

Edgar Filing: AMERICAN RESOURCES & DEVELOPMENT CO - Form 10QSB/A

AMERICAN RESOURCES & DEVELOPMENT CO  
Form 10QSB/A  
February 22, 2001

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

FORM 10-QSB/A

Quarterly Report Under Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended September 30, 2000;

or

Transition Report Under Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For transition period from \_\_\_\_\_ to \_\_\_\_\_

AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
(Name of Small Business Issuer in Its Charter)

Utah  
(State or Other Jurisdiction of  
Incorporation or Organization)

87-0401400  
(I.R.S. Employer Identification No.)

2035 N.E. 181st  
Gresham, OR  
(Address of principal executive offices)

97230  
(Zip Code)

Registrant's telephone number, including area code (503) 492-1500

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

As of February 19, 2001, the Registrant had outstanding 4,868,730  
shares of Common Stock.

Transitional Small Business Disclosure Format (check one):

Yes  No

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Item 1: Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets - September 30, 2000 and  
March 31, 2000

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Condensed Consolidated Statements of Operations - Six months ended

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### AMERICAN RESOURCES AND DEVELOPMENT COMPANY Consolidated Balance Sheet

#### ASSETS

			September 30, 2000
			-----
CURRENT ASSETS			
Cash and cash equivalents	\$	9,736	\$
Accounts receivable, net (Note 1)		521,455	
Inventory (Note 1)		177,612	
Prepaid and other current assets		8,000	
Marketable securities (Note 1)		-	
			-----
Total Current Assets		716,803	
			-----
PROPERTY AND EQUIPMENT (NOTE 1)			
Furniture, fixtures and equipment		460,384	
Capital leases		1,277,899	
			-----
Total depreciable assets		1,738,283	
Less: accumulated depreciation		(736,838)	
			-----
Net Property and Equipment		1,001,445	
			-----
OTHER ASSETS			
Deposits		73,618	
			-----
Total Other Assets		73,618	
			-----
TOTAL ASSETS	\$	1,791,866	\$
			=====

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The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Consolidated Balance Sheet (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	September 30, 2000	
	-----	
CURRENT LIABILITIES		
Accounts payable	\$ 910,329	\$
Accrued expenses and other current liabilities	927,254	
Deferred revenue	7,000	
Line of credit (Note 3)	188,231	
Current portion of notes payable (Note 4)	390,414	
Current portion of notes payable, related parties (Note 5)	101,732	
Current portion of capital lease obligations (Note 6)	301,340	
	-----	
Total Current Liabilities	2,826,300	
	-----	
LONG-TERM DEBT		
Reserve for discontinued operations (Note 2)	734,988	
Notes payable (Note 4)	247,084	
Notes payable, related parties (Note 5)	1,307,509	
Capital lease obligations (Note 6)	231,167	
	-----	
Total Long-Term Debt	2,520,748	
	-----	
Total Liabilities	5,347,048	
	-----	
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, par value \$0.001 per share: 10,000,000 shares authorized; issued and outstanding: 94,953 Series B shares, 150,000 Series C shares	245	
Common stock, par value \$0.001 per share: 125,000,000 shares authorized; issued and outstanding: 5,483,730 shares issued and 4,008,730 outstanding. (Note 9)	4,008	
Additional paid-in capital	7,713,971	
Accumulated deficit	(11,273,406)	
	-----	
Total Stockholders' Equity (Deficit)	(3,555,182)	
	-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 1,791,866	\$
	=====	==

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Consolidated Statements of Operations

	For the Six Months Ended September 30,	
	2000	1999
NET SALES	\$ 2,700,297	\$ 2,069,089
COST OF SALES	2,233,624	1,561,885
GROSS PROFIT	466,673	507,204
GENERAL AND ADMINISTRATIVE EXPENSES		
Depreciation and amortization	6,417	15,618
General expenses	829,930	713,395
Total General and Administrative Expenses	836,347	729,013
GAIN (LOSS) FROM OPERATIONS	(369,674)	(221,809)
OTHER INCOME AND (EXPENSES)		
Other income and expenses	10,032	20,981
Interest expense	(312,173)	(278,417)
Total Other Income and (Expenses)	(302,141)	(257,436)
LOSS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	(671,815)	(479,245)
DISCONTINUED OPERATIONS		
Gain from sale of USPA	-	869,336
Loss from operations of USPA	-	(5,871)
Total Discontinued Operations	-	863,465
INCOME TAXES	-	-
NET INCOME (LOSS)	\$ (671,815)	\$ 384,220
OTHER COMPREHENSIVE GAIN (LOSS)		
Gain (loss) on valuation of marketable securities	\$ -	\$ (725,438)
Total Other Comprehensive Gain (Loss)	-	(725,438)
NET COMPREHENSIVE GAIN (LOSS)	\$ (671,815)	\$ (341,218)

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The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Consolidated Statements of Operations (Continued)

BASIC LOSS PER SHARE OF COMMON STOCK - CONTINUING OPERATIONS	\$ (0.17)	\$ (.14)
	=====	=====
BASIC LOSS PER SHARE OF COMMON STOCK DISCONTINUED OPERATIONS	\$ -	\$ .2
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Consolidated Statements of Stockholders' Equity  
September 30, 2000 and 1999

	Common Stock		Preferred Stock		Other Comprehensive Loss
	Shares	Amount	Shares	Amount	
Balance, April 1, 1998	2,929,263	\$ 2,929	244,953	\$ 245	\$ -
Stock issued for cash	48,000	48	-	-	-
Stock issued for Quade acquisition (Note 2)	238,333	238	-	-	-
Stock adjustment on PPW acquisition (Note 2)	(45,310)	(45)	-	-	-
Expense recognized for vested options	-	-	-	-	-
Stock issued for loan	4,000	4	-	-	-
Loss on valuation of marketable securities	-	-	-	-	(435,1
Net loss for the year ended March 31, 1999	-	-	-	-	-
Balance, March 31, 1999	3,174,286	3,174	244,953	245	(435,1

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Stock issued for Quade acquisition (Note 2)	451,667	452	-	-	-
Stock issued for consulting services	250,000	250	-	-	-
Expense recognized for vested options	-	-	-	-	-
Recognition of loss on valuation of marketable securities	-	-	-	-	435,1
Net loss for the year ended March 31, 2000	-	-	-	-	-
Balance, March 31, 2000	3,875,953	\$ 3,876	244,953	\$ 245	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Consolidated Statements of Stockholders' Equity (Continued)  
September 30, 2000 and 1999

	Common Stock		Preferred Stock		Other Comprehensive Loss
	Shares	Amount	Shares	Amount	
Balance, March 31, 2000	3,875,953	\$ 3,876	244,953	\$ 245	\$ -
Stock issued for consulting services	32,777	32	-	-	-
Expense recognized for vested options	-	-	-	-	-
Stock issued for interest on notes payable	100,000	100	-	-	-
Net loss for the six months ended September 30, 2000	-	-	-	--	-
Balance at September 30, 2000	4,008,730	\$ 4,008	244,953	\$ 245	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY

Consolidated Statements of Cash Flows

	For the Six Months Ended September 30,	
	2000	1999
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (671,815)	\$ 384,220
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of USPA, Ltd.	-	(869,336)
Depreciation and amortization	140,307	141,706
Common stock issued for services and interest	118,669	10,983
Gain (loss) on sale of marketable securities	-	-
Changes in operating assets and liabilities net of Quade acquisition:		
(Increase) decrease in inventory	54,482	15,251
(Increase) decrease in accounts receivable	65,301	(52,712)
(Increase) decrease in other current assets	(9,815)	5,499
Increase (decrease) in accounts payable	419,240	69,226
Increase (decrease) in other current liabilities	243,340	301,117
Net Cash Provided (Used) by Operating Activities	359,709	5,954
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of marketable securities	2,485	-
Proceeds from sale of USPA, Ltd.	-	221,470
Purchases of property and equipment	(10,662)	-
Net Cash Provided (Used) by Investing Activities	(8,177)	221,470
<b>FINANCING ACTIVITIES</b>		
Payments on capital lease obligations	(159,319)	(147,273)
Proceeds (payments) from notes payable	(10,151)	-
Borrowings (payments) from related party debt	46,700	(68,664)
Net borrowings (payments) on factoring line of credit	(227,940)	(52,264)
Net Cash Provided (Used) by Financing Activities	(350,710)	(268,201)
INCREASE (DECREASE) IN CASH	822	(40,777)
CASH, BEGINNING OF PERIOD	8,914	41,967
CASH, END OF PERIOD	\$ 9,736	\$ 1,190

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Consolidated Statements of Cash Flows (Continued)

	For the Six Months Ended September 30,	
	2000	1999
CASH PAID FOR		
Interest	\$ 123,060	\$ 195,298
Income taxes	\$ -	\$ -
NON-CASH FINANCING ACTIVITIES		
Common stock issued for services	\$ 118,669	\$ 10,983
Equipment purchased through capital lease obligation	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

a. Quarterly Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying consolidated unaudited condensed financial statements have been prepared in accordance with the instructions to Form 10-QSB but do not include all of the information and footnotes required by generally accepted accounting principles and should, therefore, be read in conjunction with the Company's fiscal 2000 financial statements in Form 10-KSB. These statements do include all normal recurring adjustments which the Company believes necessary for a fair presentation of the statements. The interim operating results are not necessarily indicative of the results for a full year. Effective for fiscal quarters ending after March 15, 2000, the Securities and Exchange Commission adopted a rule requiring companies' independent auditors review the companies' financial information prior to the companies filing their Quarterly Reports on Form 10-QSB with the Commission. The Company's September 30, 2000 Form 10-QSB was not reviewed prior to submission to the Commission. A Form 8-K will be filed when the review is completed by the independent auditors.

b. Principles of Consolidation

The accompanying consolidated financial statements include American Resources and Development Company and its subsidiaries,



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Pacific Printing and Embroidery L.L.C. (PPW) and Fan-Tastic, Inc. (FTI).

### c. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### d. Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### e. Concentrations of Risk

The Company maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits.

In the normal course of business, the Company extends credit to its customers.

### f. Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. Inventory consists of items available for resale.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### g. Property and Equipment

Property, equipment and capital leases are recorded at cost and are depreciated or amortized over the estimated useful life of the related assets, generally three to seven years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period.

The costs of maintenance and repairs are charged to income as incurred. Renewals and betterments are capitalized and depreciated over their estimated useful lives.

### h. Accounts Receivable

Accounts receivable are shown net of the allowance for bad debts of \$63,822 at March 31, 2000.

### i. Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" requires disclosure of the fair value of financial instruments held by the Company. SFAS 107 defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate fair value:

The carrying amount of cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature.

At March 31, 2000, the Company held 1,045,000 shares of GCA stock (See Note 2). Because of GCA filing for bankruptcy in July of 1999, substantial doubt exists regarding the ability of the Company to recover its investment in GCA. At July 14, 2000, GCA was still in Chapter 11 bankruptcy and its market value was \$0.06 per share. Furthermore, the majority of the Company's stock in GCA is restricted and the Company does not have the ability to have the restriction removed because GCA is not current in its SEC filings. As a result, the Company wrote off its cost in GCA at March 31, 2000 and incurred a loss of \$1,434,239.

j. Income Taxes

Income taxes consist of Federal Income and State Franchise taxes. The Company has elected a March 31 fiscal year-end for both book and income tax purposes.

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No.109 (SFAS No. 109), "Accounting for Income Taxes," which requires the asset and liability method of accounting for tax deferrals.

k. Basic Loss Per Common Share

Basic loss per common share is computed based on the weighted average number of common shares outstanding during the period. The common stock equivalents are antidilutive and, accordingly, are not used in the net loss per common share computation. Fully diluted loss per share is the same as the basic loss per share because of the antidilutive nature of common stock equivalents.

Basic net loss from continuing operations per common share and diluted net loss from continuing operations per common share amounts, calculated in accordance with SFAS 128, were \$(0.12) and \$(.08)

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Basic Loss Per Common Share (Continued)

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for the three months ended September 30, 2000 and 1999, respectively. Basic net (loss) income from discontinued operations per common share and diluted net loss from discontinued operations per common share were \$0.00 and \$.02, respectively. Weighted average common shares outstanding were 4,008,730 and 3,618,779 for the three months ended September 30, 2000 and 1999, respectively.

### l. Revenue Recognition

Revenue for contract screen printing, embroidery and product sales are recognized when the goods have been shipped. Franchise fees are recognized as revenue when all material services relating to the sale have been substantially performed by FTI. Material services relating to the franchise sale include assistance in the selection of a site and franchisee training.

### m. Goodwill

On March 31, 1998, the Company recognized goodwill of \$1,696,412 from the purchase of Pacific Print Works (aka Pacific Printing and Embroidery LLC). The Company amortized \$128,198 of goodwill from the PPW acquisition in fiscal 1999. In the fourth quarter of fiscal 1999, the Company wrote-off its remaining goodwill from the PPW acquisition due to a permanent impairment, resulting in an additional expense of \$1,568,215. The Company recognizes goodwill from the excess of the purchase price of its acquisitions over the fair value of the net assets acquired.

The Company evaluates the recoverability of goodwill and reviews the amortization period on an annual basis. Several factors are used to evaluate goodwill, including but not limited to: management's plans for future operations, recent operating results and projected, undiscounted cash flows.

### n. Recent Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" during the year ended March 31, 1999. SFAS No. 130 established standards for reporting and display of comprehensive income (loss) and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. This statement requires that an enterprise classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a balance sheet.

### o. Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

### p. Prior Period Reclassification

Certain 1999 amounts have been reclassified to conform to the presentation of the 2000 consolidated financial statements.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

### NOTE 2 - MERGERS AND ACQUISITIONS

#### Golf Ventures, Inc.

In November 1997, Golf Ventures, Inc., a former Company subsidiary, merged with U.S. Golf Communities. U.S. Golf Communities was the controlling company in this merger and subsequent to the merger the combined company's name changed to Golf Communities of America (GCA). This merger resulted in a less than 20% American Resources' ownership in GVI. Therefore, subsequent to the merger, the Company's investment in GVI is reflected as an investment in accordance with Financial Accounting Standards Board Statement No. 121.

The Company has a reserve for discontinued operations of \$734,988 at March 31, 2000.

#### Pacific Print and Embroidery, LLC (aka Pacific Print Works)

In May 1998, the Company acquired 83% of the outstanding shares of Pacific Print Works (PPW). The acquisition was accounted for by the purchase method of accounting, and accordingly, the purchase price was allocated to assets acquired and liabilities assumed based on their fair market value at the date of acquisition. Liabilities assumed in excess of assets acquired was \$629,252 and 213,472 shares of the Company's common stock were issued to PPW shareholders with a guaranteed share value of \$5.00 resulting in goodwill of \$1,686,411. In addition, depending on PPW's performance from April 1, 1998 through March 31, 2001, additional shares of the Company's common stock would be issued to the Sellers if minimum earnings levels were met. Based on the \$5.00 guarantee and the Company's share value from October 1998 through March 1999, the Company is obligated to issue additional shares of common stock to the Sellers. An amendment to the PPW Stock Purchase Agreement is being evaluated by the Company and the Sellers in which the Company would issue another 854,000 shares of the Company's common stock to the Sellers and any additional earnings requirements by PPW or per share value guarantee by the Company would be eliminated.

#### Quade, Inc. and U.S. Polo Association, Ltd.

In 1997, Quade, Inc. acquired from the U.S. Polo Association ("US Polo") the exclusive master license rights to the US Polo name for the United States and Canada. On July 23, 1998, the Company purchased Quade by issuing 238,333 shares of its common stock.

Effective October 8, 1998, the Company and Jordache Enterprises, through its affiliate, Iron Will, Inc. ("Iron Will") formed a joint venture company, U.S. Polo Association, Ltd. (US Polo), to hold the master license granted by the US Polo Association and to perform all licensing activities relating to the US Polo Association licenses and trademarks for the United States and Canada. The Company and Iron Will each owned 50% of US Polo and management and the Board of Directors for US Polo were shared equally by the Company and Iron Will. For its ownership in US Polo, the Company contributed, through Quade, Inc., all assets

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and liabilities relating to the business of the licensing of US Polo including the master license and sublicense agreements in the US Polo name and trademarks. Iron Will contributed \$900,000. The Company's investment in this joint venture was accounted for under the equity method of accounting. The Company's share of losses from this joint venture for the year ended March 31, 1999 were \$127,268.

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### AMERICAN RESOURCES AND DEVELOPMENT COMPANY Notes to the Consolidated Financial Statements September 30, 2000 and 1999

#### NOTE 2 - MERGERS AND ACQUISITIONS (Continued)

In March 1999, the Company's Board of Directors made a decision to sell its 50% ownership in U.S. Polo to Iron will. In June 1999, the Company closed its sale of U.S. Polo ownership to Iron Will. For its sale of U.S. Polo, the Company received the cancellation of \$1,000,000 in debt from Jordache Enterprises, the cancellation of \$13,185 in interest and cash of \$221,470. In addition, the Company received another \$70,000 upon the collection of U.S. Polo royalties earned through May 31, 1999.

The results of operations of Quade, Inc. and U.S. Polo for the year ended March 31, 1999 has generated a loss of \$252,972 on sales of \$232,712. A gain on the disposal of U.S. Polo for \$867,587 was recognized for year ending March 31, 2000. No income tax benefit or expense has been attributed to the disposal of U.S. Polo.

In addition, the Company and the former owner of Quade amended the original stock purchase agreement. Under the amendment, an additional 451,667 shares of common stock were issued to the former owner of Quade and to a Quade creditor and the additional earnings requirements by Quade or U.S. Polo to receive additional Company common stock was eliminated. In return, the \$5.00 per share guaranteed value of the initial common shares issued to the Quade shareholder was removed.

#### NOTE 3 - LINE OF CREDIT

In November 1998, the Company entered into an accounts receivable financing agreement to sell, with recourse, up to \$1 million of receivables, net of a 15% collection reserve. The Company is charged .065% daily for all receivables sold and uncollected under this financing agreement. At September 30 and March 31, 2000, the Company had a payable of \$188,231 and \$416,171, respectively, for net funds advanced from this accounts receivable line of credit. The Company received \$2,242,992 and \$1,640,063 from the sale of receivables for the six months ended September 30, 2000 and 1999 and recognized \$60,386 and \$42,863 in interest expense from the discount of selling these receivables, respectively.

#### NOTE 4 - NOTES PAYABLE

Notes payable are comprised of the following:

Note payable, unsecured, bearing interest at 12%, payable in monthly installments of \$7,000, including interest. Due on demand.

Convertible subordinated debentures, originally due June 30, 1996 bearing interest at 12% per annum. Interest payable quarterly.

Note payable to shareholder of PPW, unsecured. Modified in August 2000. Modified agreement requires payments of \$190,000 through February 2002 without interest. Note will default to \$327,084 if payments are not made timely plus 9% interest less payments made subsequent to modified agreement. A gain on the modification of debt for \$137,084 will be recorded when there is no risk of default on this debt.

Note payable to former shareholder of PPW, interest rate of 10%, due on demand, unsecured.

Subtotal

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

NOTE 4 - NOTES PAYABLE (Continued)

Less current portion

Long-term portion

Maturities of long-term debt are as follows:  
September 30, 2001  
September 30, 2002

NOTE 5 - NOTES PAYABLE, RELATED PARTIES

Notes payable to Miltex Industries, secured by 700,000 shares of GCA and 1,475,000 shares of the Company's common stock. Interest at 15% with monthly principal and interest payments of \$11,000 with a final balloon payment December 31, 2001.

Note payable to a shareholder, secured by GCA stock. Interest payable monthly at 13.5% with interest and principal payments of \$5,000 per month. Due October 31, 2001.

Note payable to a Company owned by a shareholder. Interest payable at 72% with interest and principal payments due currently.

Notes payable to shareholders (includes officers and directors of the Company). Interest rates average 10.5%. Unsecured, due on demand, but not expected to be repaid until 2003.

Subtotal

Less current portion

Long-term portion

Maturities of notes payable, related parties are as follows:

September 30, 2001

September 30, 2002

September 30, 2003

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

NOTE 6 - CAPITAL LEASES

Property and equipment payments under capital leases as of March 31, 2000 is summarized as follows:

Year End March 31,	
2001	\$ 373,124
2002	225,438
2003	123,785
2004	88,308
2005	32,378
	-----
Total minimum lease payments	843,033
Less interest and taxes	(151,207)
	-----
Present value of net minimum lease payments	691,826
Less current portion	(302,551)
	-----
Long-term portion of capital lease obligations	\$ 389,275
	=====

The Company recorded depreciation on capitalized lease equipment expense of \$232,589 and \$196,606 for the years ended March 31, 2000 and 1999, respectively.

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### NOTE 7 - INCOME TAXES

The Company had net operating loss carry-forwards available to offset future taxable income. The Company has net operating loss carry-forwards of approximately \$7,500,000 to offset future tax liabilities. The loss carry-forwards will begin to expire in 2014.

Deferred income taxes payable are made up of the estimated federal and state income taxes on items of income and expense which due to temporary differences between books and taxes are deferred. The temporary differences are primarily caused by the use of the equity method for reporting investment in subsidiaries. The deferred tax asset is offset in full by a valuation allowance because it can not be reasonably determined that the net operating loss will be useable.

### NOTE 8 - PREFERRED STOCK

The shareholders of the Company have authorized 10,000,000 shares of preferred stock with a par value of \$0.001. The terms of the preferred stock are to be determined when issued by the board of directors of the Company.

#### SERIES B:

At March 31, 2000, there are 94,953 shares of series B preferred stock issued and outstanding. The holders of these series B preferred shares are entitled to an annual cumulative cash dividend of not less than sixty cents per share. At March 31, 2000, there is a total of \$406,620 of accrued and unpaid dividends related to the series B preferred stock which have been included in the accompanying consolidated financial statements. These series B preferred shares were convertible into shares of the Company's common stock which conversion option expired March 31, 1995.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

### NOTE 9 - COMMON STOCK ISSUED BUT NOT OUTSTANDING

The Company has issued 160,820 shares of common stock which had been offered to the holders of the Series B preferred stock and the debentures. The shares have not been accepted by the holders of those investments as of the date of the consolidated financial statements. Additionally, the Company has issued 1,475,000 shares of common stock as collateral for the note payable to Banque SCS (Note 5).

### NOTE 10 - STOCK OPTIONS

In August 1997, the Company's Board of Directors approved the 1997 American Resources and Development Company Stock Option Plan (Option Plan). Under the Option Plan, 500,000 shares of the Company's common stock are reserved for issuance to Directors and employees. Options are granted at a price and with vesting terms



as determined by the Board of Directors.

In August 1999, the Board of Directors granted options to purchase 696,291 shares of common stock at \$0.25. Fifty percent of these options vest immediately and the remainder vest in August 2000. The options were issued to various officers and directors of the Company for past services, risk associated with various debt incurred by officers for the Company and guarantees by officers of Company debt, and for future services. No compensation expense was recognized, as the option price was greater than the fair market value of the stock at the date of the option grant.

In December 1997, the Board of Directors granted options to purchase 39,000 shares of stock at \$2.00. These options are exercisable beginning March 31, 1998, are exercisable over staggered periods and expire after ten years. No compensation expense was recognized as the option price was greater than the fair market value of the stock at the date of the option grant.

In October 1997, the Board of Directors granted options to purchase 140,000 shares of stock at \$2.00. These options are exercisable beginning March 31, 1998, over staggered periods and expire after ten years. Compensation expense of \$1,458 per month will be recognized for 40,000 of the options issued over a 4 year vesting period and \$1,458 per month will be recognized for 100,000 of the options over a 10 year vesting period. In July 1998, the Board of Directors changed the terms of the 100,000 options vesting over 10 years. 25,000 of these options were fully vested and the remainder of the options were canceled. As a result, compensation expense of \$52,498 was recognized for the year ended March 31, 1998 for the vesting of these options.

Pro forma net income and net income per common share was determined as if the Company had accounted for its employee stock options under the fair value method of Statement of Financial Accounting Standards No. 123.

Pro forma expense in year 1 would be \$77,660, \$52,402 and \$5,646 in years 2 and 3, respectively, with an increase in pro forma expenses per share of \$0.02 in year 1, \$0.05 in year 2 and \$0.00 in year 3.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

NOTE 10 - STOCK OPTIONS (Continued)

On March 1, 2000, the Company granted options to a company to purchase up to 340,000 shares of the Company's common stock. This company is to provide various investor relations services. The Company is recognizing a \$32,385 expense over 4 months based upon the value of the options as calculated from an option pricing model.

The options expire September 1, 2001, are not transferrable and are exercisable at any time at the following rates:

85,000 shares	at	\$1.08 per share;
85,000 shares	at	\$1.32 per share;
85,000 shares	at	\$1.49 per share;
85,000 shares	at	\$1.72 per share.

On January 22, 1999, the Company granted options to a consultant to purchase up to 160,000 shares of the Company's common stock. The consultant is to provide various investor and public relations services through January 21, 2000 and the Company is recognizing an expense of \$6,000 over the term of the services based upon the value of the options as calculated from an option pricing model. The options expire in December 31, 2001, are not transferrable and are exercisable at any time at the following rates:

40,000 shares	at	\$0.50 per share;
40,000 shares	at	\$1.00 per share;
40,000 shares	at	\$2.00 per share;
40,000 shares	at	\$3.00 per share.

For the pro forma disclosures, the options' estimated fair value was amortized over their expected ten-year life. The fair value for these options was estimated at the date of grant using an option pricing model which was designed to estimate the fair value of options which, unlike employee stock options, can be traded at any time and are fully transferable. In addition, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options. The following weighted-average assumptions were used to estimate the fair value of these options:

	March 31, 2000
Expected dividend yield	0%
Expected stock price volatility	70%
Risk-free interest rate	6.5%
Expected life of options (in years)	10

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Office Lease

The Company leases office and warehouse space in Salt Lake City, Utah and Portland, Oregon and leases space for a retail store in Oregon. Lease commitments for the years ended March 31, 2001 through March 31, 2003 are \$467,478, \$421,671 and \$67,574, respectively.

Legal Proceedings

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The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

NOTE 12 - GOING CONCERN

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. In order to carry out its operating plans, the Company will need to obtain additional funding from outside sources. The Company has received funds from a private placement and debt funding and plans to continue making private stock and debt placements. There is no assurance that the Company will be able to obtain sufficient funds from other sources as needed or that such funds, if available, will be obtainable on terms satisfactory to the Company.

NOTE 13 - BUSINESS SEGMENTS

Effective March 31, 1999, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company conducts its operations principally in the contract screen printing and embroidery industry with Pacific Print works, Inc. and the retail franchise industry with Fan-Tastic, Inc.

Certain financial information concerning the Company's operations in different industries is as follows:

	For the Six Months Ended September 30, -----	Pacific Print Works -----	Fan-Tastic -----	Corpora Unallocat -----
Net sales	2000 1999	\$ 2,610,953 1,886,860	\$ 89,344 182,228	
Operating income (loss) applicable to industry segment	2000 1999	(57,078) 2,450	(126,932) (110,098)	
General corporate expenses not allocated to industry segments	2000 1999			\$ 185, 114,

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY  
Notes to the Consolidated Financial Statements  
September 30, 2000 and 1999

NOTE 13 - BUSINESS SEGMENTS (Continued)

	For the Six Months Ended September 30,	Pacific Print Works	Fan-Tastic	Corpora Unallocat
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	2000	1999	2000	1999
Interest expense	(198,842)	(159,185)	(24,442)	(19,278)
Other income (expenses)	(968)	17,888	-	3,093
Income (loss) from discontinued operations	-	-	-	-
Assets	\$ 1,753,669	\$ 33,938		
Depreciation and amortization	135,890	134,860	3,936	6,497
Property and equipment acquisitions	10,662	-	-	-

NOTE 14 - SUBSEQUENT EVENTS

On June 7, 2000, the Company announced the signing of a letter of intent to merge with Royal Avalon S.A. De C.V., a Mexico based apparel manufacturer. Royal Avalon has been manufacturing T-shirts in Mexico for the past five years. The letter of intent between the Company and Royal Avalon calls for the Company to issue its common stock to Royal Avalon shareholders for the purchase of the business.

During the past seven months the Company has performed significant due diligence relating to the viability of the merger with Royal Avalon. The Company's management and board of directors believes the merger will not be finalized as the letter of intent has expired and the merger would not be in the best interest of the Company's shareholders.

In January 2001 the Company issued 140,000 shares of the Company's common stock to two officers of the Company as payment of approximately \$80,000 in loans and accrued salaries to the Company.

In January 2001 the Company issued 220,000 shares of the Company's common stock to a director of the Company for services performed.

In January 2001 the Company issued 500,000 shares of the Company's common stock to a consultant for investor and public relations services and debt and or capital raising efforts.

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Item 2. Management's Discussion and Analysis or Plan of Operations

Forward Looking Statements

The statements in this report concerning certain expected future expenses as a percentage of net sales, future financing and working capital requirements and availability constitute forward - looking statements that are subject to risks and uncertainties. These risks could cause actual results or activities to

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differ materially from those expected. Factors that could adversely affect cost of sales and general expenses as a percentage of net sales include, but are not limited to, increased competitive factors, changes in consumer preferences, as well as an inability to increase sales. Other factors could include a failure to adequately fund operations. In addition, unfavorable business conditions, or changes in the general economy could have adverse effects. Factors that could materially affect future financing requirements include, but are not limited to, the ability to obtain additional financing on acceptable terms. Factors that could materially affect future working capital requirements include, but are not limited to, the factors listed above and the industry factors and general business conditions noted above.

The following table sets forth, for the periods indicated, selected Company income statement data expressed as a percentage of net sales.

	Three Months		Six Months	
	Ended September 30,		Ended September 30,	
	2000	1999	2000	1999
	----	----	----	----
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	96.2%	77.2%	82.7%	75.0%
Gross profit	3.8%	22.8%	17.3%	24.0%
General expenses	27.5%	41.0%	30.7%	34.0%
Depreciation and amortization	0.2%	0.7%	0.2%	0.0%
Loss from operations	-23.9%	-18.9%	-13.7%	-10.0%
Other income and expenses	-0.1%	1.8%	0.4%	1.0%
Interest expense	-11.0%	-14.1%	-11.6%	-13.0%
Loss before income taxes and discontinued operations	-34.9%	-31.2%	-24.9%	-23.0%
Discontinued operations	0.0%	5.9%	0.0%	4.0%
Income taxes	0.0%	0.0%	0.0%	0.0%
Net Income (loss)	-34.9%	-25.2%	-24.9%	18.0%

For the three months ended September 30, 2000 ("second quarter fiscal 2001"), compared to the three months ended September 30, 1999 ("second quarter fiscal 2000"):

Sales for the three months ended September 30, 2000 were \$1,338,775 compared to \$941,000 for the three months ended September 30, 1999. Pacific Print Works ("PPW") sales for the second quarter fiscal 2001 were \$1,300,605 compared to \$851,386 for the second quarter fiscal 2000. The \$449,219 increase in PPW's revenue was primarily due to a \$412,000 increase in sales to a customer in the second quarter fiscal 2001 compared to the second quarter fiscal 2000. Sales in the second quarter fiscal 2001 included T-shirt garments of \$445,000 in addition to screen printing revenue.

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Gross profit and the gross profit as a percentage of sales declined for the second quarter fiscal 2001 as compared to the second quarter fiscal 2000, \$51,395 and 3.8% compared to \$214,463 and 22.8%. The decline in gross profit was primarily due to an increase in production salaries and wages, an increase in costs of garments sold to customers of \$430,000 with a profit of \$9,000 on these garments, an increase in materials for garment finishing, screen and freight costs and an increase in rent costs. Production salaries and wages increased \$34,000 due to an increase of 5% in production volume and a pay increase to the top three production management employees. Materials used for garment finishing and screens increased \$25,000 due to the increase in production. Rent costs

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increased by \$39,000 because PPW required extra space due to the increase in revenue (i.e., \$1,338,775 for second quarter fiscal 2001 compared to \$941,000 for second quarter fiscal 2000.)

General and administrative expenses for the first quarter fiscal 2001 were \$368,038 as compared to \$386,065 for the second quarter fiscal 2000.

The gain (loss) from operations before other income and expenses for the second quarter fiscal 2001 was a loss of \$319,551 as opposed to a loss of \$178,208 for the second quarter fiscal 2000.

Interest expense for the second quarter fiscal 2001 was \$146,622 compared to \$132,311 for the prior year.

For the six months ended September 30, 2000 ("YTD fiscal 2001"), compared to the six months ended September 30, 1999 ("YTD fiscal 2000"):

Sales for the six months ended September 30, 2000 were \$2,700,297 compared to \$2,069,089 for the six months ended September 30, 1999. Pacific Print Works ("PPW") sales YTD fiscal 2001 were \$2,610,953 compared to \$1,886,860 for the YTD fiscal 2000 sales. The \$724,093 increase in PPW's revenue was primarily due to a \$412,000 and \$366,000 increase in sales to PPW's two largest customers YTD fiscal 2001 compared to YTD fiscal 2000. The increase to these customers is largely due to PPW's high density printing capabilities in addition to the overall quality of the printing and related services.

Gross profit and the gross profit as a percentage of sales declined slightly for YTD fiscal 2001 as compared to the YTD fiscal 2000, \$466,673 and 17.3% compared to \$507,204 and 24.5%. The decline in gross profit margin was primarily due to an increase in production salaries and wages, an increase in costs of garments sold to customers of \$346,000 with a profit of \$16,000 on these garments, an increase in materials for garment finishing, screen and freight costs and an increase in rent costs. Rent costs increased by \$78,000 because PPW required extra space due to the increase in revenue (i.e., \$2.7 million for the six months ended September 30, 2000 compared to \$2.1 million for the six months ended September 30, 1999.)

General and administrative expenses for the YTD fiscal 2001 were \$829,930 as compared to \$713,395 for the YTD fiscal 2000. The increase in general and administrative expenses is primarily due to \$110,000 in investor relation expenses incurred in the first quarter fiscal 2001.

The gain (loss) from operations before other income and expenses for the YTD fiscal 2001 was a loss of \$369,674 as opposed to a loss of \$221,809 for the YTD fiscal 2000.

Interest expense for the YTD fiscal 2001 was \$312,173 compared to \$278,417 for the prior year.

The Company had a \$869,336 gain from the sale of its 50% ownership in USPA Ltd. in the YTD fiscal 2000 without any similar gain for YTD fiscal 2001.

For the three months ended September 30, 1999 ("second quarter 99"), compared to the three months ended September 30, 1998 ("second quarter 98"):

Sales for the three months ended September 30, 1999 were \$941,000 compared to \$926,334 for the three months ended September 30, 1998. Pacific Print Works ("PPW") sales for the three months ended September 30, 1999 were \$851,386 compared to \$710,549 for the three months ended September 30, 1998. The \$140,837 increase in PPW's revenue was primarily due to an increase in sales to PPW's four largest customers. The increase with these customers is largely due to PPW's high density printing capabilities in addition to the overall quality of

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the printing and related services. PPW expects a similar or larger increase in sales over the next two quarters based on its relationship and orders with existing customers in addition to PPW samples with potential new customers.

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Sales for Fan-Tastic declined by \$126,171 which was primarily due to second quarter 99 sales coming from four stores as opposed to six stores in second quarter 98 and franchise sales of \$78,000 in the second quarter 98 as opposed to zero in the second quarter 99.

Gross profit and the gross profit as a percentage of sales declined for the second quarter 99 compared to the second quarter 98, \$214,463 and 22.8% compared to \$240,324 and 25.9%. The decrease in gross profit was primarily due to the decline in Fan-Tastic franchise sales as noted above. The gross profit from PPW operations increased by approximately \$60,000.

General and administrative expenses for the second quarter 99 were \$386,065 as compared to \$502,147 for the second quarter 98. Fan-Tastic saw a decline in general and administrative expenses of approximately \$50,000 due to less rent and payroll expenses resulting from the closure of 2 stores. The Company expects general and administrative expenses over the next two quarter to be similar to the second quarter 99 amount.

Depreciation and amortization expenses were \$6,016 in the second quarter 99 compared to \$57,523 for the second quarter 98. This decrease is primarily due to zero goodwill amortization in the second quarter 99 as the Company wrote off all goodwill from the PPW acquisition at March 31, 1999.

The loss from operations for the second quarter 99 was reduced to \$178,208 compared to \$319,546 for the second quarter 98. The reduction in the loss is primarily due to the increase in sales and the reduction in general and administrative expenses as discussed above.

Interest expense for the second quarter 99 was \$132,311 compared to \$135,323 for the prior year.

The Company had a \$55,947 gain from the sale of its 50% ownership in USPA Ltd. in the second quarter 99. For its sale of USPA Ltd., in June 1999 the Company received the cancellation of \$1,000,000 in debt from Jordache Enterprises, the cancellation of \$13,185 in interest and cash of \$221,470. In addition, the Company received \$74,040 in October 1999 from the collection of U.S. Polo royalties earned through May 31, 1999.

For the six months ended September 30, 1999 ("YTD 99"), compared to the six months ended September 30, 1998 ("YTD 98"):

Sales for the six months ended September 30, 1999 were \$2,069,089 compared to \$1,735,368 for the six months ended September 30, 1998. Pacific Print Works ("PPW") sales for the six months ended September 30, 1999 were \$1,886,860 compared to \$1,335,507 for the six months ended September 30, 1998. The \$551,353 or 41% increase in PPW's revenue was primarily due to an increase in sales to PPW's four largest customers. The increase with these customers is largely due to PPW's high density printing capabilities in addition to the overall quality of the printing and related services. PPW expects a similar or larger increase in sales over the next six quarters based on its relationship and orders with existing customers in addition to PPW samples with potential new customers.

Sales for Fan-Tastic declined by \$217,663 which was primarily due to YTD 99 sales coming from four stores as opposed to six stores in YTD 98 and franchise sales of \$112,000 YTD 98 as opposed to zero for YTD 98. Franchise sales from

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October 1999 through March 31, 2000 are expected to increase compared to April 1, 1999 through September 30, 1998 but franchise sales beyond fiscal 2000 are based upon the amount of advertising incurred.

Gross profit and the gross profit as a percentage of sales increased for the YTD 99 compared to the YTD 98, (\$507,204 and 24.5% compared to \$411,803 and 23.7%). The increase in gross profit was primarily due to the increase in PPW sales and gross profit for the YTD 99 compared to YTD 98 (\$417,000 vs. \$246,000) that was partially reduced by a decline in Fan-Tastic franchise sales as noted above.

General and administrative expenses for the YTD 99 were \$713,395 as compared to \$976,692 for the YTD 98. Fan-Tastic saw a decline in general and administrative expenses of approximately \$10,000 due to less rent and payroll expenses resulting from the closure of 2 stores. The Company expects general and administrative expenses over the next six months to be similar to the YTD 99 amount.

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Depreciation and amortization was \$15,618 in the YTD 99 compared to \$66,735 for the YTD 98. This decrease is primarily due to zero goodwill amortization in the YTD 99 as the Company wrote off all goodwill from the PPW acquisition at March 31, 1999.

The loss from operations for the YTD 99 was reduced to \$221,809 compared to \$667,558 for the YTD 98. The reduction in the loss is primarily due to the increase in sales and the reduction in general and administrative expenses as discussed above.

Interest expense for the second quarter 99 was \$278,417 compared to \$242,365 for the prior year, which was due to a greater amount of debt outstanding for YTD 99.

The Company had a \$869,336 gain from the sale of its 50% ownership in USPA Ltd. in the YTD 99. For its sale of USPA Ltd., in June 1999 the Company received the cancellation of \$1,000,000 in debt from Jordache Enterprises, the cancellation of \$13,185 in interest and cash of \$221,470. In addition, the Company received \$74,040 in October 1999 from the collection of U.S. Polo royalties earned through May 31, 1999.

### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2000, the Company had total assets of \$1,791,866, total liabilities of \$5,347,048 and total stockholders' deficit of \$3,555,182 compared with total assets of \$2,080,720, total liabilities of \$5,038,145 and total stockholders deficit of \$2,957,425 at March 31, 2000. The changes in assets, liabilities and stockholders equity is due primarily to losses from operations and interest expense. At September 30, 2000 the Company's current ratio was approximately .254 current assets to 1 current liabilities.

Management intends to improve its overall financial structure and provide operating capital through private placement of the Company's common stock and seeking the conversion of debt to equity. There is no assurance that the Company will be able to obtain sufficient funds from other sources as needed or that such funds, if available, will be obtainable on terms satisfactory to the Company.

### Part II - Other Information

#### Item 1. Legal Proceedings

Not applicable.



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Item 2. Changes in Securities  
Not applicable.

Item 3. Default upon Senior Securities  
Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders  
Not applicable.

Item 5. Other Information

Effective for fiscal quarters ending after March 15, 2000, the Securities and Exchange Commission adopted a rule requiring companies' independent auditors review the companies' financial information prior to the companies filing their Quarterly Reports on Form 10-QSB with the Commission. The Company's September 30, 2000 Form 10-QSB was not reviewed prior to submission to the Commission. A Form 8-K will be filed when the review is completed by the independent auditors.

Item 6. Exhibits and Reports on Form 8-K  
Not applicable.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

AMERICAN RESOURCES AND  
DEVELOPMENT COMPANY  
(Registrant)

/s/ B. Willes Papenfuss ----- B. Willes Papenfuss	President, Chief Executive Officer and Director (Principal Executive Officer)	February 19, 2001
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/s/ Timothy M. Papenfuss ----- Timothy M. Papenfuss	Secretary / Treasurer and Director (Chief Financial Officer, Chief Accounting Officer and Controller)	February 19, 2001
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