

Edgar Filing: AMERICAN LEISURE HOLDINGS INC - Form 10QSB/A

AMERICAN LEISURE HOLDINGS INC  
Form 10QSB/A  
December 08, 2004

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

FORM 10-QSB/A  
Amendment No. 1

(Mark One)

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

For the quarterly period ended September 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 75-2877111  
(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

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 December 8, 2004, 13,706,674 shares of Common Stock of the issuer were outstanding, of which 3,791,700 shares are treasury stock.

This Form 10-QSB/A is being filed due to adjustments that were made to the Registrant's financial statements which also affect the section entitled "Management's Discussion and Analysis or Plan of Operation."

PART I. FINANCIAL INFORMATION

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## ITEM 1. FINANCIAL STATEMENTS

|                                                                                                                    |     |
|--------------------------------------------------------------------------------------------------------------------|-----|
| Condensed Consolidated Balance Sheets as of September 30, 2004<br>and December 31, 2003                            | F-1 |
| Condensed Consolidated Statements of Operations for the nine and<br>three months ended September 30, 2004 and 2003 | F-2 |
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### AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2004 AND DECEMBER 31, 2003

|                                                         | September 30,<br>2004 | December<br>2003 |
|---------------------------------------------------------|-----------------------|------------------|
|                                                         | -----                 | -----            |
| ASSETS                                                  |                       |                  |
|                                                         | Unaudited             | Audited          |
| CURRENT ASSETS:                                         |                       |                  |
| Cash                                                    | \$ 2,835,641          | \$ 734,850       |
| Accounts receivable, net of allowance of \$75,000       | 938,050               | 2,148,130        |
| Advances receivable                                     | 134,685               |                  |
| Prepaid expenses and other                              | 104,530               | 40,860           |
|                                                         | -----                 | -----            |
| Total Current Assets                                    | 4,012,906             | 2,923,850        |
|                                                         | -----                 | -----            |
| PROPERTY AND EQUIPMENT, NET, at cost                    | 2,732,697             | 3,192,870        |
|                                                         | -----                 | -----            |
| LAND HELD FOR DEVELOPMENT                               | 17,257,034            | 15,323,620       |
|                                                         | -----                 | -----            |
| OTHER ASSETS                                            |                       |                  |
| Prepaid broker commission                               | 5,821,488             |                  |
| Prepaid sales and marketing fees - related party        | 3,643,215             |                  |
| Deferred financing costs, net \$255,117 of amortization | 2,342,881             |                  |
| Investment and advances to Around the World Travel      | 13,069,908            | 654,380          |
| 1913 Mercedes Benz                                      | 500,000               | 500,000          |
| Goodwill                                                | 1,840,001             | 1,840,000        |
| Other                                                   | 3,464,869             | 941,730          |
|                                                         | -----                 | -----            |
| Total Other Assets                                      | 30,682,362            | 3,936,110        |
|                                                         | -----                 | -----            |
| TOTAL ASSETS                                            | \$54,684,999          | \$25,376,470     |
|                                                         | =====                 | =====            |

#### LIABILITIES AND STOCKHOLDERS' EQUITY

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### CURRENT LIABILITIES:

|                                                                                                                                                                                      |              |              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Current maturities of long-term debt and notes payable                                                                                                                               | \$ 9,216,465 | \$ 4,699,200 |
| Current maturities of notes payable-related parties                                                                                                                                  | 1,193,902    | 741,760      |
| Accounts payable and accrued expenses                                                                                                                                                | 2,183,249    | 1,787,690    |
| Accrued expenses - related parties                                                                                                                                                   | 2,866,100    | 500,000      |
| Deposits and other                                                                                                                                                                   | 24,752       |              |
| Shareholder advances                                                                                                                                                                 | 298,658      | 1,030,880    |
|                                                                                                                                                                                      | 15,783,126   | 8,759,540    |
| Commitments and contingencies                                                                                                                                                        |              |              |
| Minority liability                                                                                                                                                                   | -            | 510,340      |
| Long-term debt and notes payable                                                                                                                                                     | 17,466,550   | 8,268,220    |
| Notes payable-related parties                                                                                                                                                        | 595,771      | 1,675,000    |
| Deposits                                                                                                                                                                             | 12,459,921   |              |
| Mandatorily redeemable preferred stock, 28,000 shares authorized;<br>\$.01 par value; 27,189 Series "C" shares issued and outstanding at<br>September 30, 2004 and December 31, 2003 | -            | 2,718,900    |
|                                                                                                                                                                                      | 46,305,368   | 21,932,010   |

### STOCKHOLDERS' EQUITY:

|                                                                                                                                                                         |              |              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Preferred stock; 1,000,000 shares authorized; \$.001 par value;<br>880,000 Series "A" shares issued and outstanding at<br>September 30, 2004 and December 31, 2003      | 8,800        | 8,800        |
| Preferred stock; 100,000 shares authorized; \$.01 par value;<br>2,500 Series "B" shares issued and outstanding at<br>September 30, 2004 and December 31, 2003           | 25           | 200          |
| Preferred stock; 28,000 shares authorized; \$.01 par value;<br>27,189 Series "C" shares issued and outstanding at<br>September 30, 2004 and December 31, 2003           | 272          |              |
| Preferred stock; 50,000 shares authorized; \$.001 par value;<br>24,101 Series "E" shares issued and outstanding at<br>September 30, 2004                                | 24           |              |
| Capital stock, \$.001 par value; 100,000,000 shares authorized;<br>9,778,983 and 7,488,983 shares issued and outstanding at<br>September 30, 2004 and December 31, 2003 | 9,779        | 7,488        |
| Additional paid-in capital                                                                                                                                              | 13,882,243   | 6,166,480    |
| Accumulated (deficit)                                                                                                                                                   | (5,521,512)  | (2,738,340)  |
|                                                                                                                                                                         | 8,379,631    | 3,444,460    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                                                              |              |              |
|                                                                                                                                                                         | \$54,684,999 | \$25,376,470 |

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AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Nine Months      Nine Months      Three Months      Three

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|                                                | Ended<br>September 30,<br>2004 | Ended<br>September 3<br>2003 | Ended<br>September 30,<br>2004 | Ended<br>Septem<br>2003 |
|------------------------------------------------|--------------------------------|------------------------------|--------------------------------|-------------------------|
|                                                | UNAUDITED                      | UNAUDITED                    | UNAUDITED                      | UNAUDIT                 |
| REVENUES                                       | \$ 3,701,469                   | \$ 199,647                   | \$1,356,522                    | \$ 164                  |
| COST OF SALES                                  | -                              | -                            | -                              | -                       |
| Gross margin                                   | 3,701,469                      | 199,647                      | 1,356,522                      | 164                     |
| EXPENSES:                                      |                                |                              |                                |                         |
| Depreciation and amortization                  | 679,543                        | 305,349                      | 236,551                        | 130                     |
| Impairment loss                                | -                              | -                            | -                              | -                       |
| General and administrative expenses            | 6,310,124                      | 1,372,904                    | 2,335,369                      | 629                     |
| TOTAL OPERATING EXPENSES                       | 6,989,667                      | 1,678,253                    | 2,571,920                      | 759                     |
| LOSS FROM OPERATIONS BEFORE MINORITY INTERESTS | (3,288,198)                    | (1,478,606)                  | (1,215,398)                    | (594)                   |
| Minority interests                             | 510,348                        | -                            | 26,062                         | -                       |
| NET LOSS BEFORE INCOME TAXES                   | (2,777,850)                    | (1,478,606)                  | (1,189,336)                    | (594)                   |
| PROVISIONS FOR INCOME TAXES                    | (5,322)                        | -                            | (1,452)                        | -                       |
| NET LOSS                                       | \$ (2,783,172)                 | \$ (1,478,606)               | \$ (1,190,788)                 | \$ (594,                |
| NET LOSS PER SHARE:                            |                                |                              |                                |                         |
| BASIC AND DILUTED                              | \$ (0.34)                      | \$ (0.22)                    | \$ (0.13)                      | \$ (0                   |
| WEIGHTED AVERAGE SHARES OUTSTANDING            |                                |                              |                                |                         |
| BASIC AND DILUTED                              | 8,211,027                      | 6,626,873                    | 9,103,983                      | 6,638                   |

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AMERICAN LEISURE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Nine Months<br>Ended<br>September 30,<br>2004 | Nine Months<br>Ended<br>September 30,<br>2003 |
|--|-----------------------------------------------|-----------------------------------------------|
|  | UNAUDITED                                     | UNAUDITED                                     |

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|                                                                                       |                |                |
|---------------------------------------------------------------------------------------|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                 |                |                |
| Net income (loss)                                                                     | \$ (2,783,172) | \$ (1,478,606) |
| Adjustments to reconcile net loss to net cash used<br>in operating activities:        |                |                |
| Depreciation and amortization                                                         | 679,543        | 305,349        |
| Loss on disposal of assets                                                            | (32,085)       | -              |
| Provision for bad debt                                                                | 75,000         | -              |
| Amortization of deferred financing costs                                              | 255,117        | -              |
| Changes in assets and liabilities:                                                    |                |                |
| Decrease in receivables                                                               | 1,135,084      | (76,688)       |
| (Increase) in advances receivable                                                     | (134,685)      | (392,846)      |
| (Increase) in prepaid and other assets                                                | (63,663)       | 25,089         |
| (Increase) in deposits and other                                                      | (5,335,524)    | (31,455)       |
| Increase in accounts payable and accrued expenses                                     | (614,798)      | 143,212        |
| Increase in deposits and other                                                        | 12,484,673     | -              |
|                                                                                       | -----          | -----          |
| Net cash used in operating activities                                                 | 5,665,490      | (1,505,945)    |
|                                                                                       | -----          | -----          |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                                 |                |                |
| Advances to Around the World Travel                                                   | (3,148,082)    | -              |
| Advances to affiliates                                                                | (3,786,218)    | -              |
| Capitalization of real estate carrying costs and<br>prepaid sales and marketing costs | (1,933,407)    | (1,907,983)    |
| Acquisition of fixed assets                                                           | (187,277)      | (464,827)      |
|                                                                                       | -----          | -----          |
| Net cash used in investing activities                                                 | (9,054,984)    | (2,372,810)    |
|                                                                                       | -----          | -----          |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                                 |                |                |
| Proceeds from notes payable                                                           | 6,968,757      | 4,422,208      |
| Payments on notes payable-related parties                                             | (746,249)      | (446,656)      |
| Payments on shareholder advances                                                      | (732,225)      | 242,365        |
|                                                                                       | -----          | -----          |
| Net cash provided by financing activities                                             | 5,490,283      | 4,217,917      |
|                                                                                       | -----          | -----          |
| Net Increase (decrease) in Cash                                                       | 2,100,789      | 339,162        |
| CASH AT BEGINNING PERIOD                                                              | 734,852        | 50,499         |
|                                                                                       | -----          | -----          |
| CASH AT END OF PERIOD                                                                 | \$ 2,835,641   | \$ 389,661     |
|                                                                                       | =====          | =====          |
| SUPPLEMENTAL CASH FLOW INFORMATION:                                                   |                |                |
| Cash paid for interest                                                                | \$ 432,308     | \$ 180,000     |
|                                                                                       | =====          | =====          |
| Cash paid for income taxes                                                            | \$ -           | \$ -           |
|                                                                                       | =====          | =====          |
| NON-CASH TRANSACTION                                                                  |                |                |
| 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   | \$ -           |
|                                                                                       | =====          | =====          |

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NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS  
September 30, 2004

### Note A - Presentation

The condensed balance sheets of the Company as of September 30, 2004, the related condensed consolidated statements of operations for the nine and three months ended September 30, 2004, and the condensed consolidated statements of cash flows for the nine months ended September 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 nine and three months ended September 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 September 30, 2004, property and equipment consisted of the following:

|                                                 | Useful<br>Lives | Amount      |
|-------------------------------------------------|-----------------|-------------|
|                                                 | -----           | -----       |
| Computer equipment                              | 3-5             | \$ 983,542  |
| Automobiles                                     | 5               | 63,230      |
| Furniture & fixtures                            | 5-7             | 73,269      |
| Leasehold improvements                          | 5               | 29,729      |
| Telecommunications equipment                    | 5               | 3,515,783   |
|                                                 |                 | -----       |
|                                                 |                 | 4,665,553   |
| Less: accumulated depreciation and amortization |                 | 1,932,856   |
|                                                 |                 | -----       |
|                                                 |                 | \$2,732,697 |
|                                                 |                 | =====       |

Depreciation expense for the nine month period ended September 30, 2004 was \$679,543.

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### NOTE D - LONG-TERM DEBT AND NOTES PAYABLE

#### 1. New Credit Facilities

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On June 17, 2004, American Leisure Holdings, Inc. (the "Company" or "American Leisure") entered into two new credit facilities (one for \$1,000,000 and the other for \$3,000,000) with Stanford Venture Capital Holdings, Inc. ("Stanford"). Both of these credit facilities were fully funded as of September 30, 2004. 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 were 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 dated as of June 17, 2004, pursuant to which the Company borrowed \$3,000,000 from Stanford.

The proceeds of the loan were 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.

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

The loan is secured by the following:

(i) a lien on the stock owned by the Company in all of the co-borrowers except for American Leisure 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.

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(iv) all of the other assets, property and rights of the Company's active travel division subsidiaries (excluding accounts receivable and the assets of 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 \$1 and \$3 million 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 the warrants to \$.001 per share. No other terms of the warrants were changed. The modified warrants were valued at the market price at the date of modification (or June 17, 2004) and recorded as deferred financing costs. The deferred financing costs will be amortized over the life of the debt using the effective interest method.

Subsequent to September 30, 2004 and in connection with a new credit facility of \$1,250,000, to be reported on Form 8-K in the next few days, 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 June 2004 (see 4, below), entitled the holders to purchase 500,000 shares of the Company's Common Stock at an exercise price of \$5.00 per share. Under the terms of the amendment, the Company agreed to reduce the exercise price of 100,000 of these warrants to \$.001 per share. No other terms of these warrants were changed.

### 4. Issuance of New Warrants

As additional consideration for the \$3 million credit facility, 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. The 500,000 warrants were valued using Black-Scholes. These warrants have a five-year term. As provided in 5, above, the Company agreed to reduce the exercise price of 100,000 of these warrants to \$.001 per share. No other terms of these warrants were changed.

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### 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 agreed to file a registration statement for this purpose with the Securities and Exchange Commission on or before August 15, 2004. In November 2004, the Company and Stanford agreed to extend the date by which the Company has to file the registration statement to March 31, 2005. If a registration statement is not



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filed by March 31, 2005, American Leisure will incur a penalty of 10% of the warrants issued for every 90 days the registration statement is not filed.

### 6. Acquisition of Galileo Loans

In March 2004, AMLH has acquired the Galileo loans from GCD Acquisition Corp. ("GCD") Under the terms of this agreement, AMLH has assumed GCD's obligations 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 common stock in AMLH valued at \$170,000.

The assets acquired were in the form of senior, secured notes owed by Around The World Travel, Inc., a Florida Corporation, ("AWT" or TraveLeaders) in the amount of \$22,600,000. AMLH acquired the assets from GCD for \$1,170,000, which was paid via the issuance of 340,000 restricted shares of common stock of AMLH at \$5.00 per share. The Company booked the transaction at the market price of the Common Stock which was \$170,000 at the date of issuance and not at the agreed value of the transaction between the parties. 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.

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 the loans can be used as part of a capital restructuring of TraveLeaders, which is fair and reasonable to all of TraveLeaders' shareholders and creditors.

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In connection with the Galileo loans and the note to Shadmore Trust, the Company has made advances to AWT of approximately \$3 million at September 30, 2004, for a total investment in AWT of approximately \$13 million at September 30, 2004. The investment is accounted for under the cash method as the investment in AWT was less than 20% at September 30, 2004.

### 7. \$6,000,000 Credit Facility

In December 2003, 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 secured by way of (i) a second mortgage in favor of Stanford (Arvimex's assignee) on real estate located in Polk County, Florida, owned by Sunstone Golf Resort, Inc., 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

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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.

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. In November 2004, the Company and Stanford agreed to extend the date by which the Company has to file the registration statement to March 31, 2005. If a registration statement is not filed by March 31, 2005, American Leisure will incur a penalty of 10% of the warrants issued for every 90 days the registration statement is not filed.

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.

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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

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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.                                             | \$ 436,804  |
| Roger C. Maddock                                        | 94,428      |
| Arvimex Inc.                                            | 380,353     |
| Minority shareholders -<br>Hickory Travel Systems, Inc. | 282,317     |
|                                                         | -----       |
| Notes payable - related parties                         | \$1,193,902 |
|                                                         | =====       |

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

The long-term portion of notes payable of \$595,771 is owed to the minority shareholders of Hickory Travel Systems, Inc., a subsidiary of the Company. \$208,561 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 as 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.

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As provided above, the Company granted Stanford, and certain individuals associated with Stanford, a reduction in the price of 1,350,000 warrants to purchase an aggregate of 1,350,000 shares of the Company's Common Stock from \$2.96 to \$.001 per share. These reductions in the exercise price of the warrants were issued as a cost paid by the Company for the receipt of the \$3,000,000 credit facility in June 2004. During the month of August, 2004, all 1,350,000 warrants were exercised which resulted in the issuance of an additional 1,350,000 shares of Common Stock.

#### Preferred Stock

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

Annual

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|             | Total Series<br>Authorized | Stated<br>Value | Voting | Dividends<br>per Share | Conversion<br>Rate                                                                                            |
|-------------|----------------------------|-----------------|--------|------------------------|---------------------------------------------------------------------------------------------------------------|
|             | -----                      | -----           | -----  | -----                  | -----                                                                                                         |
| Series A    | 1,000,000                  | \$ 10.00        | Yes    | 0.12                   | 10 shares<br>of common<br>per share<br>of Series A                                                            |
| Series B    | 100,000                    | \$100.00        | Yes    | 0.12                   | Liquidation<br>value<br>divided by<br>market<br>value but<br>not less<br>than 20:1<br>nor more<br>than 12.5:1 |
| Series C(1) | 28,000                     | \$100.00        | Yes    | 0.04                   | Liquidation<br>value<br>divided by<br>market<br>value but<br>not less<br>than 20:1<br>nor more<br>than 12.5:1 |
| Series E(2) | 50,000                     | \$100.00        | Yes    | 0.04                   | Liquidation<br>value<br>divided by<br>market<br>value but<br>not less or<br>more than<br>than<br>6.666:1      |