004 had negative working capital of \$2,470,752. Because of these recurring losses, Hy-Tech announced its restructure of the operations which included shifting its sales operations to an online store operated by a third party. As a result of this change, the Company eliminated the overhead of the local wholesale outlets and all its local costs became variable.

In February 2004, the Company announced its planned changes which included its planned acquisition of Robotic Workspace Technologies (RWT) and the intended divestiture of Hy-Tech Computer Systems (HTCS). Such changes support the Company's plan to grow by acquisition and differentiate the company with unique technologies, by converting to e-commerce selling and distribution techniques and by adding complementary, higher margin services. The Company remains in

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

discussion with various financing sources to allow it access to the financing needed to complement the use of its stock in achieving these plans. The Company intends to raise additional working capital through private placements, public offerings and/or bank financing.

There are no assurances that Hy-Tech will be able to obtain additional financing through private placement, public offerings and/or bank financing necessary to support Hy-Tech's plan. No assurance can be given that financing will be available, or if available, will be on terms acceptable to Hy-Tech. If adequate financing is not available Hy-Tech may be required to curtail its operations. These conditions raise substantial doubt about Hy-Tech's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should Hy-Tech be unable to continue as a going concern. As of June 25, 2004, Hy-Tech had not closed on the acquisition of RWT.

### NOTE 3 - ACCOUNTS RECEIVABLE

Hy-Tech's trade accounts receivable are shown net of allowance for doubtful accounts of \$369,765 at February 29, 2004 as follows:

|                                       |    |         |
|---------------------------------------|----|---------|
| Accounts receivable                   | \$ | 415,196 |
| Less: Allowance for doubtful accounts |    | 369,765 |
|                                       |    | -----   |
|                                       | \$ | 45,431  |

F-8

During fiscal year ended February 29, 2004, the Company entered into a Factoring Line of Credit with Platinum Financing Corporation. Interest expense under this Factoring Line of Credit for the fiscal year ended February 29, 2004 totaled \$385,987.

Hy-Tech maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Hy-Tech's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### NOTE 4 - PROPERTY AND EQUIPMENT

As of February 29, 2004, all property and equipment was reclassified as an asset held for sale. Hy Tech held an action for their remaining assets in June 2004 in which the assets sold for \$10,000.

Depreciation and amortization expense was \$411,477 and \$351,886 for the years ended February 29, 2004 and February 28, 2003, respectively.

### NOTE 5 - LINE OF CREDIT

Hy-Tech had a \$4,000,000 revolving line of credit with a financial institution. The line of credit is collateralized by Hy-Tech's accounts receivable and inventories. In February 2003, Hy-Tech agreed to pay SunTrust Bank \$1,500,000 by April 11, 2003 to settle the outstanding balances on the \$4,000,000 revolving line of credit and promissory notes. Hy-Tech paid \$300,000 and failed to make the remainder of \$1,200,000 by April 11, 2003 and SunTrust Bank then obtained a judgment on April 14, 2003 for failure to make required payments and failure to meet its borrowing base requirements. Hy-Tech renegotiated the settlement terms, for a total of \$1,500,000 and recorded a gain of \$1,665,810. Under the terms of



## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

the Settlement Agreement, Hy-Tech paid \$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. The remaining balance was paid by July 2003.

### NOTE 6 - CONVERTIBLE DEBT

In January 2004, Hy-Tech issued convertible debentures of \$203,000 due in November 2005. The convertible debentures are convertible into common stock at \$0.03 per share.

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.

### NOTE 7 - INCOME TAXES

For the year ended February 28, 2004, Hy-Tech incurred a net loss and, therefore, has no tax liability. The net deferred tax asset generated by the loss carry-forward has been fully reserved.

F-9

For the period prior to January 2003, Hy-Tech elected to have its income taxed under Section 1362 of the Internal Revenue Code and a similar section of the Florida income tax law (S Corporation election). These laws provide that, in lieu of corporate income taxes, Hy-Tech's taxable income will be passed through to the shareholders of the corporation and taxed at the individual level. Therefore, no federal income taxes were provided for those periods in the financial statements.

### NOTE 9 - RELATED PARTY TRANSACTIONS

Hy-Tech had leased two buildings from related parties. The building located at 1826 Boy Scout Drive, Fort Myers, FL consists of 4,600 square feet, and Hy-Tech leased it for \$3,400.00 monthly. The building located at 1840 Boy Scout Drive, Fort Myers, FL consists of 11,320 square feet, and Hy-Tech leased it for \$6,325 monthly. Both of these buildings are owned by Lee Coast Enterprises, Inc. Margaret L. Conklin, (wife of Craig Conklin), as trustee, owns 33% of the stock of Lee Coast Enterprises. Susan McNear, (wife of Gary McNear), as trustee, owns 33% of the stock of Lee Coast Enterprises. Gary McNear is President of Lee Coast Enterprises, Inc. Both of these buildings are leased at market rates. Gary McNear is our vice president, chief financial officer, secretary and a director. Craig Conklin is our vice president, chief operating officer and director. In June 2004, Hy-Tech reached a settlement for \$50,000 to terminate the remainder of these leases.

In January 2003, Craig W. Conklin, our President, and Gary F. McNear, our Chief Executive Officer, entered into a consulting agreement with Hy-Tech Computer Systems relating to the negotiation of a reduced loan amount due SunTrust Bank. Pursuant to the consulting agreement, Hy-Tech Computer Systems agreed to pay each of Messrs. Conklin and McNear six percent of the discounted amount of the loan due SunTrust Bank. In consideration for six percent of the discounted amount, Messrs. Conklin and McNear agreed to forego any compensation due them for the past two years. In connection with the SunTrust settlement, Hy-Tech issued common stock valued at \$225,772 to Mr. Conklin and Mr. McNear.

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

Hy-Tech is in default of several leases and has terminated its largest lease as noted above. Rental expense for the operating leases for the years ended February 29, 2004 and February 28, 2003 was \$564,388 and \$572,784, respectively.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of February 28, 2004 are approximately \$70,672. The \$70,672 was accrued as of February 29, 2004 since all leases were abandoned except for the Ft. Myers location which was settled in June 2004.

#### Litigation, Claims, Assessments

Hy-Tech has a number of overdue accounts payable to its suppliers and other trade creditors, and is in the process of negotiating payment terms. Numerous creditors have sent demand letters and threatened litigation against the Hy-Tech. Two significant actions have been commenced against us as of the date of this report. One is an action commenced in the Circuit Court of Lee County, Florida by Uneec Technology, Inc. in which it seeks to recover \$116,180 for goods sold and delivered to Hy-Tech. The second is an action commenced in the circuit Court of Lee County, Florida by Hyundai Imagequest America to recover \$51,075 for goods sold and delivered to Hy-Tech. Hy-Tech believes it can settle these litigations and other creditors' claims after it obtains secured financing.

F-10

We are not involved in any other material pending legal proceedings, other than routine litigation incidental to our business, to which we are a party or of which any of our property is subject.

#### Contingency

Hy-Tech assumed certain net liabilities when it merged with SRM Networks, Inc. and in resolving those liabilities issued 2,000,000 common shares to a financial institution who had loaned \$700,000 to SRM Networks, Inc. Hy-Tech was notified that the shareholders of SRM Networks, Inc. were being prosecuted by the United States Attorney. Accordingly, management determined that Hy-Tech should not settle this liability since the proceeds were issued to a party designated by the shareholders or a United Kingdom entity. Hy-Tech has cancelled such shares as of February 29, 2004. Hy-Tech believes that it has valid defenses with respect to the cancellation of such shares. Nevertheless, it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of this contingency.

### NOTE 11 - SUBSEQUENT EVENTS

Beginning in July 2004, Hy-Tech Technology Group, Inc. will operate under the new name of Innova Holdings. This new name is more synonymous with the Company's plan to grow by acquisition and to differentiate the company with unique technologies.

In July 2004, the Company will increase its authorized shares to 900 million from 100 million. The increase would allow the company to issue new shares for acquisitions, or to secure financing for operations or strategic partnerships.

In February 2004, the Company announced it had entered into a Letter of Intent to acquire Robotic Workspace Technologies, Inc. (RWT). RWT, based in Fort Myers, Florida, is a privately-held company founded in 1994 to enhance the field of

## Edgar Filing: HY TECH TECHNOLOGY GROUP INC - Form 10KSB

robotics with commercially available, patented products to improve robot performance, applicability, and productivity. As of June 25, 2004, this transaction had not closed.

In February 2004, the Company announced it had entered into a Letter of Intent for the sale of its wholly owned subsidiary, Hy-Tech Computer Systems (HTCS) to Aegis, Inc. As of June 25, 2004, this transaction had not closed.

F-11