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AMERICAN FINANCIAL HOLDING INC /DE
Form 10QSB
May 25, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
for the Quarterly Period Ended March 31, 2001

Commission File Number 0-12666

American Financial Holding, Inc.
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

87-0458888
(I.R.S. Employer
Identification No.)

914 Rio Virgin Drive, St. George, Utah
(Address of principal executive offices)

84790
(Zip Code)

(435) 674-1181
(Issuer's telephone number)

n/a
(Former name, former address and former fiscal year,
if changed since last report)

Check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of May 20, 2001, issuer had 19,279,449 shares of issued and outstanding common stock, par value \$0.01.

Transitional Small Business Disclosure Format: Yes No

PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN FINANCIAL HOLDING, INC.
BALANCE SHEETS
(UNAUDITED)

March 31,
2001

ASSETS

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Current Assets	
Cash.....	\$ --

Total Current Assets.....	--

Total Assets.....	\$ --
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities

Accounts payable.....	\$ 302,786
Payable to Tabora Financial Corporation.....	213,805
Interest payable to Tabora Financial Corporation.....	15,964
Payable to Triad Financial Systems, Inc. owners.....	240,014
Interest payable to Triad Financial Systems, Inc. owners.....	123,962
Payable to officers.....	18,865

Total Current Liabilities.....	915,396

Stockholders' Deficit

Common stock - \$0.01 par value; 20,000,000 shares authorized; 199,974 shares issued and outstanding.....	2,000
Additional paid-in capital.....	8,115,616
Accumulated deficit.....	(9,033,012)

Total Stockholders' Deficit.....	(915,396)

Total Liabilities and Stockholders' Deficit.....	\$ --
	=====

See notes to financial statements.

AMERICAN FINANCIAL HOLDING, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Th
	Ended M
	2001

Revenue	\$ --
General and Administrative Expenses.....	(69,944)

Loss From Operations.....	(69,944)

Other Income (Expense)	
Interest income.....	--

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Other Income, Net.....	--
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Loss From Continuing Operations.....	(69,944)
Income (Loss) From Discontinued Income Builders Operations.....	--
<hr/>	
Net Loss.....	\$ (69,944)
<hr/>	
Basic and Diluted Loss Per Share	
Loss From Continuing Operations Per Share.....	\$ (0.35)
Loss From Discontinued Operations Per Share.....	--
<hr/>	
Net Loss Per Share.....	\$ (0.35)
<hr/>	
Weighted-Average Number of Common Shares Outstanding.....	199,974
<hr/>	

See notes to financial statements.

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AMERICAN FINANCIAL HOLDING, INC.
STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the T Ended 2001
	<hr/>
Cash Flows From Operating Activities	
Net loss.....	\$ (69,944)
Adjustments to reconcile net loss to net cash used in operating activities	
Increase (decrease) in net liabilities of discontinued operations.....	--
Expenses paid by related party.....	18,754
Changes in assets and liabilities	
Increase in accounts payable.....	49,850
<hr/>	
Net Cash Used in Operating Activities.....	(1,340)
<hr/>	
Cash Flows From Financing Activities	
Increase in payable to Tambora Financial Corporation.....	380
<hr/>	
Net Cash Provided by Financing Activities.....	380
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Net Decrease in Cash.....	(960)
Cash at Beginning of Period.....	960
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Cash at End of Period.....	\$ --
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See notes to financial statements.

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AMERICAN FINANCIAL HOLDING, INC. NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Interim Financial Statements -- The accompanying unaudited financial statements include the accounts and transactions of American Financial Holding, Inc. The operations of Income Builders, Inc., a wholly-owned subsidiary until October 24, 2000, were presented as discontinued operations. These financial statements are condensed and, therefore, do not include all disclosures normally required by accounting principles generally accepted in the United States. These statements should be read in conjunction with the annual financial statements included in the Company's report on Form 10-KSB for the year ended December 31, 2000. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying condensed financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed financial statements are not necessarily indicative of the results that may be expected for the full year ending December 31, 2001.

Business Condition -- The Company has an accumulated deficit of \$9,033,012 as of March 31, 2001. It has had losses from operations and negative cash flows from operating activities during the three month-periods ended March 31, 2001 and 2000. These conditions raise substantial doubt regarding the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty. Management plans include the issuance of common stock to provide financing for payment of the Company's liabilities. The Company's investment in Income Builders, Inc. was transferred to Tambora Financial Corporation in October 2000. The transfer resulted in a \$799,688 reduction of liabilities. There is no assurance that the Company will be successful in issuing stock for cash or that the proceeds therefrom, if issued, will be sufficient to pay the Company's remaining obligations in full.

NOTE 2 -- COMMITMENTS AND CONTINGENCIES

SEC Enforcement -- On October 9, 1996, the Company was advised by the Enforcement Division of the Securities and Exchange Commission (the "Commission") that it is considering recommending that the Commission bring an enforcement action, which could include a civil penalty, against the Company in U.S. District Court for failing to file timely periodic reports in violation of Section 13(a) of the Securities and Exchange Act of 1934 and the rules thereunder.

In October 1996, the Company also received a request for the voluntary production of information to the Enforcement Division of the Commission related to the resignation of Coopers & Lybrand LLP and the termination of Arthur Andersen LLP and the appointment of Jones, Jensen & Company as the Company's independent public accountants and the reasons therefore. In addition, the Company was requested to provide certain information respecting its previous sales of securities. The Company cooperated in providing information in response to these inquiries in early 1997. The Company has not been advised of the outcome of the foregoing.

Legal Proceedings -- On December 20, 1999, Robert M. Bridge filed suit against

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the Company in the Third District Court in Salt Lake County, Utah, styled Bridge v. American Financial Holding, Inc., Triad Financial Systems, Inc., Raymond L. Punta and Kenton L. Stanger (Civil No. 990912544). Mr. Bridge's complaint alleges that he is entitled to the return of a \$100,000 investment made in 1993, in which he purchased the Company's stock in anticipation of the acquisition of an insurance company. The complaint

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alleges claims for breach of contract, fraud and misrepresentation, and claims for a "guarantee" against Messrs. Punta and Stanger. The Company has answered the complaint, denying its material allegations and raising several affirmative defenses, including the applicable statutes of limitation. The Company intends to vigorously defend this matter, asserting, among other defenses, that at times the plaintiff could have sold his stock at a multiple of his purchase price. Discovery has commenced but is in its early stages. No trial date has been set.

NOTE 3 -- STOCK PURCHASE AGREEMENT

On January 22, 2001, the Company entered into a purchase agreement (the "Purchase Agreement") with three unrelated third parties (the "Purchasers") whereby the Company issued to an escrow agent 15,000,000 shares of common stock (pre-split) and issued \$150,000 of promissory notes to the Purchasers for a total of \$300,000 in cash held by the escrow agent. Under the terms of the Purchase Agreement, the cash proceeds are being held in an escrow account and will be released on the date of closing upon the Company meeting the conditions of the Purchase Agreement, which include:

- o Providing evidence, after the use of the funds received from the escrow, that all liabilities have been paid or compromised.
- o Being current in filing periodic reports with the Securities and Exchange Commission
- o The resumption of quotation of the common stock of the Company on the over-the-counter electronic bulletin board maintained by the National Association of Securities Dealers, Inc.
- o Completion of arrangements satisfactory to the Purchasers respecting certain contingent liabilities.
- o Completion of a 21.4-to-1 reverse stock split.
- o Delivery of resignations of the incumbent officers and directors.

The agreement may be terminated by either party because the release of the funds from escrow did not occur on or before March 15, 2001. However, neither party has exercised their right to terminate the agreement. Under the terms of the Purchase Agreement, the Company obtained shareholder approval of the 21.4-to-1 reverse stock split by providing current shareholders an information statement at the Company's cost. The Purchasers have voted in favor of the reverse stock split. The reverse stock split resulted in the 4,279,449 shares of common stock outstanding at December 31, 2000 being consolidated into 199,974 post-split common shares. Upon completion of the reverse stock split and the closing of the Purchase Agreement, the 15,000,000 pre-split shares of common stock to be issued to the Purchasers will be consolidated into 700,935 post-split shares and the \$150,000 promissory notes will be automatically converted into 2,299,065 post-split shares of common stock, bringing the total interest in the Company held by the Purchasers to 3,000,000 post-split shares of common stock. Accordingly, the Purchase Agreement will result in a change in control of the Company.

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Upon closing of the Purchase Agreement, the Company will issue 400,000 post-split shares of common stock to an individual in consideration of his services in introducing the Purchasers to the Company.

Management has approached or will approach the creditors of the Company and intends to offer compromising payments to the creditors from the funds received from the escrow to all of the creditors except for the Triad Financial Systems, Inc. owners, which will receive Tambora common stock in satisfaction of the obligation to them, and except for contingent liabilities that may be due under legal proceedings. The creditors that have been approached have agreed to accept the compromising payments in full satisfaction of the amounts due. Accordingly, management intends to pay or compromise all liabilities of the Company at the date the Purchase Agreement is closed.

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

Forward-Looking Information

This report contains certain forward-looking statements and information relating to American Financial Holding, Inc. that are based on the beliefs of management as well as assumptions made by and information currently available to management. When used in the document, the words "anticipate," "believe," "estimate," "expect," "intend," and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company respecting future events and are subject to certain risks, uncertainties, and assumptions, including the risks and uncertainties noted. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, or intended.

The Company's Ability to Continue as a Going Concern

The Company has extremely limited working capital, no credit lines, and insufficient revenue to meet its operating requirements. The Company expects that it will continue to incur operating losses and that its accumulated deficit will increase. The foregoing raises substantial concerns respecting the ability of the Company to continue as a going concern.

Income Builders Discontinued Operations

During September 1997, the Company sold its wholly-owned subsidiary, Income Builders, Inc., to Tambora Financial Corporation, a corporation under common control. Tambora Financial Corporation purchased Income Builders, Inc. by paying the Company an aggregate of \$500,000 in 1997, 1998 and 1999, and issuing the Company 4,899,533 shares of Tambora Financial Corporation common stock in October 2000. The financial statements of the Company reflect Income Builders, Inc. as discontinued operations.

Results of Operations

The Company had no revenue during the first quarter of 2001 or 2000. General and administrative expenses for the first quarter of 2001 were \$69,944, an increase of \$23,387 as compared to \$46,557 for the corresponding period in the preceding fiscal year, principally as a result of increased costs associated with completing the \$300,000 investment and regulatory filings during 2001. The Company had no net interest income in the first quarter of 2001, as compared to \$43,242 for the corresponding period in preceding fiscal year. Interest accrued

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during the 2000 interim period related to notes receivable from officers and directors that had been conveyed to a third party prior to commencement of the first quarter of 2001. During the first quarter of 2000, the Company recognized \$52,483 in losses from the discontinued operations of Income Builders.

Liquidity on Capital Resources

The Company had no funds from any source and used all cash of \$960 at the beginning of the period in the first quarter of 2001. The Company used its available cash of \$960, a related party paid \$18,754 of the Company's expenses, and the Company was required to defer payment of \$49,850 of the general and administrative expenses for that period.

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Capital Requirements and Plan of Operation

Net liabilities of discontinued operations of \$120,458 and \$500,000 of the payable to a related party were relieved in October 2000, upon the transfer of Income Builders to Tambora Financial Corporation. The Company plans to settle the payable to Triad owners and related interest totaling \$363,976 by the distribution of 300,084 shares of Triad common stock to the Triad owners.

In January 2001, the Company assigned accounts receivable from officers, directors and others, with aggregate principal and accrued interest of \$3,042,887, before offsets totaling \$168,000, to Debt Reduction Trust in consideration of such trust's assumption of any and all liabilities for withholding taxes or other payroll burdens due federal or state authorities relating to the characterization of any of the amounts paid to the obligors as compensation and such trust's agreement to indemnify the Company and hold it harmless from and against any related loss. Debt Reduction Trust is an irrevocable trust created by Kenton L. Stanger. The sole trustee of the Debt Reduction Trust is currently Chelton Feeny, a director, and the beneficiary is Mr. Stanger's wife or estate. Other than the obligations assigned to Debt Reduction Trust as noted above, the trust's only assets consist of 25,000 shares of the Company's common stock.

In addition to funds required to satisfy past due accounts payable, the Company will require at least \$50,000 to \$100,000 during the next twelve months to complete required accounting and auditing work, complete reports to regulatory authorities and stockholders, defend pending litigation and related matters to maintain its corporate good standing. Additional amounts would be required if the pending litigation results in an award or settlement in favor of the plaintiff. The Company has no funds with which to pay these amounts, but will depend primarily on the sale of additional securities for such funding. The Company cannot assure it will be able to obtain required funding or that it will be able to continue. The Company does not believe that its principal, nonliquid assets, its stock in Tambora to be distributed to the Company's stockholders and others, and its notes receivable from officers, directors and others are readily convertible to cash to satisfy claims of creditors.

The Company plans to seek active operations and related funding, which will likely result in a recapitalization of the Company and the issuance of substantial amounts of securities that will dilute the percentage interest in the Company held by existing stockholders.

Sale of Securities to New Investors

The Company entered into an agreement to sell for \$300,000 a total of 15.0 million shares of common stock at a price of \$0.01 per share, or an aggregate of \$150,000, and \$150,000 in principal amount of promissory notes,

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automatically convertible into an aggregate of 49.2 million shares of common stock on the effectiveness of a 21.4-to-1 reverse split of the issued and outstanding shares. The persons making the \$300,000 investment have agreed to execute a majority written consent approving the proposed reverse stock split, the appointment of their designees to the board of directors and the authorization of a class of preferred stock. On the effectiveness of the reverse stock split and related matters, the Company will issue 400,000 shares of common stock to a third party for services. The securities sold by the Company and the consideration therefor are being held pending the Company's completion of its annual report on Form 10-KSB for the year ended December 31, 2000, an information statement to be distributed to the Company's stockholders relating to the matters to be approved by the majority written consent of its stockholders, and certain other conditions. After giving effect to the foregoing, the Company will have an aggregate of 3.6 million shares of common stock issued and outstanding.

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Proceeds from the sale of the above securities will be applied to satisfy certain accrued obligations. Therefore, the Company will still require additional funds to meet future requirements, including any requirements for any new activities.

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PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings except as noted below, and no such proceedings have been threatened by or, to the best of its knowledge, against it.

On October 9, 1996, the Company was advised by the Enforcement Division of the Securities and Exchange Commission (the "Commission") that it is considering recommending that the Commission bring an enforcement action, which could include a civil penalty, against the Company in the U.S. District Court for failing to file timely periodic reports in violation of Section 13(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder.

In October 1996, the Company also received a request for the voluntary production of information to the Enforcement Division of the Commission related to the resignation of Coopers & Lybrand LLP and the termination of Arthur Andersen LLP and the appointment of Jones, Jensen & Company as the Company's independent public accountants and the reasons therefore. In addition, the Company was requested to provide certain information respecting its previous sales of securities. The Company cooperated in providing information in response to these inquiries in early 1997. The Company has not been advised of the outcome of the foregoing.

On December 20, 1999, Robert M. Bridge filed suit against the Company in the Third District Court in Salt Lake County, Utah, styled Bridge v. American Financial Holding, Inc., Triad Financial Systems, Inc., Raymond L. Punta and Kenton L. Stanger (Civil No. 990912544). Mr. Bridge's complaint alleges that he is entitled to the return of a \$100,000 investment made in 1993, in which he purchased the Company's stock in anticipation of the acquisition of an insurance company, costs, attorney's fees, and interest. The complaint alleges claims for breach of contract, fraud and misrepresentation, and claims for a "guarantee" against Messrs. Punta and Stanger. The Company has answered the complaint, denying its material allegations and raising several affirmative defenses,

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including the applicable statutes of limitation. The Company intends to vigorously defend this matter, asserting, among other defenses, that at times the plaintiff could have sold his stock at a multiple of his purchase price. Discovery has commenced but is in its early stages. No trial date has been set.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

See Part I, Item 2, "Management's Discussion and Analysis or Plan of Operation," which is incorporated herein by this reference. The three investors purchasing \$300,000 in securities in the first quarter of 2001 were accredited investors who were provided with the Company's periodic reports, acknowledged the risks and suitability for them of the investment, agreed that the securities issued would constitute "restricted securities," and that stop transfer instructions would be lodged against such certificates. No placement commissions were paid. The exemption from registration provided in Section 4(2) of the Securities Act is relied on for effecting the foregoing transaction.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

By majority written consent of holders of 15,000,000 shares, or 77.8%, of the issued and outstanding stock, the stockholders of the Company approved a 21.4-to-one reverse split of the issued and outstanding stock and the authorization of a class of 5,000,000 shares of preferred stock, par value \$0.01, effective May 24, 2001.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits. None
- (b) Reports on Form 8-K. During the quarter ended March 31, 2001, the Company did not file any reports on Form 8-K.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN FINANCIAL HOLDING, INC.

Date: May 24, 2001

By /s/ Kenton L. Stanger

Kenton L. Stanger, President
(Principal Executive and
Financial Officer)

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