

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

AMERICAN LEISURE HOLDINGS INC
Form 10QSB
August 20, 2004

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended June 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 333-48312

AMERICAN LEISURE HOLDINGS, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of
incorporation or organization)

75-2877111

(IRS Employer Identification No.)

Park 80 Plaza East, Saddlebrook, New Jersey 07663

(Address of principal executive offices)

(201) 226-2060

(Registrant's telephone number)

N/A

(Former name and address)

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

As of August 20, 2004, 8,428,983 shares of Common Stock of the issuer were
outstanding.

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003	F-1
Condensed Consolidated Statements of Operations for the six and three months ended June 30, 2004 and 2003	F-2
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and 2004	F-3
Notes to Interim Condensed Consolidated Financial Statements	F-4

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS JUNE 30, 2004 AND DECEMBER 31, 2003

ASSETS	June 30, 2004	December 31, 2003
	Unaudited	Audited
CURRENT ASSETS:		
Cash	\$ 2,518,701	\$ 734,850
Accounts receivable	765,884	2,148,130
Advances receivable	101,864	
Note receivable	2,114,020	
Prepaid expenses and other	99,497	40,860
Total Current Assets	5,599,966	2,923,850
PROPERTY AND EQUIPMENT, NET, at cost	2,848,562	3,192,870
LAND HELD FOR DEVELOPMENT	17,126,153	15,323,620
OTHER ASSETS		
Deposits	3,773,590	
Investment	20,427	654,380
Investment in senior, secured notes	5,170,000	
Investment in non-marketable securities	4,113,690	
1913 Mercedes Benz	500,000	500,000
Goodwill	1,840,001	1,840,000
Other	3,115,354	941,730
Total Other Assets	18,533,062	3,936,110
TOTAL ASSETS	\$44,107,743	\$25,376,470

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current maturities of long-term debt and notes payable	\$ 9,885,454	\$ 4,699,200
Current maturities of notes payable-related parties	911,586	741,760
Accounts payable and accrued expenses	2,303,920	2,287,690
Deposits and other	23,525	
Shareholder advances	327,978	1,030,880
Total Current Liabilities	13,452,463	8,759,540
Commitments and contingencies		
Minority liability	26,062	510,340
Long-term debt and notes payable	15,296,478	8,268,220
Notes payable-related parties	952,670	1,675,000
Deposits	7,228,392	
Mandatorily redeemable preferred stock, 28,000 shares authorized; \$.01 par value; 27,189 Series "C" shares issued and outstanding at June 30, 2004 and December 31, 2003	-	2,718,900
Total liabilities	36,956,065	21,932,010
STOCKHOLDERS' EQUITY:		
Preferred stock; 1,000,000 shares authorized; \$.001 par value; 880,000 Series "A" shares issued and outstanding at June 30, 2004 and December 31, 2003	8,800	8,800
Preferred stock; 100,000 shares authorized; \$.01 par value; 2,500 Series "B" shares issued and outstanding at June 30, 2004 and December 31, 2003	25	200
Preferred stock; 28,000 shares authorized; \$.01 par value; 27,189 Series "C" shares issued and outstanding at June 30, 2004 and December 31, 2003	272	
Preferred stock; 50,000 shares authorized; \$.001 par value; 24,101 Series "E" shares issued and outstanding at June 30, 2004	24	
Capital stock, \$.001 par value; 100,000,000 shares authorized; 8,428,983 and 7,488,983 shares issued and outstanding at June 30, 2004 and December 31, 2003	8,429	7,488,983
Additional paid-in capital	11,464,852	6,166,480
Accumulated (deficit)	(4,330,724)	(2,738,340)
Total Stockholders' Equity	7,151,678	3,444,460
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$44,107,743	\$25,376,470

F-1

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
REVENUES	\$ 2,344,947	\$ 35,190	\$ 1,158,282	\$ 35,190
COST OF SALES	-	-	-	-
Gross margin	2,344,947	35,190	1,158,282	35,190
EXPENSES:				
Depreciation and amortization	442,992	175,288	222,920	99,288
Impairment loss	-	-	-	-
General and administrative expenses	3,974,755	743,547	2,000,289	549,288
TOTAL OPERATING EXPENSES	4,417,747	918,835	2,223,209	648,576
LOSS FROM OPERATIONS BEFORE MINORITY INTERESTS	(2,072,800)	(883,645)	(1,064,927)	(613,386)
Minority interests	484,286	-	227,662	-
NET LOSS BEFORE INCOME TAXES	(1,588,514)	(883,645)	(837,265)	(613,386)
PROVISIONS FOR INCOME TAXES	(3,870)	-	(1,135)	-
NET LOSS	\$ (1,592,384)	\$ (883,645)	\$ (838,400)	\$ (613,386)
NET LOSS PER SHARE:				
BASIC AND DILUTED	\$ (0.21)	\$ (0.13)	\$ (0.11)	\$ (0.13)
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC AND DILUTED	7,759,642	6,620,718	7,888,324	6,537,718

F-2

AMERICAN LEISURE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months
Ended

Six Months
Ended

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

	June 30, 2004	June 30, 2003
	----- UNAUDITED	----- UNAUDITED
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,592,384)	\$ (883,645)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	442,992	76,160
Loss on disposal of assets	113,529	-
Gain on settlement of litigation	(145,614)	-
Impairment loss	-	-
Common stock issued for services and contributed capital	-	-
Changes in assets and liabilities:		
Decrease in receivables	1,382,250	(22,849)
(Increase) in advances receivable	(101,864)	(63,536)
(Increase) in prepaid and other assets	(58,630)	24,655
(Increase) in deposits and other	(5,947,214)	(56,993)
Increase in accounts payable and accrued expenses	16,221	(113,217)
Increase in deposits and other	7,251,917	-
	-----	-----
Net cash used in operating activities	1,361,203	(1,039,425)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Investment) in non-marketable securities	(5,250)	-
(Increase) in investment in non-consolidated subsidiaries	(20,427)	-
(Increase) in notes receivable	(2,114,020)	-
Capitalization of real estate carrying costs	(1,802,526)	(1,082,797)
Acquisition of fixed assets	(212,205)	(346,698)
	-----	-----
Net cash used in investing activities	(4,154,428)	(1,429,495)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	5,516,169	3,781,802
Proceeds from notes payable-related parties	(552,504)	(596,655)
Proceeds from shareholder advances	(387,191)	(78,348)
	-----	-----
Proceeds from sale of securities	600	-
	-----	-----
Net cash provided by financing activities	4,577,074	3,106,799
	-----	-----
Net Increase (decrease) in Cash	1,783,849	637,879
	-----	-----
CASH AT BEGINNING PERIOD	734,852	50,499
	-----	-----
CASH AT END OF PERIOD	\$ 2,518,701	\$ 688,378
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 360,000	\$ 180,000
	=====	=====
Cash paid for income taxes	\$ -	\$ -
	=====	=====
NON-CASH TRANSACTION		

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

Stock issued in exchange for assets	\$	-	\$ 2,850,000
	=====		=====
Stock issued in exchange for senior, secured notes	\$	5,170,000	\$ -
	=====		=====
Preferred stock and debt issued for non-marketable securities	\$	4,108,440	\$ -
	=====		=====

F-3

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
June 30, 2004

Note A - Presentation

The condensed balance sheets of the Company as of June 30, 2004, the related condensed consolidated statements of operations for the six and three months ended June 30, 2004, and the condensed consolidated statements of cash flows for the six months ended June 30, 2004, included in the condensed financial statements include all adjustments (consisting of normal, recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the six and three months ended June 30, 2004 are not necessarily indicative of the results of operations for the full year or any other interim period. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and Financial Statements and notes thereto included in the Company's December 31, 2003, Form 10-KSB and the Company's Forms 8K & 8-K/A filings.

NOTE B - REVENUE RECOGNITION

American Leisure recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. These criteria are generally met at the time services are performed.

Note C - Property and equipment, net

At June 30, 2004, property and equipment consisted of the following:

	Useful Lives		Amount
	-----		-----
Computer equipment	3-5	\$	872,973
	-----		-----
Automobiles	5		63,230
Furniture & fixtures	5-7		73,269
Leasehold improvements	5		29,729
Telecommunications equipment	5		3,514,424

			4,553,625
Less: accumulated depreciation and amortization			1,705,063

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

\$2,848,562
=====

Depreciation expense for the six month period ended June 30, 2004 was \$442,992.

F-4

NOTE D - LONG-TERM DEBT AND NOTES PAYABLE

1. New Credit Facilities

Effective June 17, 2004, American Leisure Holdings, Inc. (the "Company") entered into two new credit facilities with Stanford Venture Capital Holdings, Inc. ("Stanford"). The terms of these facilities and certain related transactions are described below.

\$1,000,000 Credit Facility.

The Company and Stanford have entered into a Credit Agreement dated as of June 17, 2004, pursuant to which the Company has borrowed \$1,000,000 from Stanford.

The proceeds of the loan will be used by the Company to fund operating and related costs of the Company's customer service and marketing center located in Antigua. This facility is owned by Caribbean Leisure Marketing Ltd. ("CLM"). CLM is 100% owned by Castlechart Limited, which in turn is 100% owned by the Company.

The loan bears interest at 8% per annum, payable quarterly in arrears. All principal is due in one lump sum on April 22, 2007.

The loan is secured by a lien on all shares of CLM and all of the shares of Castlechart Limited. Both liens are subordinated to existing liens previously granted to Stanford for an earlier loan.

Under the credit agreement, the loan is non-recourse to the Company except in certain limited circumstances.

The loan is convertible by Stanford at any time into shares of the Common Stock of the Company, at a conversion price of \$10.00 per share.

\$3,000,000 Credit Facility.

The Company and Stanford have entered into a Credit Agreement effective as of June 17, 2004, pursuant to which the Company may borrow up to \$3,000,000 from Stanford. To date, the Company has received \$2,535,000, and received the remaining \$465,000 in August 2004.

The proceeds of the loan will be used by the Company to support the Company's proposed acquisition of Around The World Travel, Inc. and to pay expenses of the Company's travel division. Certain of the Company's travel division subsidiaries are co-borrowers.

F-5

The loan bears interest at 8% per annum and is payable quarterly in arrears. The principal balance is due in one lump sum on April 22, 2007.

The loan is secured by the following:

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

(i) A lien on the stock owned by the Company in all of the co-borrowers except the Corporation;

(ii) a collateral assignment of the Company's rights under a certain Option Agreement dated as of May 17, 2004, under which the Company has the right to acquire all of the membership interests in Around The World Holdings, LLC. This company owns a majority of the outstanding common stock of AWT.

(iii) a collateral assignment of certain notes payable made by AWT which are held by the Company. These notes evidence loans in the outstanding principal amount of \$19,200,000, and are secured by a first priority lien on substantially all of the assets of AWT.

(iv) all of the other assets, property and rights of the Company's active travel division subsidiaries other than CLM and Castlechart.

The loan is convertible at the option of Stanford at any time into shares of the Company's Common Stock, at a conversion price of \$10.00 per share.

2. Amendment of the Designation of the Series C Preferred Stock Terms

In connection with the new credit facilities, the Company, with the consent of the holders of more than 75% of the issued and outstanding shares of Series C Preferred Stock, amended the terms of the Company's Series C Preferred Stock to eliminate any obligation of the Company to redeem the Series C Preferred Stock.

Stanford holds approximately 82% of the Series C shares.

3. Modification of Certain Existing Warrants

In connection with the new credit facilities, the Company agreed to modify the terms of certain warrants previously issued to Stanford and certain individuals affiliated with Stanford. These warrants, which were issued in December 2003, entitled the holders to purchase 1,350,000 shares of the Company's Common Stock at an exercise price of \$2.96 per share. Under the terms of the amendment, the Company agreed to reduce the exercise price of warrants to \$.001 per share. No other terms of these existing warrants were changed.

4. Issuance of New Warrants

As additional consideration for the new credit facilities, the Company issued warrants to purchase Common Stock of the Company to Stanford and certain of its affiliates. These warrants allow the holders to purchase 500,000 shares at an exercise price of \$5.00 per share. These warrants have a five-year term.

F-6

5. Grant of Registration Rights

In conjunction with the new credit facilities, the Company and Stanford entered into a Registration Rights Agreement pursuant to which the Company agreed to register the shares issuable to Stanford and its affiliates upon the conversion of the loans under the new credit facilities. The Company has agreed to file a registration statement for this purpose with the Securities and Exchange Commission on or before August 15, 2004. The Company is currently seeking to modify this agreement to extend the date for filing the registration statement until February 2005.

6. Acquisition of Galileo Loans

AMLH has acquired the Galileo loans from GCD Acquisition Corp. ("GCD") Under the

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

terms of this agreement, AMLH has assumed GCD's obligation under a \$5.0 million promissory note, which GCD made when it acquired the Galileo loans. Additionally, AMLH paid GCD other consideration in the form of 340,000 shares of common stock in AMLH valued at \$5.00 per share or an aggregate of \$1.7 million.

AMLH believes that its acquisition of the Galileo loans is ultimately in the best interests of the shareholders and creditors of TraveLeaders since these loans were in default and were secured by substantially all of the assets of TraveLeaders. AMLH believes that they can be used as part of a restructuring of TraveLeaders, which will be fair and reasonable to all of TraveLeaders' Shareholders and creditors.

The assets acquired were in the form of senior, secured notes owed by Around The World Travel, Inc., a Florida Corporation, ("AWT") in the amount of \$22,600,000. AMLH acquired the assets from GCD for \$1,700,000, which was paid via the issuance of 340,000 restricted shares of common stock of AMLH at \$5 a share. In addition, AMLH gave the seller various indemnities and agreed to assume the seller's liability for, among other things, the responsibilities of GCD to service the purchase money financing for the assets as defined in a certain promissory note dated February 23, 2004, wherein the Maker is AWT and the Payee is CNG Hotels, Ltd. in the amount of \$5,000,000 that carries an interest rate of the 3 month LIBOR + 1% per annum. This note is to be serviced on an interest only basis every six months in arrears, until it reaches final maturity in February, 2009.

7. \$6,000,000 Credit Facility

The Company received a \$6,000,000 loan credit facility from Stanford evidenced by a promissory note in the original principal balance of \$6,000,000, with interest at the rate of 6% per annum, due on December 31, 2008, with conversion rights for common stock of the Company. Certain other material terms of the credit facility are set forth below:

Security: The credit facility is currently secured by way of (i) an assignment of a second mortgage in favor of Arvimex, Inc. on real estate located in Polk County, Florida, owned by Tierra Del Sol, a subsidiary of AMLH; (ii) a second mortgage in favor of Stanford on real estate located in Polk County, Florida, owned by Advantage Professional Management Group, Inc., a subsidiary of AMLH; (iii) a pledge by AMLH of all of its issued and outstanding capital stock of American Leisure Marketing & Technology, Inc., a subsidiary of AMLH; (iv) a pledge from Castlechart Limited of all of its issued and outstanding capital stock of Caribbean Leisure Marketing Limited, a subsidiary of AMLH; (v) a security interest in the equipment, fixtures and proceeds thereof of American Leisure Marketing & Technology, Inc.; (vi) a security interest in all assets, property and rights of Caribbean Leisure Marketing Limited; (vii) the issuance of warrants for 600,000 shares of AMLH Common Stock at an exercise price of \$.001 per share, expiring on December 31, 2008; and (viii) the issuance of warrants for 1,350,000 shares of AMLH Common Stock at an exercise price of \$2.96 per share, expiring on December 31, 2008.

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

Conversion: The note is convertible into the common stock of the Company at a conversion price based on that number of shares of the Company's Common Stock calculated by dividing the amount due under the credit facility by \$15.00.

Expenses: The Company shall reimburse Stanford for all of its reasonable costs and expenses incurred in connection with the credit facility, including fees of its counsel.

Registration Rights: No later than 180 days following the closing of the exercise of the warrants or conversion of the note, the Company shall file an SB-2 Registration Statement under the Securities Act covering all of the shares of common stock that may be received through the exercise of warrants and conversion of the note. In the event a filing is not made within 180 days of closing, the Company will issue Stanford, as a penalty, additional warrants equal to 10% of the warrants originally issued for every quarter the filing is not made. The costs of the registration statement shall be covered by the Company.

Description of the Warrants: The Company shall issue to Stanford or its assigns warrants to purchase 1,950,000 shares of the Company's Common Stock, at an average conversion price of \$2.05 per share, of which 600,000 warrants shall have an exercise price of \$0.001 per share and 1,350,000 shall have an exercise price of \$2.96 per share. The warrants shall be exercisable until December 31, 2008.

F-8

8. \$1,698,340 Note to Shadmore Trust

As part of the acquisition of the majority interest in the preferred stock of AWT, the Company issued 24,101 shares of its Series E Preferred Stock and issued a note in the amount of \$1,698,340 to the Shadmore Trust. The note calls for an interest rate of four percent (4%) per annum with weekly payments in the amount of \$5,000 until the note is fully paid or April 1, 2011, whichever is first. Payments shall commence upon the Company's acquisition of majority control of AWT. The note is unsecured.

NOTE E - NOTES PAYABLE - RELATED PARTIES

The current portion of notes payable to related parties is as follows:

Azure, Ltd.	\$ 436,805
Roger C. Maddock	94,428
Arvimex Inc.	380,353

Notes payable - related parties	\$ 911,586
	=====

Roger C. Maddock beneficially owns more than 10% of the Company's common stock and he is the majority owner of Axure, Ltd.

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

The long-term portion of notes payable of \$952,670 is owed to the minority shareholders of Hickory Travel Systems, Inc., a subsidiary of the Company. \$193,815 of such amount is owed to L. William Chiles, a Director of the Company.

The majority of notes payable to related parties bear interest at a rate of 12% per annum.

Note F - STOCKHOLDERS EQUITY AND MANDATORILY REDEEMABLE PREFERRED STOCK

Common Stock and Mandatory Redeemable Preferred Stock

In March 2004, we issued 340,000 shares of restricted Common Stock in connection with the acquisition of the senior, secured debt of AWT.

As reported in an earlier filing, the Company granted to Stanford, and to certain individuals associated with Stanford, warrants to purchase an aggregate of 600,000 shares of the Company's Common Stock at \$.001 per share. These warrants were issued at a cost paid by the Company for the issuance of the \$6,000,000 credit facility in December, 2003. During the month of April, 2004, all 600,000 warrants were exercised which resulted in the issuance of 600,000 shares of Common Stock.

F-9

Preferred Stock

American Leisure is authorized to issue up to 10,000,000 shares of preferred stock:

Class	Total Series Authorized	Stated Value	Voting	Annual Dividends per Share	Conver- sion Rate
-----	-----	-----	-----	-----	-----
Series A	1,000,000	\$ 10.00	Yes	0.12	10 shares of common per share of Series A
Series B	100,000	\$100.00	Yes	0.12	Liquidation value divided by market value but not less than 20:1 nor more than 12.5:1
Series C (1)	28,000	\$100.00	Yes	0.04	Liquidation value divided by market value but not less

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

					than 20:1 nor more than 12.5:1
Series E	50,000	\$100.00	Yes	0.04	Liquidation value divided by market value but not less or more than than 6.666:1

(1) In April of 2004, the Company designated the Class E Preferred Stock. Its authorization was made expressly for the purpose of using said class as the currency of exchange for acquisitions such as for Around The World Travel, Inc. The Designation was previously reported on Form 8-K filed with the Securities and Exchange Commission (the "Commission") on April 12, 2004. In summary, said class has a liquidation value of \$100.00 per share and a strike price (for Common Stock) of a minimum of \$15.00.

Effective June 17, 2004, the Company amended the Certificate of Designation of the Series C, Preferred Stock. By permission of more than the required minimum percentage of the Class, the feature requiring the mandatory redemption of the Series C Preferred Stock by the Company was deleted. The Company previously reported the amendment on Form 8-K filed with the Commission on August 6, 2004.

F-10

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

THIS REPORT CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH ON THE FORWARD LOOKING STATEMENTS AS A RESULT OF THE RISKS SET FORTH IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, GENERAL ECONOMIC CONDITIONS, AND CHANGES IN THE ASSUMPTIONS USED IN MAKING SUCH FORWARD LOOKING STATEMENTS. GIVEN THESE UNCERTAINTIES, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS AND NO ASSURANCE CAN BE GIVEN THAT THE PLANS, ESTIMATES AND EXPECTATIONS REFLECTED IN SUCH STATEMENTS WILL BE ACHIEVED.

THE FOLLOWING DISCUSSION OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES AND OTHER FINANCIAL INFORMATION INCLUDED ELSEWHERE IN THIS QUARTERLY REPORT. UNLESS OTHERWISE INDICATED IN THIS DISCUSSION (AND THROUGHOUT THIS QUARTERLY REPORT), REFERENCES TO "REAL ESTATE" AND TO "INVENTORIES" COLLECTIVELY ENCOMPASS THE COMPANY'S INVENTORIES HELD FOR SALE. MARKET AND INDUSTRY DATA USED THROUGHOUT THIS QUARTERLY REPORT WERE OBTAINED FROM COMPANY SURVEYS, INDUSTRY PUBLICATIONS, UNPUBLISHED INDUSTRY DATA AND ESTIMATES, DISCUSSIONS WITH INDUSTRY SOURCES AND CURRENTLY AVAILABLE INFORMATION. INDUSTRY PUBLICATIONS GENERALLY STATE THAT THE INFORMATION CONTAINED THEREIN HAS BEEN OBTAINED FROM SOURCES BELIEVED TO BE RELIABLE, BUT THERE CAN BE NO ASSURANCE AS TO THE ACCURACY AND COMPLETENESS OF SUCH INFORMATION. THE COMPANY HAS NOT INDEPENDENTLY VERIFIED SUCH MARKET DATA. SIMILARLY, COMPANY SURVEYS, WHILE BELIEVED BY THE COMPANY TO BE RELIABLE, HAVE NOT BEEN VERIFIED BY ANY INDEPENDENT SOURCES. ACCORDINGLY, NO ASSURANCE CAN BE GIVEN THAT ANY SUCH DATA WILL PROVE TO BE ACCURATE.

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

THE COMPANY DESIRES TO TAKE ADVANTAGE OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES REFORM ACT OF 1995 (THE "ACT") AND IS MAKING THE FOLLOWING STATEMENTS PURSUANT TO THE ACT TO DO SO. CERTAIN STATEMENTS HEREIN AND ELSEWHERE IN THIS REPORT AND THE COMPANY'S OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE COMPANY MAY ALSO MAKE WRITTEN OR ORAL FORWARD-LOOKING STATEMENTS IN ITS ANNUAL REPORT TO STOCKHOLDERS, IN PRESS RELEASES AND IN OTHER WRITTEN MATERIALS, AND IN ORAL STATEMENTS MADE BY ITS OFFICERS, DIRECTORS AND EMPLOYEES. SUCH STATEMENTS MAY BE IDENTIFIED BY FORWARD-LOOKING WORDS SUCH AS "MAY", "INTEND", "EXPECT", "ANTICIPATE," "BELIEVE," "WILL," "SHOULD," "PROJECT," "ESTIMATE," "PLAN" OR OTHER COMPARABLE TERMINOLOGY OR BY OTHER STATEMENTS THAT DO NOT RELATE TO HISTORICAL FACTS. ALL STATEMENTS, TREND ANALYSES AND OTHER INFORMATION RELATIVE TO THE MARKET FOR THE COMPANY'S PRODUCTS, THE COMPANY'S EXPECTED FUTURE SALES, FINANCIAL POSITION, OPERATING RESULTS AND LIQUIDITY AND CAPITAL RESOURCES AND ITS BUSINESS STRATEGY, FINANCIAL PLAN AND EXPECTED CAPITAL REQUIREMENTS AND TRENDS IN THE COMPANY'S OPERATIONS OR RESULTS ARE FORWARD-LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS ARE SUBJECT TO KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, MANY OF WHICH ARE BEYOND THE COMPANY'S CONTROL, THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY, OR INDUSTRY TRENDS, TO DIFFER MATERIALLY FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. GIVEN THESE UNCERTAINTIES, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS AND NO ASSURANCE CAN BE GIVEN THAT THE PLANS, ESTIMATES AND EXPECTATIONS REFLECTED IN SUCH STATEMENTS WILL BE ACHIEVED. FACTORS THAT COULD ADVERSELY AFFECT THE COMPANY'S FUTURE RESULTS CAN ALSO BE CONSIDERED GENERAL "RISK FACTORS" WITH RESPECT TO THE COMPANY'S BUSINESS, WHETHER OR NOT THEY RELATE TO A FORWARD-LOOKING STATEMENT. THE COMPANY WISHES TO CAUTION READERS THAT THE FOLLOWING IMPORTANT FACTORS, AMONG OTHER RISK FACTORS, IN SOME CASES HAVE AFFECTED, AND IN THE FUTURE COULD AFFECT, THE COMPANY'S ACTUAL RESULTS AND COULD CAUSE THE COMPANY'S ACTUAL CONSOLIDATED RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENTS MADE BY, OR ON BEHALF OF, THE COMPANY:

- a) Changes in national, international or regional economic conditions that can adversely affect the real estate market, which is cyclical in nature and highly sensitive to such changes, including, among other factors, levels of employment and discretionary disposable income, consumer confidence, available financing and interest rates.

- b) The imposition of additional compliance costs on the Company as the result of changes in or the interpretation of any environmental, zoning or other laws and regulations that govern the acquisition, subdivision and sale of real estate and various aspects of the Company's financing operation or the failure of the Company to comply with any law or regulation. Also the risks that changes in or the failure of the Company to comply with laws and regulations governing the marketing (including telemarketing) of the Company's inventories and services will adversely impact the Company's ability to make sales in any of its future markets at its estimated marketing costs.

- c) Risks associated with a large investment in vacation real estate inventory at any given time (including risks that vacation real estate inventories will decline in value due to changing market and economic conditions and that the development, financing and carrying costs of inventories may exceed those anticipated).

- d) Risks associated with an inability to locate suitable inventory for acquisition, or with a shortage of available inventory in the Company's anticipated markets.

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

e) Risks associated with delays in bringing the Company's inventories to market due to, among other things, changes in regulations governing the Company's operations, adverse weather conditions, natural disasters or changes in the availability of development financing on terms acceptable to the Company.

f) Changes in applicable usury laws or the availability of interest deductions or other provisions of federal or state tax law, which may limit the effective interest rates that the Company may charge on its future notes receivable.

g) A decreased willingness on the part of banks to extend direct customer vacation home financing, which could result in the Company receiving less cash in connection with the sales of vacation real estate and/or lower sales.

h) The fact that the Company requires external sources of liquidity to support its operations, acquire, carry, develop and sell real estate and satisfy its debt and other obligations, and the Company may not be able to locate external sources of liquidity on favorable terms or at all.

i) The inability of the Company to locate sources of capital on favorable terms for the pledge and/or sale of land and vacation ownership notes receivable, including the inability to consummate or fund securitization transactions or to consummate funding under facilities.

j) Costs to develop inventory for sale and/or selling, general and administrative expenses materially exceed (i) those anticipated or (ii) levels necessary in order for the Company to achieve anticipated profit and operating margins or be profitable.

k) An increase or decrease in the number of resort properties subject to percentage-of-completion accounting, which requires deferral of profit recognition on such projects until development is substantially complete. Such increases or decreases could cause material fluctuations in future period-to-period results of operations.

l) The failure of the Company to satisfy the covenants contained in the indentures governing certain of its debt instruments, and/or other credit, loan agreements, which, among other things, place certain restrictions on the Company's ability to incur debt, incur liens, make investments, pay dividends or repurchase debt or equity.

m) The risk of the Company incurring an unfavorable judgment in any litigation, and the impact of any related monetary or equity damages.

n) The risk that the Company's sales and marketing techniques are not successful, and the risk that its Clubs are not accepted by consumers or imposes limitations on the Company's operations, or is adversely impacted by legal or other requirements.

o) The risk that any contemplated transactions currently under negotiation will not close or conditions to funding under existing or future facilities will not be satisfied.

p) Risks relating to any joint venture that the Company is a party to, including risks that a dispute may arise with a joint venture partner, that the Company's joint ventures will not be as successful as anticipated and that the Company will be required to make capital contributions to such ventures in amounts greater than anticipated.

q) Risks that any currently proposed or future changes in accounting principles

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

will have an adverse impact on the Company.

r) Risks that a short-term or long-term decrease in the amount of vacation/corporate travel (whether as a result of economic, political or other factors), including, but not limited to, air travel, by American consumers will have an adverse impact on the Company's sales.

s) Risks that the acquisition of a business by the Company will result in unforeseen liabilities, decreases of net income and/or cash flows of the Company or otherwise prove to be less successful than anticipated.

The Company does not undertake and expressly disclaims any duty to update or revise forward-looking statements, even if the Company's situation may change in the future.

The Public may read and copy any materials filed by American Leisure Holdings, Inc. with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The Public may 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 regarding issuers that file electronically with the SEC at www.sec.gov.

OVERVIEW

American Leisure Holdings, Inc. ("American Leisure," "AMLH" or "the Registrant"), through its subsidiaries, is a developer of vacation real estate. The Company has been re-designed and structured to own, control and direct a series of companies in the travel and tourism industries so that it can achieve significant vertical and horizontal integration in the sourcing of, and the delivery of, corporate and vacation travel services. During the fourth quarter of 2003, AMLH acquired HTS Holdings, Inc. and its subsidiaries ("HTS") to enter into the travel and tourism industry. In May 2004, AMLH acquired an option to purchase Around The World Holdings, LLC, the majority stockholder of "Travelers", discussed below. The acquisition of Travelers, coupled with the acquisition of HTS, will make AMLH both a brick-and-mortar and Internet-based travel agency with a huge travel consortium distribution system through HTS.

The Registrant was originally incorporated as Freewillpc.com, Inc. ("Freewill"), a Nevada corporation, on June 13, 2000. American Leisure Corporation, formerly American Leisure Holdings, Inc., a Nevada corporation ("ALC"), was incorporated on May 10, 2002. Effective June 14, 2002, the Registrant acquired ALC and its subsidiaries in exchange for the issuance of 880,000 shares of Series A Preferred Stock and 4,893,974 shares of Common Stock (the "Acquisition"). In connection with the Acquisition, the Registrant changed its name to American Leisure Holdings, Inc.

For accounting purposes, the Acquisition was treated as an acquisition of American Leisure and a recapitalization of ALC. ALC emerged as the surviving financial reporting entity, but American Leisure remained as the legal reporting entity. ALC is the accounting acquirer and the results of its operations carry over. Accordingly, the operations of American Leisure were not carried over and were adjusted to \$0.

American Leisure Holdings, Inc. serves as a holding company to several operating subsidiaries. The terms "Company," "we" or "our" as used herein refer to American Leisure Holdings, Inc. and its wholly-owned and majority-owned subsidiaries which include the following:

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

- o American Leisure Corporation
- o American Leisure, Inc.
- o American Professional Management Group, Inc.
- o Tierra Del Sol Resort, Inc.
- o American Leisure Marketing & Technology, Inc.
- o American Travel & Marketing Group, Inc.
- o American Leisure Homes, Inc.
- o Florida Golf Group, Inc.
- o I-Drive Limos Inc.
- o Orlando Holidays, Inc.
- o Welcome to Orlando, Inc.
- o Pool Homes, Inc.
- o Pool Homes Managers, Inc.
- o Leisureshare International Ltd.
- o Leisureshare International Espanola S.A.
- o American Travel Club, Inc.
- o American Access Telecommunications Corporation
- o American Switching Technologies, Inc.
- o Club Touristico Latinoamericano, Inc.
- o Affinity Travel Club, Inc.
- o Affinity Travel, Inc.
- o Luxshares, Inc.
- o American Sterling Motorcoaches, Inc.
- o HTS Holdings, Inc.
- o Hickory Travel Systems, Inc.

The following four (4) subsidiaries are the Company's principal operating companies:

Tierra Del Sol Resort, Inc. ("TDSR")

TDSR has completed the final planning stage of a 971-unit vacation destination resort in Orlando, Florida. The Company expected that the horizontal construction finance and resort amenities would be funded via a Community Development District Bond ("CDD Bonds") placement. Due to the re-rating of these bonds in December 2003, the placement of these bonds and the development of the project has been delayed while TDSR seeks to obtain conventional construction financing. TDSR expects to receive offers for conventional construction funding during the third quarter of 2004. TDSR expects to sell CDD Bonds on the "back end" when the vacation homes have been sold to third party buyers with a view to recovering the monies it will have expended for the horizontal infrastructure and resort amenities.

Presales of the vacation homes commenced on February 1, 2004. As of the date of this report, TDSR has executed pre-sales contracts for 390 properties representing sales of approximately \$113,000,000. The Company will realize income from the sales after development, construction and delivery of the vacation homes to the purchasers. The company expects to complete the construction of these presales in the third and fourth quarters of 2005.

TDSR is seeking a \$95,000,000 construction loan to enter into the construction/development stage in the winter of 2004. The Company is currently seeking to strengthen its bank guarantees with a third party guarantor for the construction loan. The Company also intends to continue to provide financial and guarantee support to TDSR for the development of the resort. Provided that TDSR obtains the necessary construction loan, development will commence with horizontal construction during the winter of 2004 and vertical construction on all pre-sales commencing in the spring of 2005, with the first vacation investment properties estimated to be delivered late in the summer of 2005. At this time, the Company does not have any commitments for the construction loan.

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

There can be no assurance that the Company will obtain the construction loan, or that other arrangements will be available when needed or on terms satisfactory to the Company. If the Company does not obtain the construction loan it cannot begin the construction/development phase for TDSR.

On May 10, 2004, TDSR changed its name from Sunstone Golf Resort, Inc. ("Sunstone") to Tierra Del Sol Resort, Inc.

The Company refinanced the TDSR business operations in March of 2003 and repaid loans that it had borrowed since February 2000 at high rates of interest. It obtained a \$6,000,000 loan that enabled the Company to further develop the property by finalizing its revised planning, to obtain permitting for an increase from 799 to 971 vacation residences, to commence engineering and to establish the CDD Bonds.

On November 3, 2003 TDSR entered into an agreement with Town Center Commercial Group, LLC for the sale and purchase of 40 acres of TDSR's property for the amount of \$7,000,000. The closing is conditional upon TDSR obtaining the release of this property from its mortgage with Grand Bank & Trust of Florida. Of the \$7,000,000 sales price, \$3,000,000 will be paid in cash and the balance of the purchase consideration will be paid via the transfer of \$4,000,000 of the existing mortgages on the property due to Arvimex, Inc. and Raster Investments, Inc.

American Travel & Marketing Group, Inc. ("ATMG")

We believe that ATMG will generate significant travel business through the creation of clubs comprised of affinity-based travelers. ATMG has developed a travel club system and travel incentive strategy that creates and fulfills the travel and incentive needs of corporations, organizations and associations with significant member bases. We believe that ATMG is poised to secure a significant market share of the affinity-travel marketing segment. As the proprietor and manager of clubs it creates, ATMG anticipates substantial revenue from annual membership fees and commissions earned on the sale of travel services once the infrastructure has been finalized to communicate and sell to its affinity-based club databases. The value added to ATMG programs by being a part of the AMLH family includes the sales opportunities to the corporate clients of HTS, the fulfillment capacity of the bulk buying power of HTS and the hotel/resort assets to be provided by AMLH through its resort division.

American Leisure Marketing & Technology, Inc. ("ALMT")

ALMT began its marketing and sales in the Summer of 2003. The initial marketing efforts were the sales of tours for various resorts and other tour operators. The Company experienced revenues from these efforts, but experienced significant weaknesses in its senior management. The management was not strong enough to generate sufficient revenues to cover its overhead costs. The management resigned in March 2004. The Company is currently setting a new direction for its sales effort from the call center. In this regard, it closed its Tamarac facility in June 2004 and moved the center to TraveLeaders' premises in Coral Gables Florida and expects to re-open the facility during the last quarter of 2004.

Hickory Travel Systems, Inc. ("HTSI")

On October 1, 2003, American Leisure acquired controlling interest in HTS, the parent to, among other companies, Hickory Travel Services, Inc. which will focus on the fulfillment of all of our companies' travel needs. The Company is currently beginning the integration of its various travel and marketing programs into the HTS system.

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

HTS brings to the Company a network/consortium of approximately 160 well established travel agency members, comprised of over 3,000 seasoned travel agency locations worldwide. HTS will focus on the fulfillment of all of the AMLH group companies travel needs. The Company intends to take advantage of HTS' 24-hour reservation services, international rate desk, discount hotel programs, preferred supplier discount and commission enhancement programs, marketing services, training, consultation, legal and financial services, automation and information exchange and make significant improvements to the operating methods of HTS for the benefit of the Company and HTS' member base.

Historically, HTS has seasonal losses during the first three quarters of each calendar year. In the 2004 fiscal year, the Company estimates that HTS will incur approximately \$1,500,000 in losses during this period and realize approximately \$2,000,000 in net profit in the last quarter of 2004. The Company bases its estimates on previous trends as well as new business opportunities which the Company believes will come to fruition in the last quarter of 2004. HTS will require a loan of approximately \$1,000,000 of working capital from AMLH during its seasonal period of losses. The Company's management is in the process of changing the HTS business model in an attempt to significantly reduce the amount of losses incurred during the first three quarters of each fiscal year.

The Company is currently planning the following acquisitions and business ventures:

Around The World Travel, Inc. ("AWT")

AWT does business as TraveLeaders, one of the largest US-based travel service distribution companies in North America. In March 2004, the Company began a process of acquiring AWT or AWT's assets. As of the date of this report, the Company has acquired the following: 1) senior secured notes of AWT in the total amount of \$22,600,000 (subject to \$5,000,000 of liabilities) in exchange for 340,000 restricted shares of the Company's Common Stock; 2) 907,877 shares of Series A Preferred Stock of AWT (constituting approximately 51% of the issued and outstanding shares of such preferred stock) in exchange for 24,101 shares of newly designated Series E Convertible Preferred Stock of the Company and a promissory note in the principal amount of \$1,698,340; 3) an option to purchase Around The World Holdings, LLC, which owns approximately 62% of the issued and outstanding common stock of AWT; and 4) approximately 5% of the minority interests common and preferred stock of AWT. The Company plans to complete the acquisition of AWT in November 2004.

TraveLeaders will require approximately \$3,000,000 of additional working capital during 2004. The Company intends to loan TraveLeaders any additional advances under the credit agreement it acquired as part of the acquisition of the senior secured notes of AWT. At the date of this report the Company had advanced \$2,800,000 under this arrangement.

Antigua - Caribbean Leisure Marketing Ltd. ("CLM")

During September 2003, forming part of the Company's negotiations with Stanford Venture Capital Holdings, Inc. ("Stanford"), the Company agreed with Stanford to form a new Company in Antigua, West Indies and to acquire the assets of a call center previously run by another Stanford Portfolio company. Stanford agreed to advance the sum of \$2,000,000 for the Company's call centers working capital and equipment needs as part of its \$6,000,000 5-year convertible loan. Once the assets in Antigua have been acquired and upgraded, the center will be linked via

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

satellite to ALMT's new call center in Coral Gables, FL to take advantage of the state of the art technology available in this center and to run various inbound and outbound marketing campaigns for group and third party companies. Stanford advanced an additional \$1,000,000 as part of its \$4,000,000 3-year convertible loan for use in Antigua.

Advantage Professional Management Group, Inc. ("APMG")

The Company has entered into a contract to sell APMG's property for \$4,000,000 (the \$1,300,000 mortgage due on the property will be repaid from the sale proceeds) which it expects to close in September 2004. \$1,500,000 of the proceeds from the sale will be deferred until such time as adequate amounts of water can be supplied to the property. The Company will take a first mortgage on the property to secure the remaining \$1,500,000.

KNOWN TRENDS, EVENTS AND UNCERTAINTIES

The Company's vacation real estate operations will be managed under two business segments. One will develop, market and sell Vacation Ownership Interests in the Company's future resort properties, primarily through Vacation/Travel Clubs. The other operation (currently Tierra Del Sol) will acquire tracts of real estate suitable for vacation resort properties, which will be subdivided, improved and sold, typically on a retail basis as vacation home sales.

The Company expects to experience seasonal fluctuations in its gross revenues and net earnings. This seasonality may cause significant fluctuations in the Company's quarterly operating results. In addition, other material fluctuations in operating results may occur due to the timing of development of certain projects and the Company's use of the percentage-of-completion method of accounting with respect thereto. Furthermore, costs associated with the acquisition and development of vacation resorts, including carrying costs such as interest and taxes, are capitalized as inventory and will be allocated to cost of real estate sold as the respective revenues are recognized. The Company's management expects that the Company will continue to invest in projects that will require substantial development and significant amounts of capital funding.

The Company believes that the terrorist attacks on September 11, 2001 in the United States, the continuing hostilities in the Middle East and other world events have decreased the amount of vacation and corporate air travel by Americans but have not required the Company to materially change its business plan. There can be no assurances, however, that a long-term decrease in air travel or increase in anxiety regarding actual or possible future terrorist attacks or other world events will not have a material adverse effect on the Company's future results of operations.

Strategy

Our current business model is based on four basic premises: Club Creation and Administration, Vacation Resort Real Estate, Vacation Ownership and Travel Services.

Club Creation and Administration.

We intend to promote and service both travel clubs and vacation clubs to derive membership dues revenue, travel commissions revenue and prospects for conversion of travel club members to vacation club members. To enhance membership benefits, we intend to affiliate with vacation exchange programs and provide finance to members.

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

Vacation Resort Real Estate.

In addition to our current vacation resort assets, we intend to purchase additional vacation resort assets, particularly in the Caribbean and Florida resort areas where the demand for vacation property is strong during the majority of the year. Such resorts assets will likely include the following:

- o Resort properties suitable for conversion, for use for vacation club ownership, such as suites, one bedroom and two bedroom units;
- o Resort properties with contiguous vacant land suitable for further expansion;
- o Resort properties that have consistently sustained at least break-even occupancy;
- o Developable land suitable for hotel, vacation resort and/or vacation club development in prime locations with room for a substantial amenity packages; and
- o Locations that have appeal throughout the year rather than limited "seasonal" attraction.

Vacation real estate markets are cyclical in nature and highly sensitive to changes in national and regional economic conditions including the following:

- o levels of unemployment;
- o levels of discretionary disposable income;
- o levels of consumer confidence;
- o the availability of financing;
- o overbuilding or decreases in demand;
- o interest rates; and
- o our ability to identify and enter into agreements with strategic marketing partners.

A downturn in the economy in general or in the market for vacation resort properties could have a material adverse effect on our future business.

We may not successfully execute our growth strategy.

Our growth strategy includes the expansion of the number of vacation resorts we develop. Risks associated with such expansion include the following:

- o construction costs may exceed original estimates;
- o inability to complete construction, conversion or required legal registrations and approvals as scheduled;
- o inability to control the timing, quality and completion of any construction activity;
- o our quarterly results may fluctuate due to an increase or decrease in the number of vacation resort properties completed subject to "percentage of

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

completion accounting," which requires that we recognize profit on projects on a pro rata basis as development is completed;

- o market demand may not be present; and
- o declining values of our inventories.

Any of the foregoing could make any expansion less profitable in the future. There is no assurance that we will complete all of our planned expansion of our vacation properties or, if completed that such expansion will be profitable.

Moreover, to successfully implement our growth strategy, we must integrate any newly acquired or developed resort property into our sales and marketing programs. During the start-up phase of a new resort or vacation resort project, we could experience lower operating margins at that project until its operations mature. The lower margins could be substantial and could negatively impact our cash flow. We cannot provide assurance that we will maintain or improve our operating margins as our projects achieve maturity and our new resorts may reduce our overall operating margins.

Excessive claims for development-related defects could adversely affect our financial condition and operating results.

We will engage third-party contractors to construct our resorts and to develop our communities. However, our customers may assert claims against us for construction defects or other perceived development defects, including structural integrity, the presence of mold as a result of leaks or other defects, asbestos, electrical issues, plumbing issues, road construction, water and sewer defects, etcetera. In addition, certain state and local laws may impose liability on property developers with respect to development defects discovered in the future. A significant number of claims for development-related defects could adversely affect our liquidity, financial condition, and operating results.

Vacation Ownership.

We intend to market vacation assets and vacation club memberships to the general public. The membership bases of our vacation and travel clubs and guests staying at our resort assets will likely provide an ongoing source of prospects for our vacation assets and vacation club membership sales. The Company expects that revenues from the sale of vacation assets and vacation club memberships will be a substantial component in our ability to capitalize the front end of developments and the equity requirement for resort acquisitions.

Travel Services.

We intend to capitalize on the travel requirements of servicing the travel clubs and vacation clubs to garner significant group purchasing, branding and third party branding power. By actively focusing on the demand side coupled with having the structure to fulfill the travel requirements both at our resort assets and at other venues, we will seek to obtain seamless vertical and horizontal integration of services such that the traveler's entire range of needs can be fulfilled or provided by us.

COMPARISON OF OPERATING RESULTS

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

The Company had revenues of \$1,158,282 for the three months ended June 30, 2004, as compared to \$35,190 for the three months ended June 30, 2003. The Company

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

acquired HTS during the fourth quarter of 2003. Prior to that, the Company had generated very little revenue since its inception. The significant increase in the Company's revenues and expenses is due to HTS.

Total operating expenses increased \$1,574,210 from \$648,999 for the three months ended June 30, 2003, to \$2,223,209 (or 243%) for the three months ended June 30, 2004. The increase in total operating expenses was due to increases in depreciation and amortization and increases in general and administrative ("G&A") expenses. Depreciation and amortization increased \$123,722 from \$99,198 for the three months ended June 30, 2003, to \$222,920 (or 125%) for the three months ended June 30, 2004. Likewise, G&A expenses increased \$1,450,488 from \$549,801 for the three months ended June 30, 2003 to \$2,000,289 (or (264%) for the three months ended June 30, 2004.

Loss from operations before minority interests was \$1,064,927 for the three months ended June 30, 2004, as compared to loss from operations before minority interests of \$613,809 for the three months ended June 30, 2003. The increase in loss from operations before minority interests was directly attributable to the increases in depreciation and amortization and G&A expenses.

The Company had \$227,662 attributable to minority interests for the three months ended June 30, 2004, as compared to \$0- attributable to minority interests for the three months ended June 30, 2003.

Net loss before income taxes for the three months ended June 30, 2004 was \$837,265 as compared to net loss before income taxes of \$613,809 for the three months ended June 30, 2003. The increase in net loss before income taxes was directly attributable to the increases in depreciation and amortization and G&A expenses which were offset by \$227,662 attributable to minority interests.

The Company recorded a provision for income taxes of \$(1,135) for the three months ended June 30, 2004, as compared to a provision for income taxes of \$0- for the three months ended June 30, 2003.

The Company had a net loss of \$838,400 for the three months ended June 30, 2004 after taxes, as compared to a net loss of \$613,809 for the three months ended June 30, 2003. The increase in net loss is primarily attributable to the operations of HTS. Historically, HTS has had seasonal losses during the first three quarters and net profits during the fourth quarter of each year.

Net loss per share was \$0.11 for the three months ended June 30, 2004, as compared to net loss per share of \$0.12 for the three months ended June 30, 2003.

SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

The Company had revenues of \$2,344,947 for the six months ended June 30, 2004, as compared to \$35,190 for the six months ended June 30, 2003. The Company acquired HTS during the fourth quarter of 2003. Prior to that, the Company had generated very little revenue since its inception. The significant increase in the Company's revenues is due to HTS.

Total operating expenses increased \$3,498,915 from \$918,835 for the six months ended June 30, 2003, to \$4,417,747 (or 381%) for the six months ended June 30, 2004. The increase in total operating expenses was due to increases in depreciation and amortization and increases in general and administrative ("G&A") expenses. Depreciation and amortization increased \$267,704 from \$175,288 for the six months ended June 30, 2003, to \$442,992 (or 153%) for the six months ended June 30, 2004. Likewise, G&A expenses increased \$3,231,208

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

from \$743,547 for the six months ended June 30, 2003 to \$3,974,755 (or (435%)) for the six months ended June 30, 2004.

Loss from operations before minority interests was \$2,072,800 for the six months ended June 30, 2004, as compared to loss from operations before minority interests of \$883,645 for the six months ended June 30, 2003. The increase in loss from operations before minority interests was directly attributable to the increases in depreciation and amortization and G&A expenses.

The Company had \$484,286 attributable to minority interests for the six months ended June 30, 2004, as compared to \$0- attributable to minority interests for the six months ended June 30, 2003.

Net loss before income taxes for the six months ended June 30, 2004 was \$1,588,514 as compared to net loss before income taxes of \$883,645 for the six months ended June 30, 2003. The increase in net loss before income taxes was directly attributable to the increases in depreciation and amortization and G&A expenses which were offset by \$484,286 attributable to minority interests.

The Company recorded a provision for income taxes of \$(3,870) for the six months ended June 30, 2004, as compared to a provision for income taxes of \$0- for the six months ended June 30, 2003.

The Company had net loss of \$1,592,384 for the six months ended June 30, 2004 after taxes, as compared to net loss of \$883,645 for the six months ended June 30, 2003. The increase in net loss is primarily attributable to the operations of HTS. Historically, HTS has had seasonal losses during the first six quarters and net profits during the fourth quarter of each year.

Net loss per share was \$0.21 for the six months ended June 30, 2004, as compared to net loss per share of \$0.13 for the six months ended June 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Company had total current assets of \$5,599,966 as of June 30, 2004, which consisted of \$2,518,701 of cash, \$765,884 of accounts receivable, \$101,864 of advances, \$2,114,020 of notes receivable and \$99,497 of prepaid expenses and other current assets.

The Company had total current liabilities of \$13,452,463 as of June 30, 2004, which consisted of \$9,885,454 of current maturities of long-term debt and notes payable, \$911,586 of current maturities of notes payable to related parties, \$2,303,920 of accounts payable and accrued expenses, \$23,525 of deposits and other current liabilities and \$327,978 of shareholder advances.

The Company had negative net working capital of \$7,852,497 as of June 30, 2004. The ratio of total current assets to total current liabilities was 42% as of June 30, 2004.

During the three months ended June 30, 2004, the Company's working capital decreased. This was due to administrative and financing costs incurred as carrying costs of the Company's assets and to maintain its operations. Additionally, the note on the TDSR property in the amount of \$6,000,000 has become a current maturity as it is due on April 1, 2005. The Company is currently seeking permanent construction financing on the TDSR project and expects to refinance the property in the Fall of 2004. The Company is currently seeking a \$95,000,000 construction loan to enter into the construction/development phase on the TDSR property. The Company is currently in discussions with banks to provide the construction loan. At this time, the Company does not have any commitments for the construction loan. There can be

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

no assurance that the Company will obtain the construction loan, or that other arrangements will be available when needed or on terms satisfactory to the Company. If the Company does not obtain the construction loan it cannot begin the construction/development phase for TDSR.

The Company has a history of generating net losses though cash increased \$1,783,849 during the six months ended June 30, 2004. The Company's primary source of cash has come from financing activities and the acceptance of deposits on presales of its Tierra Del Sol project, plus increases in its credit facilities from Stanford of approximately \$4,000,000.

Net cash provided by operating activities was \$1,361,203 for the six months ended June 30, 2004, as compared to net cash used in operating activities of \$1,039,425 for the six months ended June 30, 2003.

Net cash used in investing activities was \$4,154,428 for the six months ended June 30, 2004, as compared to net cash used in investing activities of \$1,429,495 for the six months ended June 30, 2003.

Net cash provided by financing activities was \$4,577,074 for the six months ended June 30, 2004, as compared to net cash provided by financing activities of \$3,106,799 for the six months ended June 30, 2003.

As a result of its limited liquidity, the Company has limited access to additional capital resources. The Company does not have the capital to totally fund the obligations that have matured to its shareholders. On June 30, 2004 the company closed on the sale of its investment in American Vacation Resorts, Inc. ("AVR") for \$800,000. This was satisfied by way of the transfer of real property from AVR to the Company. The Company simultaneously assigned these sale proceeds to various shareholders to reduce the amounts overdue on loans previously made by them. The shareholders have agreed to defer receipt of the balance remaining on their loans until the Company has stronger liquidity and the company has agreed to maintain their security for their loans.

The Company needs an aggregate of \$96,400,000 for continuing operations consisting of \$95,000,000 for TDSR for the construction and development phase, \$150,000 for ATMG, \$250,000 for ALMT, and \$1,000,000 for HTS. We also estimate that AWT's TraveLeaders (if acquired) will require additional working capital. The Company successfully closed on two new credit facilities of \$3,000,000 and \$1,000,000 with Stanford. In anticipation of closing Stanford had advanced the Company the approximate amount of \$2,800,000 as of June 30, 2004. The Company will use \$2,800,000 of the credit facilities towards the acquisition of AWT, \$1,000,000 to acquire assets for CLM, and \$200,000 for the Company's overhead. The Company estimates that it will need an additional \$200,000 to complete the acquisition of AWT and an additional \$750,000 for CLM. If additional funds are raised by issuing equity securities and/or debt convertible into equity, further dilution to existing stockholders will result. Future investors may be granted rights superior to those of existing stockholders. At this time, the Company does not have any commitments for additional financing either from its officers, directors and affiliates or otherwise. There can be no assurance that any new capital will be available to the Company or that adequate funds will be sufficient, whether from the Company's financial markets or working capital commitments from Stanford, or that other arrangements will be available when needed or on terms satisfactory to the Company. If adequate funds are not available to us on acceptable terms, we will have to delay, curtail or scale back some or all of our operations, including our planned expansion.

RISK FACTORS

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

AMLH MAY NOT BE ABLE TO OBTAIN ADDITIONAL CAPITAL ON REASONABLE TERMS, OR AT ALL, TO FUND CASH ACQUISITIONS, AND THIS INABILITY MAY PREVENT AMLH FROM TAKING ADVANTAGE OF OPPORTUNITIES, HURT ITS BUSINESS AND NEGATIVELY IMPACT ITS SHAREHOLDERS. AMLH has historically made most of its acquisitions using all preferred shares or a combination of preferred and common shares. AMLH does not at this time have any commitments to make acquisitions for cash. Nevertheless, acquisitions may be undertaken that require cash capital to consummate. If adequate funds are not available on reasonable terms, or at all, AMLH may be unable to take advantage of future opportunities to make additional acquisitions for cash or to satisfy on-going cash requirements for its operations, and material commitments. If additional funds are raised through the issuance of debt or equity securities, the percentage ownership of existing shareholders may be diluted, the securities issued may have rights and preferences senior to those of shareholders, and the terms of the securities may impose restrictions on operations. If AMLH cannot obtain additional financing, it will have to delay, curtail or scale back some or all of its operations which would have a materially adverse effect upon its business operations and its ability to expand.

CERTAIN SEC INQUIRIES. In September 2003, the SEC made inquiries concerning the Company's press releases. Generally, the SEC requested that the Company provide supporting documents for certain statements that the Company had made in its press releases. The Company provided these documents to the SEC, the last of which were provided in February 2004. As a result of the earlier inquiry, the Company may be subject to future liability in connection with its press releases. Any future inquiries and any such liability could have a material adverse effect on the Company's business operations or its ability to obtain debt and/or equity on terms that are acceptable to the Company, if at all.

RISKS RELATING TO AMLH COMMON STOCK

AMLH'S COMMON STOCK WAS DE-LISTED FROM THE OTC BULLETIN BOARD AND NOW TRADES ON THE PINK SHEETS. Due to an inadvertent oversight by the Company's management, the Company submitted its report on Form 10-KSB for the fiscal year ended December 31, 2003 on the Commission's Edgar database four hours after the Commission's deadline for timely filing such report. As a result, AMLH's Common Stock was "de-listed" from the OTC Bulletin Board on May 21, 2004. AMLH's Common Stock now trades on the Pink Sheets, which is generally considered to be a less liquid market than the OTC Bulletin Board. AMLH is taking steps to remedy the situation; however, there can be no assurance that AMLH's Common Stock will become listed on the OTC Bulletin Board. If AMLH is unsuccessful in listing its Common Stock on the OTC Bulletin Board, AMLH's Common Stock will likely have less liquidity than it had, and may trade at a lesser value than it did, on the OTC Bulletin Board.

AMLH'S COMMON STOCK PRICE COULD AND HAS FLUCTUATED SIGNIFICANTLY, AND SHAREHOLDERS MAY BE UNABLE TO RESELL THEIR SHARES AT A PROFIT. The price of AMLH's Common Stock has fluctuated substantially since it began trading. The trading prices for small capitalization companies like AMLH often fluctuate significantly. Market prices and trading volume for stocks of these types of companies like AMLH have been volatile. The market price of AMLH's Common Stock is likely to continue to be highly volatile. If revenue or earnings are less than expected for any quarter, the market price of AMLH's Common Stock could significantly decline, whether or not the decline in AMLH's consolidated revenue or earnings is reflective of any long-term problems with the AMLH's business. Other factors such as AMLH's issued and outstanding Common Stock becoming eligible for sale under Rule 144, terms of any equity and/or debt financing, and market conditions could have a significant impact on the future price of AMLH's Common Stock and could have a depressive effect on the then market price of the

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

Common Stock.

ACTIVE TRADING MARKETS FOR AMLH'S COMMON STOCK MAY NOT DEVELOP. While the listing of AMLH's Common Stock was a condition to closing certain transactions, an active and liquid trading market for AMLH's Common Stock may not develop or be sustained. In addition, AMLH cannot predict the price at which AMLH's Common Stock will trade. Furthermore, as stated above AMLH Common Stock has been "de-listed" from trading on the OTC Bulletin Board which may adversely affect the development of an active trading market for AMLH's Common Stock and the price at with AMLH's Common Stock trades.

PENNY STOCK REGULATIONS AND RESTRICTIONS. The Commission has adopted regulations, which generally define penny stocks to be an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. As of June 30, 2004, the closing price of our Common Stock was less than \$5.00 per share and therefore is a "penny stock" pursuant to the rules under the Securities Exchange Act of 1934, as amended. Such designation requires any broker or dealer selling such securities to disclose certain information concerning the transactions, obtain a written agreement from the purchaser, and determine that the purchaser is reasonably suitable to purchase such securities. These rules may restrict the ability of brokers and dealers to sell our Common Stock and may adversely affect the ability of investors to sell their shares.

AMLH HAS AND MAY ISSUE PREFERRED STOCK THAT MAY ADVERSELY AFFECT THE RIGHTS OF HOLDERS OF COMMON STOCK. AMLH's Articles of Incorporation authorize its Board of Directors to issue "blank check" preferred stock, the relative rights, powers, preferences, limitations, and restrictions of which may be fixed or altered from time to time by the Board of Directors or the majority of the preferred stockholders. Accordingly, the Board of Directors may, without shareholder approval, issue preferred stock with dividend, liquidation, conversion, voting, or other rights that could adversely affect the voting power and other rights of the holders of Common Stock. The preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying, or preventing a change in ownership and management of the company that shareholders might not consider to be in their best interests.

NO DIVIDENDS ON AMLH'S COMMON STOCK HAVE BEEN DECLARED. Dividends will not be paid unless and until the Board of Directors declares them. Holders of AMLH's Common Stock have no authority to compel the board to declare dividends.

BECAUSE OF THE SIGNIFICANT NUMBER OF SHARES OWNED BY DIRECTORS, OFFICERS AND PRINCIPAL SHAREHOLDERS, OTHER SHAREHOLDERS MAY NOT BE ABLE TO SIGNIFICANTLY INFLUENCE THE MANAGEMENT OF AMLH. AMLH's directors, officers, and principal shareholders beneficially own a substantial portion of AMLH's outstanding common and preferred stock. As a result, these persons have a significant influence on the affairs and management of AMLH, as well as all matters requiring shareholder approval, including election and removal of members of the board of directors, transactions with directors, officers or affiliated entities, the sale or merger of AMLH, and changes in dividend policy. This concentration of ownership and control could have the effect of delaying, deferring, or preventing a change in ownership and management of AMLH, even when a change would be in the best interest of other shareholders.

RISKS RELATING TO THE TRAVEL BUSINESS

The travel industry is significantly affected by general economic conditions. Because a substantial portion of business and personal airline travel is discretionary, the industry tends to experience adverse financial results during general economic downturns. Economic and competitive conditions since

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

deregulation of the airline industry in 1978 have contributed to a number of bankruptcies and liquidations among airlines. A worsening of current economic conditions, or an extended period of recession nationally or regionally could have a material adverse effect on operations. The Company does not have any control over general economic conditions.

ADVERSE CHANGES OR INTERRUPTIONS IN RELATIONSHIPS WITH TRAVEL SUPPLIERS, DISTRIBUTION PARTNERS AND OTHER THIRD PARTY SERVICE PROVIDERS COULD REDUCE REVENUE. If AMLH companies are unable to maintain or expand their relationships with travel suppliers, including airline, hotel, cruise, tour and car rental suppliers, its ability to offer and expand travel service offerings or lower-priced travel inventory could be significantly reduced. Travel suppliers may not make their services and products available to AMLH group companies on satisfactory terms, or at all. They may choose to provide their products and services only to competitors of AMLH. In addition, these travel suppliers may not continue to sell services and products through global distribution systems on terms satisfactory to AMLH. Any discontinuance or deterioration in the services provided by third parties, such as global distribution systems providers, could prevent customers from accessing or purchasing particular travel services through AMLH.

The contracts of AMLH group companies with travel suppliers are generally renewed on an annual basis and, in some cases, can be canceled at will by the supplier. If these suppliers cancel or do not renew the contracts, AMLH would not have the range or volume of services it will require to meet demand and its future revenue would decline.

A DECLINE IN COMMISSION RATES OR THE ELIMINATION OF COMMISSIONS BY TRAVEL SUPPLIERS WOULD ALSO REDUCE REVENUES. We expect that a substantial portion of AMLH's revenue will come from the commissions paid by travel suppliers, such as hotel chains, and cruise companies, for bookings made through its online travel services. Consistent with industry practices, these travel suppliers are not obligated to pay any specified commission rates for bookings made through it or to pay commissions at all. Over the last several years, travel suppliers have reduced commission rates substantially. Future reductions, if any, in commission rates that are not offset by lower operating costs from our Internet platforms could have a material adverse effect on the operations of AMLH.

FAILURE TO MAINTAIN RELATIONSHIPS WITH TRADITIONAL TRAVEL AGENTS COULD ADVERSELY AFFECT AMLH'S BUSINESS. HTS has historically received, and expects to continue in the foreseeable future to receive, a significant portion of their revenue through relationships with traditional travel agents. Maintenance of good relations with these travel agents depends in large part on continued offerings of travel services in demand, and good levels of service and availability. If HTS does not maintain good relations with its travel agents, these agents could terminate their memberships and use of its products.

DECLINES OR DISRUPTIONS IN THE TRAVEL INDUSTRY COULD SIGNIFICANTLY REDUCE AMLH'S REVENUE. Potential declines or disruptions in the travel industry include:

- o price escalation in the airline industry or other travel related industries;
- o airline or other travel related strikes;
- o political instability, war and hostilities;
- o bad weather;
- o fuel price escalation;

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

- o increased occurrence of travel-related accidents; and
- o economic downturns and recessions.

AMLH HAS ONLY RECENTLY FOCUSED THEIR BUSINESSES ON THE TRAVEL SECTOR AND THEIR RECENT BUSINESS EXPERIENCE IN UNRELATED INDUSTRIES MIGHT NOT CARRY OVER INTO THE BUSINESS OF BEING AN INTERNET-BASED PROVIDER FOR TRAVEL SERVICES.

OTHER RISK FACTORS

THE COMPANIES MAY NOT IDENTIFY OR COMPLETE ACQUISITIONS IN A TIMELY MANNER, COST-EFFECTIVE BASIS OR AT ALL. In the event of any future acquisitions, the companies could:

- o issue additional stock that would further dilute current shareholders' percentage ownership;
- o incur debt;
- o assume unknown or contingent liabilities; or
- o experience negative effects on reported operating results from acquisition-related charges and amortization of acquired technology, goodwill and other intangibles.

These transactions involve numerous risks that could harm operating results and cause the Company's stock prices to decline, including:

- o potential loss of key employees of acquired organizations;
- o problems integrating the acquired business, including its information systems and personnel;
- o unanticipated costs that may harm operating results;
- o diversion of management's attention from business concerns;
- o adverse effects on existing business relationships with customers; and
- o risks associated with entering an industry in which the companies have no or limited prior experience.

Any of these risks could harm the businesses and operating results.

- o attract additional travel suppliers and consumers to its services;
- o maintain and enhance its brand;
- o operate, expand and develop its operations and systems efficiently;
- o maintain adequate control of its expenses;
- o raise additional capital;
- o attract and retain qualified personnel; and
- o respond to technological changes.

OTHER RISKS RELATING TO THE BUSINESS OF AMLH

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

IF AMLH DOES NOT MANAGE ITS GROWTH EFFECTIVELY, THE QUALITY OF ITS SERVICES MAY SUFFER. AMLH plans to grow rapidly and will be subject to related risks, including capacity constraints and pressure on its management, internal systems and controls. The ability of AMLH to manage its growth effectively requires it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of AMLH to manage this growth would have a material adverse effect on its business, operations and prospects.

BECAUSE AMLH DEPENDS ON KEY PERSONNEL, THEIR LOSS COULD HARM ITS BUSINESS. AMLH's key personnel are Malcolm Wright, the Company's Chief Executive Officer and Chief financial Officer and a Director of the Company, and L. William ("Bill") Chiles, a Director of the Company. Competition in our industry for executive-level personnel and directors such as Messrs. Wright and Chiles is fierce and there can be no assurance that we will be able to motivate and retain them, or that we can do so on economically feasible terms. These key personnel would be difficult to replace. AMLH does not carry any insurance covering the loss of any of these key personnel.

WE HAVE A VERY LIMITED HISTORY OF OPERATIONS AND CONTINUING OPERATING LOSSES. Since AMLH's inception, we have engaged primarily in the development of vacation/resort properties, building travel club membership data bases, and recently, the designing, developing, building and implementing the technology in the primary business center, and assembly of our management team. We have incurred net operating losses since our inception. As of June 30, 2004, we had an accumulated deficit of \$4,330,724. Such losses have resulted primarily from costs associated with general and administrative costs associated with our operations.

UNCERTAINTY OF FUTURE PROFITABILITY. We have incurred losses since our inception and continue to require additional capital to fund operations and capacity and facilities upgrades. Our fixed commitments, including salaries and fees for current employees and consultants, equipment rental, and other contractual commitments, are substantial and will increase if additional agreements are entered into and additional personnel are retained. We do not expect to generate a positive internal cash flow within the next twelve months. We will have to generate the necessary capital to operate our business by achieving break-even cash flow from operations and subsequent profitability, selling equity and/or debt securities and/or sale-lease back transactions of our equipment. Unless we are successful in our efforts to achieve break-even cash flow and subsequent profitability and raise capital through sales of securities and/or entering into a sale-lease back transaction, we believe we may not be able to continue operations. We have put a plan into effect aimed at achieving profitability late in the fiscal year 2005; however, there can be no assurances that the Company will be able to successfully achieve the plan.

UNCERTAIN ABILITY TO MEET CAPITAL NEEDS. The Company needs an aggregate of \$96,400,000 for continuing operations consisting of \$95,000,000 for TDSR for the construction and development phase, \$150,000 for ATMG, \$250,000 for ALMT, and \$1,000,000 for HTSI. We also estimate that AWT's TraveLeaders (if acquired) will require additional working capital. Company successfully closed on two new credit facilities of \$3,000,000 and \$1,000,000 with Stanford. In anticipation of closing Stanford had advanced the Company the approximate amount of \$2,800,000 as of June 30, 2004. The Company will use \$2,800,000 of the credit facilities towards the acquisition of AWT, \$1,000,000 to acquire assets for CLM, and \$200,000 for the Company's overhead. The Company estimates that it will need an additional \$200,000 to complete the acquisition of AWT and an additional

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

\$750,000 for CLM for working capital. If additional funds are raised by issuing equity securities and/or debt convertible into equity, further dilution to existing stockholders will result. Future investors may be granted rights superior to those of existing stockholders. At this time, the Company does not have any commitments for additional financing either from its officers, directors and affiliates or otherwise. There can be no assurance that any new capital will be available to the Company or that adequate funds will be sufficient, whether from the Company's financial markets or working capital commitments from Stanford, or that other arrangements will be available when needed or on terms satisfactory to the Company. If adequate funds are not available to us on acceptable terms, we will have to delay, curtail or scale back some or all of our operations, including our planned expansion.

RELIANCE ON A FEW MAJOR CLIENTS. We will focus our marketing efforts on developing long-term relationships with companies in our targeted travel and vacation resort industry. As a result, we will derive a substantial portion of our revenues from relatively few clients. There can be no assurances that we will not continue to be dependent on a few significant clients, that we will be able to retain those clients, that the volumes of profit margins will not be reduced or that we would be able to replace such clients or programs with similar clients or programs that would generate a comparable profit margin. Consequently, the loss of one or more of those clients could have a material adverse effect on our business, results of operations or financial condition.

ECONOMIC DOWNTURN. Our ability to enter into new multi-year contracts may be dependent upon the general economic environment in which our clients and their customers are operating. A weakening of the U.S. or global marketplace could cause longer sales cycles, delays in closing contracts for new business and slower growth under existing contracts. As a result of the terrorist attacks on the United States of America on September 11, 2001, the Company is unable to predict the impact of an economic downturn, if any, on the Company's financial condition or results of operations.

OUR CONTRACTS. Our contracts do not ensure that we will generate a minimum level of revenues, and the profitability of each client campaign may fluctuate, sometimes significantly, throughout the various stages of our sales campaigns. Although we will seek to enter into multi-year contracts with our clients, our contracts generally enable the client to terminate the contract, or terminate or reduce customer interaction volumes, on relatively short notice. Although some contracts require the client to pay a contractually agreed amount in the event of early termination, there can be no assurance that we will be able to collect such amount or that such amount, if received, will sufficiently compensate us for our investment in the canceled campaign or for the revenues we may lose as a result of the early termination. We are usually not designated as our client's exclusive service provider; however, we believe that meeting our clients' expectations can have a more significant impact on revenues generated by us than the specific terms of our client campaign.

COST AND PRICE INCREASES. Only a few of our contracts allow us to increase our service fees if and to the extent certain cost or price indices increase; however, most of our significant contracts do not contain such provisions. Some contracts require us to decrease our service fees if, among other things, we do not achieve certain performance objectives. Increases in our service fees that are based upon increases in cost or price indices may not fully compensate us for increases in labor and other costs incurred in providing services.

CHANGING TECHNOLOGY. Our business is highly dependent on our computer and communications equipment and software capabilities. Our failure to maintain the superiority of our technological capabilities or to respond effectively to technological changes could have a material adverse effect on our business,

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

results of operations or financial condition. Our continued growth and future profitability will be highly dependent on a number of factors, including our ability to (i) expand our existing service offerings; (ii) achieve cost efficiencies in our existing contact centers; and (iii) introduce new services and products that leverage and respond to changing technological developments. There can be no assurance that technologies or services developed by our competitors will not render our products or services non-competitive or obsolete, that we can successfully develop and market any new services or products, that any such new services or products will be commercially successful or that our intended integration of automated customer support capabilities will achieve intended cost reductions.

LABOR FORCES. Our success will be largely dependent on our ability to recruit, hire, train and retain qualified personnel. Our industry is very labor intensive and has experienced high personnel turnover. A significant increase in our personnel turnover rate could increase our recruiting and training costs and decrease operating effectiveness and productivity. Also, if we obtain several significant new clients or implement several new, large-scale campaigns, we may need to recruit, hire and train qualified personnel at an accelerated rate. We may not be able to continue to hire, train and retain sufficient qualified personnel to adequately staff new customer management campaigns. Because significant portions of our operating costs relate to labor costs, an increase in wages, costs of employee benefits or employment taxes could have a material adverse effect on our business, results of operations or financial condition.

COMPETITIVE MARKET. We believe that the market in which we operate is fragmented and highly competitive and that competition is likely to intensify in the future. We compete with small firms offering specific applications, divisions of large entities, large independent firms and the in-house operations of clients or potential clients. A number of competitors have or may develop greater capabilities and resources than us. Similarly, there can be no assurance that additional competitors with greater resources than us will not enter our market. In addition, competitive pressures from current or future competitors also could cause our services to lose market acceptance or result in significant price erosion, which could have a material adverse effect upon our business, results of operations or financial condition.

BUSINESS ACQUISITIONS OR JOINT VENTURES MAY DISRUPT OUR BUSINESS, DILUTE SHAREHOLDER VALUE OR DISTRACT MANAGEMENT'S ATTENTION. As part of our business strategy, we may consider acquisition of, or investments in, businesses that offer services and technologies complementary to ours. Such acquisitions could materially adversely affect our operating results and/or the price of our Common Stock. Acquisitions also entail numerous risks, including: (i) difficulty in assimilating the operations, products and personnel of the acquired business; (ii) potential disruption of our ongoing business; (iii) unanticipated costs associated with the acquisition; (iv) inability of management to manage the financial and strategic position of acquired or developed services and technologies; (v) the division of management's attention from our core business; (vi) inability to maintain uniform standards, controls, policies and procedures; and (vii) impairment of relationships with employees and customers which may occur as a result of integration of the acquired business.

BUSINESS INTERRUPTION. Our operations are dependent upon our ability to protect our contact center, computer and telecommunications equipment and software systems against damage from fire, power loss, telecommunications interruption or failure, natural disaster and other similar events. In the event we experience a temporary or permanent interruption at our contact center, through casualty, operating malfunction or otherwise, our business could be materially adversely affected and we may be required to pay contractual damages to some clients or

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

allow some clients to terminate or renegotiate their contracts with us. We maintain property and business interruption insurance; however, such insurance may not adequately compensate us for any losses we may incur.

VARYING QUARTERLY RESULTS. We have experienced and could continue to experience quarterly variations in operating results because of a variety of factors, many of which are outside our control. Such factors may include, but not be limited to, the timing of new contracts; reductions or other modifications in our clients' marketing and sales strategies; the timing of new product or service offerings; the expiration or termination of existing contracts or the reduction in existing programs; the timing of increased expenses incurred to obtain and support new business; changes in the revenue mix among our various service offerings; labor strikes and slowdowns; and the seasonal pattern of certain businesses serviced by us. In addition, we make decisions regarding staffing levels, investments and other operating expenditures based on our revenue forecasts. If our revenues are below expectations in any given quarter, our operating results for that quarter would likely be materially adversely affected.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities. On an on-going basis, we evaluate our estimates. We base our estimates on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policy affects our more significant judgments and estimates used in the preparation of our financial statements:

Going Concern Considerations. The Company has incurred substantial losses since inception, and has negative working capital. These factors among others indicate that the Company may be unable to continue as a going concern, particularly in the event that it cannot obtain additional debt and/or equity financing to continue its operations or achieve profitable operations, as discussed above under the headings "Liquidity and Capital Resources" and "Risk Factors." The Company's continuation as a going concern depends upon its ability to generate sufficient cash flow to conduct its operations and its ability to obtain additional sources of capital and financing. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management recognizes that we must generate capital and revenue resources to enable us to achieve profitable operations. We are planning on obtaining additional capital by achieving break-even cash flow from operations and selling equity and/or debt securities and/or a sale-lease back transaction on our equipment. The realization of assets and satisfaction of liabilities in the normal course of business is dependent upon us obtaining additional revenues and equity and or debt capital and ultimately achieving profitable operations. However, no assurances can be made that we will be successful in these activities. Should any of these events not occur, our financial statements will be materially affected.

ITEM 3. CONTROLS AND PROCEDURES

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and chief financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the "Evaluation Date"), has concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and designed to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act of 1934 is 1) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms; and 2) accumulated and communicated to him as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There were no significant changes in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of its business, the Company may from time to time become subject to claims or proceedings relating to the purchase, subdivision, sale and/or financing of its real estate. The Company believes that substantially all of the above are incidental to its business.

The Company became a defendant in an action that was filed in Orange County, Florida. In June, 2001, Rock Investment Trust, P.L.C., a British limited liability company, and RIT, L.C., a related Florida limited liability company (collectively the "Plaintiff") filed suit against Malcolm J. Wright, American Vacation Resorts, Inc., American Leisure, Inc., Inversora Tetuan, S.A., Sunstone Golf Resort, Inc., and SunGate Resort Villas, Inc. (collectively the "Defendant"), seeking either the return of an alleged \$500,000 investment or ownership interest in one or more of the defendant entities equivalent to the alleged investment amount. Defendants have denied all claims and have counterclaimed against Rock Investment Trust and its principal, Roger Smee, seeking damages in excess of \$10 million. The litigation is in the discovery phase and is not currently set for trial. While many depositions and other discovery of facts remains to be done, based on the status of the record developed thus far, the Company's counsel believes that Rock Investment Trust's and RIT's claims are without merit and that the counterclaim will be successful.

The Company has become aware of a lawsuit, filed in March 2004, by Manuel Sanchez and Luis Vanegas against American Leisure Holdings, Inc. various subsidiaries and various officers alleging claims of federal and state securities fraud breach of their employment contracts and related stock purchase agreements, and fraudulent inducement. The Company was subsequently served with this lawsuit. AMLH intends to vigorously defend the lawsuit. The plaintiffs are seeking an aggregate amount of damages of approximately \$5,310,000. The Company does not believe that the claims have any merit. The Court has ruled in favor of the Company in recent court proceedings seeking to dismiss the complaint of the Plaintiff.

In February 2003, American Leisure Inc., and Malcolm Wright were joined in a third party lawsuit filed in the Circuit Court of Cook County Illinois as Howard Warren v. Travelbyus, Inc. William Kerby, David Doerge, DCM/ Funding III, LLC, Balis Lewittes and Coleman, Inc. under a theory of joint venture liability with the defendants. The plaintiff claims losses of \$1.5 million from an alleged breach of a promissory note as well as punitive damages for willful and gross

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

negligence. The litigation is in the discovery phase and is not currently set for trial. While many depositions and other discovery of facts remains to be done, based on the status of the record developed thus far, the Company believes that the claims are without merit. The Company has instructed its legal counsel to defend the allegations.

In early May, 2004, AWT, an unrelated company which was then and is now a target for acquisition by the Company, filed a suit with the clerk of the Miami-Dade Circuit Court against Seamless Technologies, Inc. and e-Travelers, Inc. alleging breach of contract and sought relief that includes monetary damages and termination of the contracts. The Company was granted leave to intervene as a plaintiff in the original lawsuit filed against Seamless. On June 28, 2004, the above named defendants brought suit against AWT as well as the Company in a suit named Seamless Technologies, Inc. et al vs. Keith St. Clair et al. This suit alleges that AWT has breached the contracts and also that the Company and its chief executive officer were complicit with certain officers and directors of AWT in securing ownership of certain assets for the Company that are alleged to have been a business opportunity for AWT. In a related matter, the attorneys for Seamless brought another action entitled Peter Hairston vs. Keith St. Clair et al. This suit parrots the misappropriation of business opportunity claim, but it is framed within a shareholder derivative action. The relief sought against the Company includes monetary damages and litigation costs. All three suits have been brought to the Circuit Court of the 11th Judicial Circuit in and for Dade County, Florida. The Company has retained legal counsel regarding these matters. The Company intends to vigorously support the original lawsuit filed against Seamless and defend the counterclaim and allegations against the Company.

ITEM 2. CHANGES IN SECURITIES

(b) In April 2004, the Company issued 24,101 shares of Series E Convertible Preferred Stock, par value \$0.001 per share. The Series E Convertible Preferred Stock ranks senior to the Company's Common Stock, \$.001 par value per share (the "Common Stock") as to dividends and liquidation preference. Each share of Series E Preferred Stock is convertible, at the option of the holder thereof, at any time and from time to time, into a maximum of 6.666 fully paid and non-assessable shares of Common Stock at a minimum of \$15 per share of common stock. Each share of Series E Convertible Preferred Stock has a liquidation preference of \$100 per share and carries a cumulative dividend of 4% of the liquidation preference per share.

(c) In March 2004, the Company issued 340,000 shares Common Stock which were not registered under Securities Act of 1933, as amended (the "Act") to GCD Acquisition Corp. as partial consideration for the purchase of \$22,600,000 secured notes. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuance did not involve a public offering, the recipient took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts or commissions were paid by the Company.

In March 2004, the Company issued warrants to purchase an aggregate of 600,000 shares of the Company's Common Stock at an exercise price of \$.001 per share of Common Stock and an aggregate of 1,350,000 shares of the Company's Common Stock at an exercise price of \$2.96 per share (or an aggregate of 1,950,000 warrants to purchase 1,950,000 shares of the Company's Common Stock at an average conversion price of \$2.05 per share) at anytime prior to December 31, 2008, to Stanford (and individuals related to Stanford) as consideration for providing a \$6,000,000 line of credit to the Company and to Arvimex, Inc. for Arvimex releasing various of its security to Stanford. The exercise price of the

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

warrants received by Stanford (and individuals related to Stanford) to purchase shares of Common Stock at \$2.96 per share was subsequently reduced to \$.001 per share. Neither the warrants nor the underlying Common Stock was registered under the Act. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuances did not involve a public offering, the recipients took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts were paid by the Company. The company has paid a fee of \$100,000 to a third party agent as an introductory fee.

In March 2004, the Company issued warrants to Bill Chiles, a Director of the Company, to purchase 168,672 shares of the Company's Common Stock at an exercise price of \$2.96 per share of Common Stock. Also in March 2004, the Company issued warrants to Malcolm Wright, the Company's Chief Executive Officer, Chief Financial Officer, and a Director of the Company, to purchase 347,860 shares of the Company's Common Stock at an exercise price of \$2.96 per share of Common Stock. The exercise price of the warrants was subsequently reduced to \$1.02 per share of Common Stock. Neither the warrants nor the underlying Common Stock was registered under the Act. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuances did not involve a public offering, the recipients took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts were paid by the Company.

In April 2004, the Company issued 24,101 shares of Series E Convertible Preferred Stock, par value \$0.001 per share to Shadmore Trust in consideration for the acquisition of 907,877 shares of preferred stock (Series A) of Around The World Travel, Inc. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuance did not involve a public offering, the recipient took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts or commissions were paid by the Company. Each share of Series E Preferred Stock is convertible, at the option of the holder thereof, at any time and from time to time, into a maximum of six point six, six, six (6.666) fully paid and non-assessable shares of Common Stock (the "Conversion Rate") at a minimum of \$15 per share of Common Stock. In the event of a liquidation of the Company, the conversion rights will terminate at the close of business on the first full day preceding the date fixed for the payment of any amounts distributable on liquidation to the holders of Series E Convertible Preferred Stock.

In May 2004, the Company issued an aggregate of 600,000 shares of Common Stock that were not registered under the Act to Stanford (and individuals related to Stanford) upon their exercise of warrants to purchase such shares at an exercise price of \$.001 per share (or an aggregate of \$600). The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuances did not involve a public offering, the recipients took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts were paid by the Company.

Effective June 2004, the Company issued warrants to purchase an aggregate of 500,000 shares of the Company's Common Stock at an exercise price of \$5.00 per share of Common Stock at anytime during the next five years, to Stanford (and individuals related to Stanford) as consideration for providing a \$3,000,000 and a \$1,000,000 (or an aggregate \$4,000,000) credit facility to the Company. Neither the warrants nor the underlying Common Stock was registered under the Act. The Company claims an exemption from registration

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

afforded by Section 4(2) of the Act since the foregoing issuances did not involve a public offering, the recipients took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts were paid by the Company. The Company has paid a fee of \$75,000 to a third party agent as an introductory fee.

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

In June, 2004, the holders of Series C Preferred Stock, via signed written consented to action without a meeting pursuant to Nevada law, approved an amendment to the designation of their Series C Preferred Stock to eliminate any obligation of the Company to redeem the Series C Preferred Stock. Of the 27,189 shares of Series C Preferred Stock eligible to vote, shareholders representing 23,850 shares (87.7%) of Series C Preferred Stock gave their signed, written consent to action.

ITEM 5. OTHER INFORMATION

Related Party Transactions

As of June 30, 2004, the Company owed approximately \$1,105,401 of demand notes payable to related parties most of which bear interest at a rate of 12% per annum. Although \$911,586 is currently due and payable upon demand, the related parties have chosen to "roll-over" the notes until such future time as the Company has resources adequate to satisfy such demand payments. As of June 30, 2004, the Company owed \$193,815 of the demand notes payable to related parties to Bill Chiles, a Director of the Company. The amount owed to Mr. Chiles bears interest at a rate of 10% per annum.

As of June 30, 2004, shareholder advances were \$643,692. Shareholder advances are currently due and payable upon demand and bear interest at a rate of 12% per annum. As of June 30, 2004, Malcolm Wright, the Company's Chief Executive Officer, Chief Financial Officer, and a Director of the Company advanced \$146,216 of shareholder advances to the Company.

The Company accrued salaries payable to Malcolm Wright in the amount of \$250,000 per year. As of June 30, 2004, the amount of salaries payable accrued to Mr. Wright was \$625,000. The accrued salaries bear interest at a rate of 12% per annum.

The Company accrues salaries to each of its four (4) directors in an amount of \$18,000 per year for their services as directors of the Company. During the quarter covered by this Report, the Company paid \$12,000 to two (2) directors.

Malcolm Wright, the Company's Chief Executive Officer, Chief Financial Officer and a Director of the Company, and Bill Chiles, a Director of the Company, have personally guaranteed a significant amount of the AMLH's indebtedness. In March 2004 and effective June 14, 2002, the Company entered into an agreement with Malcolm Wright and Bill Chiles whereby the Company has agreed to indemnify Mr. Wright and Mr. Chiles against all losses, costs or expenses relating to the incursion of or the collection of AMLH's indebtedness against Mr. Wright or Mr. Chiles or their collateral. This indemnity extends to the cost of legal defense or other such reasonably incurred expenses charged to or assessed against Mr. Wright or Mr. Chiles. In the event that Mr. Wright or Mr. Chiles makes a personal guarantee for the benefit of AMLH in conjunction with third party financing, and Mr. Wright or Mr. Chiles elects to provide such guarantee, then in that event Mr. Wright and/or Mr. Chiles shall earn a fee for such guarantee equal to three per cent (3%) of the total original indebtedness and two per cent

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

(2%) of any collateral posted as security. The fee shall be paid by the issuance of warrants to purchase AMLH's Common Stock at a fixed strike price of \$1.02 per share, as amended, when the debt is incurred. In March 2004, the Company issued warrants to Mr. Chiles to purchase 168,672 shares of the Company's Common Stock at an exercise price of \$2.96 per share, which was subsequently reduced to \$1.02 per share, of Common Stock. In March 2004, the Company issued warrants to Malcolm Wright to purchase 347,860 shares of the Company's Common Stock at an exercise price of \$2.96 per share, which was subsequently reduced to \$1.02 per share, of Common Stock.

As a direct consequence of the guarantees issued by Mr. Chiles and Mr. Wright for the \$6,000,000 credit facility, and, the re-pricing of the \$2.96 warrants issued to Stanford (and individuals related to Stanford), the exercise price of the warrants issued to Mr. Wright and Mr. Chiles was reduced from \$2.96 to \$1.02 per warrant share of Common Stock.

Malcolm Wright is the majority shareholder of American Leisure Real Estate Group, Inc. (ALRG). On November 3, 2003 TDSR entered into an exclusive Development Agreement with ALRG to provide development services for the development of the Tierra Del Sol Resort. Pursuant to the Development Agreement ALRG is responsible for all development logistics and TDSR is obligated to reimburse ALRG for all of ALRG's costs and to pay ALRG a development fee in the amount of 4% of the total costs of the project paid by ALRG. During the period from inception through June 30, 2004 the fee amounted to \$53,163.

Malcolm Wright and members of his family are the majority shareholders of Xpress Ltd. ("Xpress"). On November 3, 2003 TDSR entered into an exclusive sales and marketing agreement with Xpress to sell the units being developed by TDSR to European buyers. This agreement provides for a fee in the amount of 3% of the total sales prices received by TDSR. During the period since the contract was entered into and ended June 30, 2004 the total European sales amounted to approximately \$93,500,000. As a result of the sales, TDSR is obligated to pay Xpress a fee of \$2,804,428.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

Exhibit No.	Description	
4.1	Amended and Restated Certificate of Designation of Series E Convertible Preferred Stock	(1)
4.2	Certificate of Designation of Series E Convertible Preferred Stock	(2)
10.1	Credit Agreement for \$1,000,000 Credit Facility	(3)
10.2	Credit Agreement for \$3,000,000 Credit Facility	(3)
10.3	Instrument of Warrant Repricing	(3)
10.4	Warrants Purchase Agreement for 500,000 Shares	(3)
10.5	Registration Rights Agreement dated June 17, 2004	(3)
10.6	Development Agreement with ALRG	*

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

- 31 Certificate of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
- 32 Certificate of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
- 99.2 Press Release dated August 3, 2004 (3)
- 99.3 Letter dated August 3, 2004 from the Company to the shareholders of AWT (3)
- (1) Filed as Exhibit 3.1 to both the report of Form 8-K filed on August 5, 2004, and the report of Form 8-K/A filed on August 6, 2004, and incorporated herein by reference.
- (2) Filed as an Exhibit 1 to report on Form 8-K filed on April 12, 2004, and incorporated herein by reference.
- (3) Filed as Exhibits 10.1, 10.2, 10.3, 10.4, 10.5, 99.1, and 99.2, respectively, to both the report on Form 8-K filed on August 5, 2004, and the report of Form 8-K/A filed on August 6, 2004, and incorporated herein by reference.
- (4) Filed as 99.11, 99.12 and 99.13, respectively, to the report of Form 10-QSB filed on May 25, 2004.
- (5) Filed as Exhibits 99.1 and 99.2, respectively, to report on Form 8-K filed on April 6, 2004, and incorporated herein by reference.
- * Filed Herein.

b) Reports on Form 8-K

The Company filed the following four (4) reports on Form 8-K during the quarter for which this report is being filed:

- (1) Form 8-K filed on April 1, to report the acquisition of a \$6,000,000 line of credit.
- (2) Form 8-K filed on April 6, to report the purchase of \$22,600,000 of senior, secured notes (the "Galileo Notes").
- (3), (4) Two Forms 8-K filed on April 12, to report the designation of 50,000 shares of Series E Convertible Preferred Stock, par value \$0.001 per share.

The Company filed the following four (4) reports on Form 8-K subsequent to the quarter for which this report is being filed:

- (5) Form 8-K filed on August 5, 2004, to report the closing of the \$4,000,000 Credit Facility with Stanford, the re-pricing of the \$2.96 Warrants, the issuance of 500,000 warrants to Stanford that bear a strike price of \$5.00 per warrant share, a press release about said closing, a letter to be sent to the shareholders of Around The World Travel, Inc.; and an amendment and restatement of the Certificate of Designation of the Series C Preferred Stock.
- (6) Form 8-K/A filed on August 6, 2004, to report a minor change in the letter

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

to the shareholders of Around The World Travel, Inc.

- (7) Form 8-K/A filed on August 18, 2004, to amend the Form 8-K filed on May 23, 2004, regarding changes in the Company's certifying accountant that occurred during 2002.
- (8) Form 8-K filed on August 18, 2004, to report a change in the Company's certifying accountant.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN LEISURE HOLDINGS, INC.
(Registrant)

Date: August 20, 2004

By: /S/ Malcolm J. Wright

Malcolm J. Wright
Chief Executive Officer, and
Chief Financial Officer

EXHIBIT 10.6

AMERICAN LEISURE REAL ESTATE GROUP, INC.

2015 RESTON RD., SUITE 2211- ORLANDO, FL 32837
407 251-2240 FAX 407 251-8455

DEVELOPMENT AGREEMENT

Date: November 3, 2003

Project: Tierra del Sol Resort, Polk County, FL

Client: Sunstone Golf Resort, Inc.
Orlando, Florida

SCOPE OF WORK:

American Leisure Real Estate Group, Inc. ("ALREG") shall provide development services for the above referenced project ("Project") as follows:

DESIGN & SITE APPROVAL PROCESS

As pertains to the design of the Project and the obtaining of all permits and appropriate governmental approvals, ALREG shall do the following:

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

- a. Recommend for hire, assist and supervise the various professionals associated with the design of the Project and the contemplated units to be constructed including but not limited to the civil engineer, architect, landscape architect and providers of third party reports.
- b. Cause to be presented to the Client, until the Client gives its final approval, a site plan, clubhouse plan, amenities plan and construction plans for the units to be offered for sale.
- c. Assist and supervise the completion of the site approval process so that the Project receives all necessary permits to commence construction of the contemplated Project.

SALES & MARKETING

As pertains to the sales and marketing of the units offered for purchase in the Project, ALREG shall do the following:

- a. Recommend for hire, assist and supervise the various professionals associated with the marketing of the Project and production of marketing materials.
- b. Hire and supervise a sales team to work with other brokers and to conduct in-house sales programs until all units have been sold.

ALREG Agreement
November 3, 2003
Page 2 of 3

CONSTRUCTION MANAGEMENT

Provide construction management services as directed by the client, including but not limited to:

- planning and scheduling,
- develop and maintain action list of issues requiring attention,
- coordinate efforts between designers, contractors, building authorities, and other involved parties,
- schedule and run coordination meetings during the design and construction phase,
- provide estimating services as needed,
- make recommendations related to agreements with other parties,
- make periodic visits to the site to review progress, bring any observed defects to the clients attention,
- review and comment on any claims or change order requests by other parties,
- review design documents for contractibility, and
- provide value engineering recommendations.

COMPENSATION

- 1) Fees:

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

a) ALREG shall be paid a fee for the above services which shall be an amount equivalent to FOUR PERCENT (4%) of the total costs of the Project with the fees deemed earned and payable at the time of payment of the costs paid by either ALRG or the Client.

b) All reasonable operating expenses for ALREG, shall be the responsibility and the expense of Client.

2) Terms: ALREG will invoice by the 15th of each month for all fees earned in the previous calendar month. All fees are due and payable within 10 days of receipt of invoice. Any amount not paid after 30 days of receipt of invoice will accrue interest at a rate of 1.5% per month.

3) Reimbursable Expenses

The Client shall pay directly or reimburse ALREG for all costs associated with the design, site approval process, sales and marketing including the following:

1. All third party costs, third party professionals, all sales and marketing materials, sales center materials and operating costs, all payments and commissions to brokers and sales agents and all travel and entertainment associated with sales and marketing. ALREG shall present a monthly budget to Client scheduling projected third party costs and shall be subject to Client's approval.

2. Any travel and entertainment mandated by the Client shall be reimbursed; however, travel and entertainment in ALREG's normal course of business to fulfill the requirements of this Agreement shall not be reimbursable.

ALREG Agreement
November 3, 2003
Page 3 of 3

3. Any additional services related to litigation or dispute resolution, including but not limited to: depositions, testimony, producing discovery documents, or any other efforts related to dispute resolution involving the Client and another party(s) shall be reimbursed to ALREG at a rate of \$150.00 per ALREG man-hour spent and shall not be subject to any not to exceed price when ALREG is compelled to be involved.

EXCLUSIONS:

ALREG shall not be held responsible for the performance of any other party, including but not limited to consultants, designers, engineers, architects, suppliers, and contractors, however, ALREG shall promptly advise the Client of any known defects in the design or construction.

MISCELLANEOUS:

a. The Client will indemnify and hold harmless ALREG and its agents and its employees from and against any and all claims, damages, losses, and expenses including attorney fees arising out of or resulting from vicarious liability imposed upon ALREG by operation of law or by contract from the intentional act or negligent performance of any duty or contract obligation

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

owed by the Client, its clients, contractors, architects, engineers, consultants, suppliers, or subcontractors.

- b. Statements made in reports are opinions based upon judgment and are not to be construed as representations of fact. Should ALREG or any of its employees be found to be negligent in the performance of its work, or to have made and breached any expressed or implied warranty, representation, or contract, the client and all parties claiming through the Client agree that the maximum aggregate amount of liability of ALREG, its officers, employees, agents shall be limited to \$1,000. All claims, disputes and other matters in question between the parties to this agreement, arising out of or related to this agreement or breach thereof, shall be decided by Arbitration in accordance with the Construction Industry Arbitration Rules of the American Arbitration Association. No arbitration arising out of or relating to this agreement shall include by consolidation, joinder or in any other manner, any additional person not a party to this agreement, except by written consent of all parties. The award rendered by the arbitrators shall be final, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof. Attorney' fees and arbitration costs shall be awarded to the prevailing party.
- c. Nothing contained in this agreement/proposal shall create a contractual relationship with or a cause of action in favor of a third party against ALREG or the Client. This agreement shall be governed by the law in Orange County, Florida.
- d. Neither Party may materially obligate the other to any performance, agreement or financial obligation without the express written consent of the other Party.

Developer:
American Leisure Real Estate Group, Inc.

Client:
Sunstone Golf Resort, Inc.

By: _____
Steve Parker
President

By: _____
Malcolm Wright
President

EXHIBIT 31

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Malcolm J. Wright, certify that:

- 1. I have reviewed this Quarterly Report on Form 10-QSB of American Leisure Holdings, Inc.;

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. As the small business issuer's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) Paragraph omitted in accordance with SEC transition instructions contained in SEC Release No. 33-8238;
 - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 20, 2004

By: /s/Malcolm J. Wright

Malcolm J. Wright,
Chief Executive Officer, and

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB

Chief Financial Officer

Exhibit 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Malcolm J. Wright, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of American Leisure Holdings, Inc. on Form 10-QSB for the quarterly period ended June 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-QSB fairly presents in all material respects the financial condition and results of operations of American Leisure Holdings, Inc.

By: /s/ Malcolm J. Wright

Malcolm J. Wright
Chief Executive Officer, and
Chief Financial Officer

August 20, 2004