

AMERICAN HOSPITAL RESOURCES INC  
Form 10QSB  
November 15, 2004

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2004

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

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

Commission file number: 0-32195

**American Hospital Resources, Inc.**

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

**Utah**

**87-0319410**

(State or other jurisdiction of (IRS Employer Identification No.)

incorporation or organization)

**5231-A Kuaiwi Place**

**Honolulu, Hawaii 96821**

(Address of principal executive offices)

**808-595-8847**

(Issuer's telephone number)

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING  
THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:  
12,469,327 shares of common stock, no par value

Transitional Small Business Disclosure Format (Check one):

Yes  No



FORM 10-QSB

AMERICAN HOSPITAL RESOURCES, INC.

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(Inapplicable items have been omitted)

**PART I.**

**Financial Information**

**Item 1. Unaudited Condensed Financial Statements**

In the opinion of management, the accompanying unaudited financial statements included in this Form 10-QSB reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED BALANCE SHEETS**

**ASSETS**

September 30,

December 31,

2004

2003

\_\_\_\_\_

\_\_\_\_\_

**CURRENT ASSETS:**

Cash

\$ 80

\$ 5

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Total Current Assets

80

5

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**OTHER ASSETS:**

Deferred loan costs

3,213

10,503

Deferred stock offering costs

-

1,069,609

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Total Other Assets

3,213

1,080,112

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\$ 3,293

\$ 1,080,117

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*[Continued]*



**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED BALANCE SHEETS**

*[Continued]*

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

September 30,

December 31,

2004

2003

\_\_\_\_\_

\_\_\_\_\_

**CURRENT LIABILITIES:**

Accounts payable

\$ 128,533

\$ 91,570

Liability incurred to repurchase common stock

85,250

85,250

Dividends payable

164,574

68,840

Accrued interest

18,204

3,755

Convertible notes payable, net of discounts totaling

\$30,925 and \$100,800, respectively

182,020

43,045

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Total Current Liabilities

578,581

292,460

**COMMITMENTS AND CONTINGENCIES** [See Note 14]

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Total Liabilities

578,581

292,460

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**STOCKHOLDERS' EQUITY (DEFICIT):**

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Preferred stock, no par value, 10,000,000 shares

authorized:

Class A convertible preferred stock, 2,600,000

shares designated, 2,247,648 and 2,129,540

shares issued and outstanding, respectively

3,441,285

3,160,659

Class B convertible preferred stock, 5,000,000

shares designated, no shares issued and

outstanding

-

-

Class C convertible preferred stock, 1,200,000

shares designated, 28,867 and 28,867 shares

issued and outstanding, respectively

143,496

143,496

Common stock, no par value, 100,000,000 shares

authorized, 12,469,327 and 11,289,327 shares

issued and outstanding, respectively

6,657,197

6,134,297

Additional paid-in capital

1,172,441

1,103,341

Retained earnings (deficit)

(11,989,707)

(9,754,136)

\_\_\_\_\_

\_\_\_\_\_

Total Stockholders' Equity (Deficit)

(575,288)

787,657

\_\_\_\_\_

\_\_\_\_\_

\$ 3,293

\$ 1,080,117

\_\_\_\_\_

\_\_\_\_\_

Note: The Balance Sheet of December 31, 2003 was taken from the audited financial statements at that date and condensed.

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

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF OPERATIONS**

For the Three Months

For the Nine Months

Ended September 30,

Ended September 30,

\_\_\_\_\_

\_\_\_\_\_

2004

2003

2004

2003

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

*[Restated]*

*[Restated]*

**REVENUES**

\$ -

\$ -

\$ -

\$ -

**EXPENSES:**

General and administrative

1,146,332

66,861

1,946,869

414,865

Costs of unsuccessful NIPSI acquisition

-

10,000

-

12,006

Costs of unsuccessful RXS acquisition

-

32,400

-

40,000

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Total Expenses

1,146,332

109,261

1,946,869

466,871

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**LOSS BEFORE OTHER EXPENSE**

(1,146,332)

(109,261)

(1,946,869)

(466,871)

**OTHER EXPENSE:**

Interest expense

(54,441)

(9,137)

(167,904)

(9,137)

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**LOSS BEFORE INCOME TAXES**

(1,200,773)

(118,398)

(2,114,773)

(476,008)

**CURRENT TAX EXPENSE**

-

-

-

-

**DEFERRED TAX EXPENSE**

-

-

-

-

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**LOSS FROM CONTINUING**

**OPERATIONS**

(1,200,773)

(118,398)

(2,114,773)

(476,008)

\_\_\_\_\_

\_\_\_\_\_



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**DISCONTINUED OPERATIONS:**

Loss from operations of discontinued

hospital management consulting

business (including gain on disposal

of \$0, \$0, \$0 and \$0, respectively)

-

(55,633)

-

(133,112)

Income tax benefit

-

-

-

-

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**LOSS FROM DISCONTINUED**

**OPERATIONS**

-

(55,633)

-

(133,112)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**NET LOSS**

\$ (1,200,773)

\$ (174,031)

\$ (2,114,773)

\$ (609,120)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**BENEFICIAL CONVERSION**

**FEATURE OF PREFERRED STOCK**

**EQUIVALENT TO A DIVIDEND**

-

-

(14,189)

(324,775)

**DIVIDEND REQUIREMENTS OF**

**PREFERRED STOCK**

(35,738)

(34,040)

(106,609)

(34,800)

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**NET LOSS AVAILABLE TO COMMON**

**SHAREHOLDERS**

\$

(1,236,511)

\$

(208,071)

\$

(2,235,571)

\$

(968,695)

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**LOSS PER COMMON SHARE:**

Continuing operations

\$ (.10)

\$ (.01)

\$ (.18)

\$ (.09)

Discontinued operations

-

(.01)

-

(.01)

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Net Loss Per Common Share

\$ (.10)

\$ (.02)

\$ (.18)

\$ (.10)

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

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**

For the Nine Months

Ended September 30,

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2004

2003

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*[Restated]*

**Cash Flows from Operating Activities:**

Net loss

\$ (2,114,773)

\$ (609,120)

Adjustments to reconcile net loss to net cash used by

operating activities:

Amortization of deferred loan costs

14,480

825

Amortization of discounts on notes payable

138,975

7,917

Depreciation

-

295

Non-cash expense

1,084,609

-

Non-cash services for stock

745,518

251,000

Changes in assets and liabilities:

Decrease in prepaid expense

-

30,075

Increase in accounts payable

66,345

38,086

Increase in accrued expenses

-

64,722

Increase in accrued interest

14,449

395

\_\_\_\_\_

\_\_\_\_\_

Net Cash (Used) by Operating Activities

(50,397)

(215,805)

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**Cash Flows from Investing Activities:**

Proceeds received on advance to NIPSI

-

15,000

Payments for property and equipment

-

(1,414)

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Net Cash (Used) by Investing Activities

-

13,586

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**Cash Flows from Financing Activities:**

Payments for deferred loan costs

(7,190)

(8,857)

Proceeds allocated to beneficial conversion feature of

notes payable

69,100

85,000

Payments of stock offering costs

(16,563)

(16,015)

Proceeds from sale of Class A preferred stock

15,000

81,500

Proceeds from sale of Class C preferred stock

-

44,000

Proceeds from sale of common stock

1,000

10,000

Payments of dividends

(10,875)

-

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Net Cash Provided by Financing Activities

50,472

195,628

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**Net Increase in Cash**



75

(6,591)

**Cash at Beginning of the Period**

5

6,779

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**Cash at End of the Period**

\$ 80

\$ 188

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**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the period for:

Interest

\$ -

\$ -

Income taxes

\$ -

\$ -

[Continued]



**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**

*[Continued]*

**Supplemental Schedule of Non-cash Investing and Financing Activities:**

For the nine months ended September 30, 2004:

The Company amortized \$138,975 of discounts on notes payable and \$14,480 of deferred loan costs as interest expense.

The Company recorded dividends payable of \$106,609 for the dividend requirements of its preferred stock.

In February 2004, the Company issued 110,000 shares of Class A preferred stock for services valued at \$253,000.

In February 2004, the Company issued 1,100,000 shares of common stock to pay accounts payable of \$29,382 and for services valued at \$476,618.

In February and March 2004, the Company sold convertible notes payable totaling \$60,000 and recorded discounts totaling \$60,000 for the beneficial conversion features of the notes.

In March 2004, the Company issued 8,108 shares of Class A preferred stock with a beneficial conversion feature of \$14,189 which has been accounted for as a dividend on the day of issue.

In August and September 2004, the Company sold convertible notes payable totaling \$9,100 and recorded discounts totaling \$9,100 for the beneficial conversion feature of the notes.

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In August and September 2004, the Company issued a total of 60,000 shares of common stock for services valued at a total of \$15,900.

In September 2004, the Company abandoned its proposed stock offering [*See Note 14*] and wrote off the deferred stock offering costs of \$1,084,609 directly to general and administrative expense.

For the nine months ended September 30, 2003:

The Company amortized \$7,917 of discounts on notes payable and \$825 of deferred loan costs as interest expense.

In April 2003, the Company issued 240,000 shares of Class A preferred stock for services valued at \$120,000.

In April and May 2003, the Company issued 570,000 shares of common stock for services valued at \$131,000.

From April through June 2003, the Company issued a total of 388,300 shares of Class A preferred stock with beneficial conversion features totaling \$324,775 which have been accounted for as dividends on the day of issue.

In May 2003, shareholders of the Company converted 505,010 shares of Class A preferred stock into 2,525,050 shares of common stock.

In August and September 2003, the Company sold convertible notes payable totaling \$85,000 and recorded discounts totaling \$85,000 for the beneficial conversion feature of the notes.

In September 2003, the Company issued 173,747 shares of Class C preferred stock to a third party in exchange for payment of liabilities totaling \$868,735 which were owed to shareholders of the Company.

The Company recorded dividends payable of \$34,800 for the dividend requirements of its preferred stock.

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



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

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

**Organization** - American Hospital Resources, Inc. ( the Company ) was organized under the laws of the State of Utah on May 9, 1972 as High-Line Investment & Development Company. In 1977, the Company changed its name to Gayle Industries, Inc. In 1978, the Company merged into Swing Bike. In 1979, the Company changed its name to Horizon Energy Corporation. In 1992, the Company changed its name to Millennium Entertainment Corp. In 1993, the Company changed its name to New Horizon Education, Inc. In 1993, the Company also organized a wholly owned subsidiary with the sole purpose of merging with Ruff Network Marketing, Inc. In 1997, the Company sold its wholly owned subsidiary to Phoenix Ink, LLC. In June 2002, the Company changed its name to American Hospital Resources, Inc. The Company plans to retail medications as a closed-door pharmacy. The Company plans to acquire businesses already operating as closed-door pharmacies. The Company has, at the present time, not paid any cash dividends on its common stock and any dividends that may be paid in the future on its common stock will depend upon the financial requirements of the Company and other relevant factors.

American Hospital Resources, Inc. ( AHR Subsidiary ) was organized under the laws of the State of Delaware on August 27, 1999 as Frozen Enterprises, Inc. In February 2002, AHR Subsidiary changed its name to American Hospital Resources, Inc. AHR Subsidiary provided hospital management consulting. On June 17, 2002, the Company issued 3,196,873 shares of its common stock to acquire AHR Subsidiary. In December 2003, the Company's Board of Directors determined that the Company had not realized the expected benefits from the acquisition of AHR Subsidiary and determined to seek to dispose of AHR Subsidiary. Accordingly, the Company repurchased 2,131,249 shares of common stock for \$85,250 and obtained a court order to cancel the remaining 1,065,624 shares previously issued to acquire AHR Subsidiary [See Note 14]. AHR Subsidiary discontinued its operations and has been dissolved by the State of Delaware. The financial statements reflect the operations of AHR Subsidiary from June 17, 2002 through December 22, 2003. All operations of AHR Subsidiary have been reclassified to discontinued operations.

**Condensed Financial Statements** - The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2004 and 2003 and for the periods then ended have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2003 audited financial statements. The results of operations for the periods ended September 30, 2004 and 2003 are not necessarily indicative of the operating results for the full year.

**Consolidation** - The financial statements include the accounts of the Company and the accounts of the Company's formerly wholly owned AHR Subsidiary for the period from June 17, 2002 through December 22, 2003. All significant intercompany transactions were eliminated in consolidation.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]**

**Discontinued Operations** - The Company has adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . SFAS No. 144 modifies previous disclosures and requires additional disclosures for discontinued operations and the assets associated with discontinued operations.

**Cash and Cash Equivalents** - The Company considers all highly-liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

**Accounts and Loans Receivable** - The Company records accounts and loans receivable at the lower of cost or fair value. The Company determines the lower of cost or fair value of non-mortgage loans on an individual asset basis. The Company recognizes interest income on an account receivable based on the stated interest rate for past-due accounts over the period that the account is past due. The Company recognizes interest income on a loan receivable based on the stated interest rate over the term of the loan. The Company accumulates and defers fees and costs associated with establishing a receivable to be amortized over the estimated life of the related receivable. The Company estimates allowances for doubtful accounts and loan losses based on the aged receivable balances and historical losses. The Company records interest income on delinquent accounts and loans receivable only when payment is received. The Company first applies payments received on delinquent accounts and loans receivable to eliminate the outstanding principal. The Company charges off uncollectible accounts and loans receivable when management estimates no possibility of collecting the related receivable. The Company considers accounts and loans receivable to be past due or delinquent based on contractual terms.

**Property and Equipment** - Property and equipment are stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five to ten years. In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company periodically reviews its property and equipment for impairment. Depreciation expense for the nine months ended September 30, 2004 and 2003 was \$0 and \$295, respectively.



**Website Costs** - The Company has adopted the provisions of Emerging Issues Task Force 00-2, Accounting for Web Site Development Costs. Costs incurred in the planning stage of a website are expensed as research and development while costs incurred in the development stage are capitalized and amortized over the life of the asset, estimated to be five years. The Company had capitalized a total of \$2,955 of website costs which were written off in the disposal of AHR Subsidiary. The Company did not incur any planning costs and did not record any research and development costs for the nine months ended September 30, 2004 and 2003.

**Stock Offering Costs** - Costs related to proposed stock offerings are deferred and will be offset against the proceeds of the offering. In the event a stock offering is unsuccessful, the costs related to the offering are written off to expense.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]**

**Revenue Recognition** - The Company plans to generate revenue from the retail sale of medications as a closed-door pharmacy. Revenue from pharmacy sales will be recognized upon shipment of the product. All sales are expected to be final when shipment is made. AHR Subsidiary previously generated revenue from hospital management consulting. Revenue from consulting and managing hospitals was recognized over the term of the underlying agreement. A portion of the consulting services was subcontracted out by the Company to third party vendors. These direct costs were recorded by the Company as general and administrative expenses. Revenue from facilitating the sale of hospital property was recorded when property was sold. AHR Subsidiary had purchased the right to receive a portion of the revenues from a consulting and asset sale agreement. Revenue derived from the purchased contract rights was recorded as received on a net basis. On a net basis, only the share of revenue belonging to AHR Subsidiary was recorded as revenue.

**Stock-Based Compensation** - The Company has two stock-based employee compensation plans [See Note 9]. The Company accounts for its plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations. The following table illustrates the effect on net income and loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, to the Company's stock-based employee compensation.

For the Three Months

For the Nine Months

Ended September 30,

Ended September 30,

\_\_\_\_\_

\_\_\_\_\_

2004

2003

2004

2003

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

*[Restated]*

*[Restated]*

Net loss, as reported

\$

(1,200,773)

\$ (174,031)

\$

(2,114,773)

\$ (609,120)

Add: Stock-based employee

compensation expense

included in reported net loss

-

-

-

-

Deduct: Total stock-based

employee compensation

expense determined under fair

value based method

-

-

-

-

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Pro forma net loss

\$

(1,200,773)

\$ (174,031)

\$

(2,114,773)

\$ (609,120)

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Loss per common share,

as reported

\$ (.10)

\$ (.02)

\$ (.18)

\$ (.10)

Loss per common share,

pro forma

\$ (.10)

\$ (.02)

\$ (.18)

\$ (.10)

**Income Taxes** - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes [See Note 10].

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]**

**Loss Per Share** - The computation of loss per share of common stock is based on the weighted average number of shares outstanding during the periods presented, in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share [See Note 13].

**Accounting Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated by management.

**Recently Enacted Accounting Standards** - Statement of Financial Accounting Standards ( SFAS ) No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities , and SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , were recently issued. SFAS No. 149 and 150 have no current applicability to the Company or their effect on the financial statements would not have been significant.

**Reclassification** - The financial statements for periods prior to September 30, 2004 have been reclassified to conform to the headings and classifications used in the September 30, 2004 financial statements.

**NOTE 2 - ACQUISITION AND CANCELLATION OF ACQUISITION OF RXS**

On May 8, 2003, the Company signed a Stock Purchase Agreement with RX Solutions, Inc. ( RXS ). The agreement provided for the Company to issue 720,000 shares of Class B Preferred Stock and to sign \$900,000 of notes payable to the shareholders of RXS for 100% of the outstanding shares of RXS 's common stock. As part of the agreement, the Company entered into a three-year Employment Agreement with the shareholders of RXS. In July 2003, the Company defaulted on the notes payable and employment agreement underlying the acquisition. In August 2003, the

Company entered into an agreement to extend the maturity of a \$300,000 90-day non-interest-bearing note payable to September 29, 2003. The extension required the Company to pay \$40,000 in August and September 2003 in lieu of the interest and salary payments required by the Stock Purchase Agreement. In September 2003, the Company renegotiated the notes payable underlying the acquisition so that the Company would pay \$25,000 by October 31, 2003 against the \$300,000 90-day non-interest-bearing note payable and pay \$200,000 by November 29, 2003 as payment in full of a \$294,000 five-year 7% note payable, a \$306,000 five-year 7% note payable and related accrued interest. In November 2003, the Company defaulted on the notes payable underlying the acquisition and the owners of RXS called for the acquisition to be cancelled. The financial statements reflect the acquisition as having never closed and any expenses associated with the cancelled acquisition have been classified as a cost of the unsuccessful RXS acquisition.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 3 - ACQUISITION AND VOIDING OF ACQUISITION OF NIPSI**

On December 13, 2002, Parent signed an asset purchase agreement with NIPSI Healthcare of Houston Limited Partnership ( NIPSI ) and NIPSI of Houston, Inc. ( NIPSI General Partner ). The agreement provided for the Company to assume certain liabilities of NIPSI and to sign an unsecured 18-month \$150,000 note payable to NIPSI for most of the operating assets of NIPSI. The agreement also included a non-compete covenant from NIPSI and NIPSI General Partner. The acquisition closed December 16, 2002; however, in April 2003, the court entered a default judgment against NIPSI [See Note 14]. The court found that NIPSI had fraudulently transferred assets to the Company to avoid the claims of AmeriSource. The court voided and nullified the transfer of assets from NIPSI to the Company and ordered NIPSI to pay \$551,264 to AmeriSource. As a result of these proceedings, the asset purchase agreement between the Company, NIPSI and NIPSI General Partner was voided and the Company was released as a defendant.

Also, NIPSI General Partner sent a demand letter to the Company to rescind the asset purchase agreement and claiming damages of \$120,000 against the Company [See Note 14]. The financial statements reflect the acquisition as having been voided or rescinded and any expenses associated with the voided acquisition have been classified as costs of the unsuccessful NIPSI acquisition.

**NOTE 4 - ACQUISITION OF AMERICAN HOSPITAL RESOURCES, INC.**

On April 3, 2002, the Company signed an agreement and plan of reorganization with Phase One, LLC and AHR Subsidiary. The agreement provided for the Company to issue 3,196,873 shares of its common stock for all 1,500 shares of AHR Subsidiary's common stock. In connection with the proposed agreement, the Company previously issued a total of 13,000,000 shares of its common stock to Phase One, LLC for \$130,000 in financing. The agreement called for former shareholders of AHR Subsidiary to receive up to 12,870,000 shares of the common stock issued to Phase One, LLC based on the performance of the Company. In connection with the agreement, the Company amended its articles of incorporation to authorize 10,000,000 shares of preferred stock and to change its name to American Hospital Resources, Inc. Also in connection with the agreement, the Company and AHR Subsidiary entered into three-year consulting agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. [See Note 14]. As a result of the acquisition, the former officers and directors of the Company resigned and new officers and directors were appointed. The acquisition closed June 17, 2002 and has been accounted for as a purchase of AHR Subsidiary. The Company recorded goodwill of \$60,321 as a result of the acquisition.



On December 31, 2002, the agreement and plan of reorganization was amended to exchange the 13,000,000 shares of the Company's common stock that had been issued to Phase One, LLC for 2,600,000 shares of the Company's Class A preferred stock. The transaction was valued at the market value of the common stock of \$3,900,000.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 5 - DISCONTINUED OPERATIONS**

On December 22, 2003, the Company discontinued its hospital management consulting business. The Company has accounted for this disposal in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . At September 30, 2004 and December 31, 2003, the Company had no assets or liabilities associated with its discontinued hospital management consulting business. The Company effected the disposal of its discontinued operations by repurchasing 2,131,249 shares of common stock for \$85,250 and obtained a court order to cancel the remaining 1,065,624 shares previously issued to acquire AHR Subsidiary.

The following is a summary of the results of operations of the Company s discontinued hospital management consulting business:

For the Three Months

For the Nine Months

Ended September 30,

Ended September 30,

\_\_\_\_\_

\_\_\_\_\_

2004

2003

2004

2003

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

[Restated]

[Restated]

Revenue

\$ -

\$ -

\$ -

\$ -

General and administrative

-

(55,633)

-

(133,112)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Net loss

\$ -

\$ (55,633)

\$ -

\$ (133,112)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

---

**NOTE 6 - GOODWILL**

The Company has no indefinite-life or definite-life intangible assets. The following is a summary of the transactions affecting the Company's goodwill.

For the Three Months

For the Nine Months

Ended September 30,

Ended September 30,

---

---

2004

2003

2004

2003

---

---

---

---

*[Restated]*

*[Restated]*

Goodwill at beginning of period

\$ -

\$ 60,321

\$ -

\$ 60,321

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Goodwill at end of period

\$ -

\$ 60,321

\$ -

\$ 60,321

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**NOTE 7 - CONVERTIBLE NOTES PAYABLE**

The Company has sold convertible notes payable totaling \$212,945 and recorded discounts totaling \$212,945 due to the beneficial conversion feature of the notes. The discounts are being amortized over the term of the respective note. For the nine months ended September 30, 2004 and 2003, respectively, the Company amortized \$138,975 and \$7,917 of the discounts on notes payable as interest expense.

The Company has paid a total of \$22,178 to consultants for negotiating the notes payable. These costs have been deferred and are being amortized over the term of the respective note. For the nine months ended September 30, 2004 and 2003, respectively, the Company amortized \$14,480 and \$825 of the deferred loan costs as interest expense.



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 7 - CONVERTIBLE NOTES PAYABLE [Continued]**

For the nine months ended September 30, 2004 and 2003, respectively, interest expense on notes payable amounted to \$167,904 and \$9,137.

The Company has the following one-year 10% convertible notes payable at:

September 30,

December 31,

2004

2003

\_\_\_\_\_  
\_\_\_\_\_

\$10,000 note payable due in August 2004 convertible into common stock at \$.29 per share secured by 100,000 shares of the Company's common stock currently in default, net of discounts of \$0 and \$5,832, respectively

\$ 10,000

\$ 4,168

\$20,000 note payable due in September 2004 convertible

into common stock at \$.265 per share secured by  
200,000 shares of the Company's common stock  
currently in default, net of discounts of \$0 and \$13,333,  
respectively

20,000

6,667

\$10,000 note payable due in September 2004 convertible  
into common stock at \$.38 per share secured by 100,000

shares of the Company's common stock currently in  
default, net of discounts of \$0 and \$6,667, respectively

10,000

3,333

\$24,000 note payable due in September 2004 convertible  
into common stock at \$.36 per share secured by 250,000

shares of the Company's common stock currently in  
default, net of discounts of \$0 and \$16,000, respectively

24,000

8,000

\$10,000 note payable due in September 2004 convertible  
into common stock at \$.37 per share secured by 100,000

shares of the Company's common stock currently in  
default, net of discounts of \$0 and \$6,667, respectively



10,000

3,333

\$11,000 note payable due in September 2004 convertible into common stock at \$.485 per share secured by 150,000 shares of the Company's common stock currently in default, net of discounts of \$0 and \$7,333, respectively

11,000

3,667

\$21,345 note payable maturing in October 2004 convertible into common stock at \$.435 per share secured by 213,345 shares of the Company's common stock, net of discounts of \$0 and \$16,009, respectively

21,345

5,336

\$10,000 note payable maturing in October 2004 convertible into common stock at \$.42 per share secured by 100,000 shares of the Company's common stock, net of discounts of \$0 and \$7,500, respectively

10,000

2,500



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 7 - CONVERTIBLE NOTES PAYABLE [Continued]**

September 30,

December 31,

2004

2003

\_\_\_\_\_

\_\_\_\_\_

\$10,000 note payable maturing in October 2004

convertible into common stock at \$.45 per share secured

by 100,000 shares of the Company's common stock, net

of discounts of \$0 and \$7,500, respectively

10,000

2,500

\$10,000 note payable maturing in October 2004

convertible into common stock at \$.40 per share secured

by 100,000 shares of the Company's common stock, net

of discounts of \$0 and \$7,500, respectively

10,000

2,500

\$5,000 note payable maturing in November 2004

convertible into common stock at \$.375 per share secured  
by 100,000 shares of the Company's common stock, net  
of discounts of \$417 and \$4,167, respectively

4,583

833

\$2,500 note payable maturing in December 2004

convertible into common stock at \$.18 per share secured  
by 100,000 shares of the Company's common stock, net  
of discounts of \$417 and \$2,292, respectively

2,083

208

\$10,000 note payable maturing in February 2005

convertible into common stock at \$.23 per share secured  
by 100,000 shares of the Company's common stock, net  
of discounts of \$3,333 and \$0, respectively

6,667

-

\$10,000 note payable maturing in February 2005

convertible into common stock at \$.27 per share secured  
by 100,000 shares of the Company's common stock, net

of discounts of \$3,333 and \$0, respectively

6,667

-

\$10,000 note payable maturing in February 2005

convertible into common stock at \$.325 per share secured

by 100,000 shares of the Company's common stock, net

of discounts of \$3,333 and \$0, respectively

6,667

-

\$16,000 note payable maturing in March 2005 convertible

into common stock at \$.51 per share secured by 160,000

shares of the Company's common stock, net of discounts

of \$6,667 and \$0, respectively

9,333

-

\$10,000 note payable maturing in March 2005 convertible

into common stock at \$.425 per share secured by 100,000

shares of the Company's common stock, net of discounts

of \$4,167 and \$0, respectively

5,833

-



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 7 - CONVERTIBLE NOTES PAYABLE [Continued]**

September 30,

December 31,

2004

2003

\_\_\_\_\_

\_\_\_\_\_

\$4,000 note payable maturing in March 2005 convertible into common stock at \$.50 per share secured by 40,000 shares of the Company's common stock, net of discounts of \$1,667 and \$0, respectively

2,333

-

\$9,000 note payable maturing in August 2005 convertible into common stock at \$.15 per share secured by 90,000 shares of the Company's common stock, net of discounts of \$7,500 and \$0, respectively

1,500

-

\$100 note payable maturing in September 2005 convertible  
into common stock at \$.11 per share secured by 1,000  
shares of the Company's common stock, net of discounts  
of \$91 and \$0, respectively

9

-

---

---

182,020

43,045

Less current portion

(182,020)

(43,045)

---

---

\$ -

\$ -

---

---

**NOTE 8 - PREFERRED STOCK**



The Company has authorized 10,000,000 shares of preferred stock, no par value, with such rights, preferences and designations and to be issued in such classes and series as determined by the Company's Board of Directors. In December 2002, the Company's Board of Directors designated 5,000,000 shares as Class A and 5,000,000 shares as Class B. In June 2003, the Company's Board of Directors modified the preferred stock distributions to designate 2,600,000 shares as Class A, 5,000,000 shares as Class B and 1,200,000 as Class C. The Class C preferred stock dividends rank senior to the Class A and B preferred stock dividends in liquidation preference and the Class B preferred stock dividends rank senior to the Class A preferred stock dividends in liquidation preference. In liquidation, Class A, B and C preferred stock have no preferential rights to any distributions other than payment of accrued dividends.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 8 - PREFERRED STOCK [Continued]**

**Class A Preferred Stock** - Class A preferred stock is only available to the Company's management, directors and existing shareholders. Each share of Class A preferred stock has the voting rights of five shares of common stock and is convertible at the shareholder's option into five shares of common stock. If shares of the Class A preferred stock are required to be converted as part of a sale or merger of the Company, then each share of Class A preferred stock was convertible into 5.5 shares of common stock. Each share of Class A preferred stock was entitled to receive a \$.0575 annual dividend payable monthly. The total annual dividend for all shares of Class A preferred stock was limited to 50% of the Company's earnings before interest, taxes, depreciation and amortization for the year and the monthly payments were adjusted accordingly. For the six months ended June 30, 2003, the Company had negative earnings before interest, taxes, depreciation and amortization; therefore, no dividends were due on the Class A preferred stock through June 30, 2003. In June 2003, the Company's Board of Directors modified the mandatory conversion and dividend provisions of the Class A preferred stock. Effective July 1, 2003, if there is a merger, reorganization, recapitalization or similar event in which the Company is not the surviving entity, then each share of Class A preferred stock will be converted into 5.5 shares of common stock. Effective July 1, 2003, each share of Class A preferred stock is entitled to receive a cumulative \$.0575 annual dividend payable monthly with no limitation based on earnings. For the nine months ended September 30, 2004 and 2003, respectively, the Company has recorded \$96,325 and \$30,612 in dividends payable on Class A preferred stock. At September 30, 2004 and December 31, 2003, respectively, the Company owed \$157,549 and \$61,224 in dividends payable on Class A preferred stock.

In March 2004, the Company issued 8,108 shares of its previously authorized but unissued Class A preferred stock to a shareholder for cash of \$15,000, or approximately \$1.85 per share. Due to the beneficial conversion feature of the shares, the Company recorded a dividend of \$14,189 upon the issuance of the shares. Stock offering costs of \$1,563 were netted against the proceeds.

In February 2004, the Company issued 110,000 shares of its previously authorized but unissued Class A preferred stock for services valued at \$253,000, or \$2.30 per share.

In October 2003, shareholders of the Company converted 353,750 shares of Class A preferred stock into 1,768,750 shares of common stock.

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In June 2003, the Company issued 5,300 shares of its previously authorized but unissued Class A preferred stock for cash of \$10,000, or approximately \$1.887 per share. Due to the beneficial conversion feature of the shares, the Company recorded a dividend of \$9,875 upon the issuance of the shares. Stock offering costs of \$62 were netted against the proceeds.

In May 2003, shareholders of the Company converted 505,010 shares of Class A preferred stock into 2,525,050 shares of common stock.

In April and May 2003, the Company issued 383,000 shares of its previously authorized but unissued Class A preferred stock for cash of \$71,500 and services valued at \$120,000, or \$.50 per share. Due to the beneficial conversion feature of the shares, the Company recorded a dividend of \$314,900 upon the issuance of the shares. Stock offering costs of \$65 were netted against the proceeds.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 8 - PREFERRED STOCK** *[Continued]*

**Class B Preferred Stock** - Class B preferred stock is only available to parties who sell a business to the Company. Each share of Class B preferred stock has no voting rights and is convertible into five shares of common stock. Each share of Class B preferred stock is entitled to receive a cumulative 6% annual dividend payable quarterly based on the purchase price paid to the Company or the consideration received by the Company. Class B preferred stock may not be transferred without the express written consent of the Company. At September 30, 2004 and December 31, 2003, no shares of Class B preferred stock had been issued.

**Class C Preferred Stock** - Each share of Class C preferred stock has no voting rights and is entitled to receive a cumulative \$.475 annual dividend payable quarterly. Each share of Class C preferred stock is convertible at the shareholder's option into five shares of common stock after a two-year waiting period following issuance. If there is a merger, reorganization, recapitalization or similar event in which the Company is not the surviving entity, then each share of Class C preferred stock will be converted into five shares of common stock. Class C preferred stock may not be transferred without the express written consent of the Company. For the nine months ended September 30, 2004 and 2003, respectively, the Company has recorded \$10,284 and \$4,188 in dividends payable on Class C preferred stock. At September 30, 2004 and December 31, 2003, respectively, the Company owed \$7,025 and \$7,616 in dividends payable on Class C preferred stock.

In October 2003, shareholders of the Company converted 153,680 shares of Class C preferred stock into 768,400 shares of common stock.

In September 2003, the Company issued 173,747 shares of its previously authorized but unissued Class C preferred stock to a third party in exchange for payment of liabilities totaling \$868,735 which were then owed to shareholders of the Company, or \$5.00 per share.

In June and July 2003, the Company sold 8,800 shares of its previously authorized but unissued Class C preferred stock for cash of \$44,000, or \$5.00 per share. Stock offering costs of \$5,303 were netted against the proceeds.

**NOTE 9 - COMMON STOCK, OPTIONS AND WARRANTS**

**Common Stock** - The Company has authorized 100,000,000 shares of common stock with no par value.

In September 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$6,300, or \$.21 per share.

In August 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$9,600, or \$.32 per share.

In March 2004, the Company issued 20,000 shares of its previously authorized but unissued common stock for cash of \$1,000, or \$.05 per share, upon the exercise of options.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 9 - COMMON STOCK, OPTIONS AND WARRANTS [Continued]**

In February 2004, the Company issued 1,100,000 shares of its previously authorized but unissued common stock to pay accounts payable of \$29,382 and for services valued at \$476,618, or \$.46 per share.

In December 2003, the Company cancelled 1,065,624 shares of its common stock due to a court order.

In December 2003, the Company repurchased and cancelled 2,131,249 shares of the Company's issued and outstanding common stock for \$85,250, or \$.04 per share.

In October 2003, the Company issued 2,537,150 shares of its previously authorized but unissued common stock upon the conversion of 353,750 shares of Class A preferred stock and 153,680 shares of Class C preferred stock.

In October 2003, the Company issued 1,200,000 shares of its previously authorized but unissued common stock to pay a liability of \$290,000, or approximately \$.2417 per share.

In May 2003, the Company issued 2,525,050 shares of its previously authorized but unissued common stock upon the conversion of 505,010 shares of Class A preferred stock.

In May 2003, the Company issued 20,000 shares of its previously authorized but unissued common stock for services rendered valued at \$10,000, or \$.50 per share.

In April 2003, the Company issued 550,000 shares of its previously authorized but unissued common stock for services rendered valued at \$121,000, or \$.22 per share.

In February 2003, the Company issued 40,000 shares of its previously authorized but unissued common stock for cash of \$10,000, or \$.25 per share. Stock offering costs of \$400 were netted against the proceeds.

**Proposed Stock Offering** - The Company was proposing to sell up to \$10,000,000 of its previously authorized but unissued common stock through an Equity Line of Credit Agreement [*See Note 14*]. The Company had recorded \$1,084,609 in deferred stock offering costs which were to be offset against the proceeds of the offering. In September 2004, the Company abandoned its plans for a stock offering and expensed the deferred stock offering costs of \$1,084,609 as general and administrative expense.

**Stock Options** - In November 2002, the Company granted 2,000,000 options to purchase common stock at \$.50 per share for services rendered valued at \$882,400. The options vested immediately and are exercisable for three years. At September 30, 2004, none of these options had been exercised, forfeited or cancelled.

In March 2002, the Company granted 20,000 options to purchase common stock at \$.05 per share to attract new directors to Company. The options vested immediately and are exercisable for two years. In March 2004, all 20,000 options were exercised.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 9 - COMMON STOCK, OPTIONS AND WARRANTS [Continued]**

A summary of the status of the options is presented below.

For the Three Months Ended September 30,

For the Nine Months Ended September 30,

---

---

2004

2003

2004

2003

---

---

---

---

[Restated]

[Restated]

Weighted

Weighted

Weighted



Weighted

Average

Average

Average

Average

Exercise

Exercise

Exercise

Exercise

Shares

Price

Shares

Price

Shares

Price

Shares

Price

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Outstanding at beginning of period

2,000,000

\$ .50

2,020,000

\$ .50

2,020,000

\$ .50

2,020,000

\$ .50

Granted

-

-

-

-

-

-

-

-

Exercised

-

-

-

-

20,000

.05

-

-

Forfeited

-

-

-

-

-

-

-

-

Expired

-

-

-

-

-

-

-

-

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Outstanding at end of period

2,000,000

\$ .50

2,020,000

\$ .50

2,000,000

\$ .50

2,020,000

\$ .50

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Weighted average fair value of

options granted during the period

-

\$ -

-

\$ -

-

\$ -

-

\$ -

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

A summary of the status of the options outstanding at September 30, 2004 is presented below:

Options Outstanding

Options Exercisable

\_\_\_\_\_  
\_\_\_\_\_

Range of

Weighted-Average

Weighted-Average

Weighted-Average

Exercise

Number

Remaining

Exercise

Number

Exercise

Prices

Outstanding

Contractual Life

Price

Exercisable

Price

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\$ .50

2,000,000

1.1 years

\$ .50

2,000,000

\$ .50

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Incentive Stock Bonus Plan** - On December 31, 2002, the Company's Board of Directors adopted the Incentive Stock Bonus Plan (the Plan). The Plan provides for the granting of 5-year warrants to purchase shares of common stock to

directors, senior management and certain key employees. Awards under the Plan will be granted as determined by the Company's Board of Directors.

In December 2003, the Company's Board of Directors authorized the 2004 Stock Bonus Pool which consists of 1,000,000 warrants to purchase common stock at \$.25 per share. Further, the Company granted 200,000 warrants to purchase common stock from the 2004 Stock Bonus Pool to directors for services rendered valued at \$4,000. The warrants vested immediately and are exercisable at \$.25 per share for five years. At September 30, 2004, none of these warrants had been exercised, forfeited or cancelled.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 9 - COMMON STOCK, OPTIONS AND WARRANTS [Continued]**

In December 2002, the Company's Board of Directors authorized the 2003 Stock Bonus Pool which consisted of 1,000,000 warrants to purchase common stock at \$.25 per share. Further, the Company granted 300,000 warrants to purchase common stock from the 2003 Stock Bonus Pool to directors and NIPSI personnel for services rendered valued at \$19,577. The warrants vested immediately and are exercisable at \$.25 per share for five years. In 2004, the Company obtained a court order to cancel 75,000 of the warrants [See Note 14]. At September 30, 2004, none of the remaining 225,000 warrants had been exercised, forfeited or cancelled.

A summary of the status of the warrants granted under the Company's Incentive Stock Bonus Plan is presented below.

For the Three Months Ended September 30,

For the Nine Months Ended September 30,

\_\_\_\_\_  
\_\_\_\_\_

2004

2003

2004

2003

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



[Restated]

[Restated]

Weighted

Weighted

Weighted

Weighted

Average

Average

Average

Average

Exercise

Exercise

Exercise

Exercise

Shares

Price

Shares

Price

Shares

Price

Shares

Price

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Outstanding at beginning of period

425,000

\$ .25

300,000

\$ .25

425,000

\$ .25

300,000

\$ .25

Granted

-

\$ -

-

-

-

\$ -

-

\$ -

Exercised

-

\$ -

-  
-  
-  
\$ -  
-  
\$ -  
Forfeited  
-  
\$ -  
-  
-  
-  
\$ -  
-  
\$ -  
Expired  
-  
\$ -  
-  
-  
-  
\$ -  
-  
\$ -  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Outstanding at end of period

425,000

\$ .25

300,000

\$ .25

425,000

\$ .25

300,000

\$ .25

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Weighted average fair value of

warrants granted during the period

-

\$ -

-  
\$ -  
-  
\$ -  
-  
\$ -  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

The fair value of each warrant granted is estimated on the date granted using the Black-Scholes option pricing model, with the following assumptions used for the grants on December 31, 2003: risk-free interest rate of 3.25%, expected dividend yield of zero, expected lives of 5 years and expected volatility of 222%.

A summary of the status of the warrants outstanding under the Company's Incentive Stock Bonus Plan at September 30, 2004 is presented below:

Options Outstanding

Options Exercisable

\_\_\_\_\_  
\_\_\_\_\_

Range of

Weighted-Average

Weighted-Average

Weighted-Average

Exercise

Number

Remaining

Exercise

Number

Exercise

Prices

Outstanding

Contractual Life

Price

Exercisable

Price

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\$ .25

225,000

3.3 years

\$ .25

225,000

\$ .25

\$ .25

200,000

4.3 years

\$ .25

200,000

\$ .25

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\$ .25

425,000

3.8 years

\$ .25

425,000

\$ .25

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 10 - INCOME TAXES**

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes . SFAS No. 109 requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. At September 30, 2004, the Company has available unused net operating and capital loss carryforwards of approximately \$2,747,000 and \$294,000, respectively, which may be applied against future taxable income and which expire in various years through 2024 and 2008, respectively. If certain substantial changes in the Company's ownership should occur, there will be an annual limitation on the amount of net operating loss carryforwards which can be utilized.

At September 30, 2004, the total of all deferred tax assets is approximately \$1,212,000 and the total of all deferred tax liabilities is \$0. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the loss carryforwards, the Company has established a valuation allowance of approximately \$1,212,000 and \$417,000 at September 30, 2004 and December 31, 2003, respectively. The change in the valuation allowance for the nine months ended September 30, 2004 is approximately \$795,000.

The temporary differences, tax credits and carryforwards gave rise to the following deferred tax asset (liability) at:

September 30,

2004

Net operating loss carryover

\$ 1,094,270

Capital loss carryover



117,253

---

Total deferred tax asset

\$ 1,211,523

---

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 10 - INCOME TAXES [Continued]**

The components of income tax expense from continuing operations consisted of the following for the nine months ended:

September 30,

September 30,

2004

2003

\_\_\_\_\_

\_\_\_\_\_

*[Restated]*

Current income tax expense:

Federal

\$ -

\$ -

State

-

-

\_\_\_\_\_

\_\_\_\_\_

Current tax expense

\$ -

\$ -

---

---

Deferred tax expense (benefit) arising from:

Excess of tax over financial

accounting depreciation

\$ -

\$ 837

Accrued compensation

-

14,186

Net operating loss carryover

(794,617)

(253,735)

Valuation allowance

794,617

238,712

---

---

Net deferred tax expense

\$ -

\$ -

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Deferred income tax expense results primarily from the reversal of temporary timing differences between tax and financial statement income.

The reconciliation of income tax expense from continuing operations computed at the U.S. federal statutory tax rate to the Company's effective rate is as follows for the nine months ended:

September 30,

September 30,

2004

2003

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*[Restated]*

Computed tax at the expected

federal statutory rate

34.00%

34.00%

State income taxes, net of federal benefit

5.83

5.83

Other

(2.26)

(.64)

Valuation allowance

(37.57)

(39.19)

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Effective income tax rates

0.00%

0.00%

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**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 11 - GOING CONCERN**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has incurred significant losses and has not yet been successful in establishing profitable operations. Further, the Company has current liabilities in excess of current assets. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through sales of its stock or through a possible business combination with another company. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**NOTE 12 - RELATED PARTY TRANSACTIONS**

**Deposit from NIPSI** - In January and February 2003, during the period that the Company operated the assets of NIPSI pursuant to an asset purchase agreement [*See Notes 3 and 14*], the Company received \$70,000 from NIPSI as reimbursement of costs incurred as part of the unsuccessful NIPSI acquisition. At September 30, 2004, the Company has completely used the deposit to offset expenses of the unsuccessful NIPSI acquisition.

**Notes Payable** - In August and September 2004, the Company sold notes payable totaling \$9,100 to its Chief Executive Officer or entities controlled by him [*See Note 7*].

**Stock Issuances** - In March 2004, the Company issued 8,108 shares of Class A preferred stock to a shareholder of the Company for cash of \$15,000 [*See Note 8*].

In September 2003, the Company issued 173,747 shares of Class C preferred stock to a third party in exchange for payment of liabilities totaling \$868,735 which were then owed to shareholders of the Company [*See Note 8*].

In April 2003, the Company issued 240,000 shares of Class A preferred stock to shareholders of the Company for services valued at \$120,000 [*See Note 8*].

**Exercise of Options** - In March 2004, the Company issued 20,000 shares of common stock to the directors upon the exercise of options [*See Note 9*].

**Warrants** - In December 2003, the Company granted 200,000 warrants to purchase common stock to directors of the Company for services rendered valued at \$4,000 [*See Note 9*].

**Management Compensation** - During the nine months ended September 30, 2004 and 2003, respectively, the Company expensed \$0 and \$93,750 as compensation to its former Chief Executive Officer.

**Office Space** - The Company rents office space from its Chief Executive Officer on an as-needed, month-to-month basis. Total rents to the Chief Executive Officer amounted to \$500 and \$0 for the nine months ended September 30, 2004 and 2003, respectively.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 12 - RELATED PARTY TRANSACTIONS [Continued]**

Beginning October 1, 2002, the Company paid its former Chief Executive Officer \$500 per month on a month-to-month basis for use of his office space. Total rents to the former Chief Executive Officer amounted to \$0 and \$4,500 for the nine months ended September 30, 2004 and 2003, respectively.

**Purchase and Sale Agreement** - In September 2002, the Company signed a Purchase and Sale Agreement with Gaelic Capital Group ( Gaelic ), an entity controlled by the former Chief Executive Officer. The agreement called for the Company to pay \$94,500 to Gaelic for the right to receive all of the receipts that were then owed to Gaelic as part of a February 11, 2002 agreement ( February Agreement ) between Gaelic and Parkview Community Hospital Medical Center ( Parkview ). The Company had made advances totaling \$94,500 in anticipation of the agreement. Under the February Agreement, the Company would receive 6% of the sales price for the sale of the peripheral assets of Parkview. In 2004, the Company obtained a court order to cancel the Purchase and Sale Agreement [See Note 14].

**NOTE 13 - LOSS PER SHARE**

The following data show the amounts used in computing loss per share for the periods:

For the Three Months

For the Nine Months

Ended September 30,

Ended September 30,

\_\_\_\_\_

\_\_\_\_\_



2004

2003

2004

2003

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

[Restated]

[Restated]

Net loss from continuing operations

available to common shareholders

(numerator)

\$

(1,236,511)

\$ (152,438)

\$

(2,235,571)

\$ (835,583)

Net loss from discontinued operations

(numerator)

-

(55,633)

-

(133,112)

\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Net loss available to common

shareholders (numerator)

\$

(1,236,511)

\$ (208,071)

\$

(2,235,571)

\$ (968,695)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Weighted average number of common

shares outstanding used in loss per

common share for the period

(denominator)

12,430,523

10,749,050

12,215,057

9,264,611

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

At September 30, 2004, the Company had 2,000,000 outstanding options, 425,000 outstanding warrants, notes payable convertible into 686,794 shares, 2,304,345 shares issuable as collateral on notes payable and preferred stock convertible into 11,382,575 shares of common stock which were not used in the computation of dilutive loss per share because their effect would be anti-dilutive. At September 30, 2003, the Company had 2,020,000 outstanding options, 300,000 outstanding warrants, notes payable convertible into 253,922 shares, 900,000 shares issuable as collateral on notes payable and preferred stock convertible into 13,329,185 shares of common stock which were not used in the computation of dilutive loss per share because their effect would be anti-dilutive. Dilutive loss per share was not presented, as the Company had no common stock equivalent shares for all periods presented that would effect the computation of diluted loss per share.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

**Potential Stock Issuances** - The Company has signed notes payable totaling \$212,945 which call for the Company to issue 2,304,345 shares of common stock as collateral; however, none of the shares had been issued at September 30, 2004.

**Advertising and Promotional Services Agreement** - In August 2004, the Company signed a one-year agreement with Hobson, Lorenze, Bowersock & Associates ( HLB ). The agreement called for the Company to issue up to 500,000 shares of common stock and up to 50,000 shares of Class A preferred stock for HLB 's assistance in raising capital. The shares were to be issued as follows: 30,000 shares of common stock each month, 100,000 shares of common stock if HLB assists in raising at least \$100,000 and all the remaining shares of common and preferred stock if HLB assists in raising at least \$1,100,000. In October 2004, this agreement was amended [*See Note 15*]. During the nine months ended September 30, 2004 and 2003, the services rendered by HLB under this agreement amounted to \$15,900 and \$0, respectively.

**Consulting Agreements** - In April 2002, the Company signed three-year consulting agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. (collectively Consultants ). The agreements call for the Company to pay \$10,000 per month for consulting services. In August 2002, the Company issued 480,000 shares of common stock to Consultants for services valued at \$120,000 [*See Note 9*]. During the nine months ended September 30, 2004 and 2003, the services rendered by Consultants under these agreements amounted to \$60,000 and \$180,000, respectively.

**Equity Line of Credit Agreement** - In November 2002, the Company signed an Equity Line of Credit Agreement with Cornell Capital Partners, LP ( Cornell ). The agreement called for the Company to sell up to \$10,000,000 of common stock to Cornell at 95% of the closing bid price for the five preceding trading days. The agreement required that the shares of common stock be registered with the Securities and Exchange Commission and that the shares be sold in intervals over a two-year period commencing after such registration was effective. The agreement also stated that, at the time of each stock sale transaction, the Company would pay \$500 in legal fees and pay Cornell 7% of the proceeds received. In 2003, the Company issued 1,200,000 shares of common stock as payment of a commitment fee of \$290,000 and paid \$10,000 in legal fees which were classified as deferred stock offering costs. The Company also paid \$757,000 to consultants who negotiated the agreement which were also classified as deferred stock offering costs [*See Below*]. In September 2004, the Company abandoned its plans for a stock offering and expensed the deferred

stock offering costs of \$1,084,609 as general and administrative expense.

**Financing Agreements** - In March 2003, the Company retained Douglas A. Jackson to negotiate a 5-year \$6,000,000 loan for the Company. The Company agreed to pay \$12,500 plus 5% of the proceeds received by the Company. During the nine months ended September 30, 2004 and 2003, respectively, the Company paid \$0 and \$12,500 for services rendered by Douglas A. Jackson under this agreement.

In February 2003, the Company retained Douglas A. Jackson to negotiate a line of credit for the Company. The Company agreed to pay \$5,000 plus 5% of the proceeds received by the Company. During the nine months ended September 30, 2004 and 2003, respectively, the Company paid \$0 and \$5,000 for services rendered by Douglas A. Jackson under this agreement.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 14 - COMMITMENTS AND CONTINGENCIES [Continued]**

**Finder Agreements** - In April 2002, the Company signed three-year finder agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. (collectively Consultants). The agreements call for the Company to pay finders fees of 10% of the first \$3,000,000, 8% of the next \$3,000,000, 6% of the next \$3,000,000, and 4% of any additional funding provided through the efforts of Consultants. In October 2002, the Company sold 200,000 shares of common stock for cash of \$50,000 which was negotiated by Consultants and the Company recorded stock offering costs of \$5,000 which were offset against the proceeds [See Note 9]. In December 2002, the Company signed a \$10,000,000 Equity Line of Credit Agreement which was negotiated by Consultants and the Company recorded stock offering costs of \$757,000 which were classified as deferred stock offering costs [See above]. In February 2003, the Company sold 40,000 shares of common stock for cash of \$10,000 which was negotiated by Consultants and the Company recorded stock offering costs of \$400 which were offset against the proceeds [See Note 9]. From August 2003 through August 2004, the Company signed notes payable with proceeds totaling \$212,845 which were negotiated by Consultants and the Company recorded loan costs totaling \$22,178 which have been deferred and are being amortized over the term of the related note [See Note 7]. In March 2004, the Company sold 8,108 shares of Class A preferred stock for cash of \$15,000 which was negotiated by Consultants and the Company recorded stock offering costs of \$1,563 which were offset against the proceeds [See Note 8].

In March 2004, the Company signed an agreement with GunnAllen Financial (GAF) wherein the Company agreed to pay GAF 1-7% of any proceeds received by the Company depending upon the nature of the financing. The agreement also provides for the issuance of warrants to GAF with similar terms as those issued in financing transactions.

**Judgment and Share Cancellation** - In February 2004, a shareholder of the Company filed a written stipulation for final judgment in which the shareholder sought to have certificates representing the following shares cancelled for lack of consideration: 6,250,000 shares of common stock for an anticipated financing agreement, 600,000 shares of Class B preferred stock for the proposed acquisition of RXS, 1,000,000 shares of common stock for the proposed acquisition of Coastalmed and 671,824 shares of common stock and 78,760 shares of Class A preferred stock for the acquisition of AHR Subsidiary. The shareholder also sought to cancel the Purchase and Sale Agreement with Gaelic and to cancel 75,000 warrants to purchase common stock which had been issued to the Company's former Chief Executive Officer. In February 2004, the court entered a judgment against the Company and ordered that the Company cancel all the shares, the agreement and all the warrants listed in the filing. As a result of these proceedings, the Company cancelled certificates representing 7,921,824 shares of common stock, certificates representing 78,760 shares of Class A preferred stock, certificates representing 600,000 shares of Class B preferred stock and 75,000 warrants to purchase common stock, and the Company was released as a defendant. The financial statements reflect

the stock, agreement and warrants as having been cancelled in 2003.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 14 - COMMITMENTS AND CONTINGENCIES [Continued]**

**Possible Legal Action** - In March 2003, the Company was notified that Pre-Employment Screening, Inc., Lawrence J. Altman, Gateway Legal Services, Inc. and Fun Services of Kansas City plan to file suit to seek \$12,000 for alleged violations of the Telephone Consumer Protection Act. As of September 30, 2004, the Company has not been formally served and no legal actions have commenced. The Company denies the allegations and intends to vigorously defend themselves in this matter. No accrual for possible losses or settlements has been recorded in the accompanying financial statements.

**Judgment and Voiding of NIPSI Acquisition** - In March 2003, the Company was notified that it was to be joined as defendants in a suit brought by AmeriSource Bergen Corporation ( AmeriSource ) against NIPSI. The original suit by AmeriSource sought to recover \$480,335 from NIPSI for failing to honor a contract. In March 2003, AmeriSource filed a supplemental petition to enjoin any transfer of assets from NIPSI to the Company. In April 2003, the court entered a default judgment against NIPSI. The court found that NIPSI had fraudulently transferred assets to the Company to avoid the claims of AmeriSource. The court voided and nullified the transfer of assets from NIPSI to the Company and ordered NIPSI to pay \$551,264 to AmeriSource. As a result of these proceedings, the asset purchase agreement between the Company, NIPSI and NIPSI General Partner was voided and the Company was released as a defendant. The financial statements reflect the acquisition as having been voided or rescinded and any expenses associated with the voided acquisition have been classified as costs of the unsuccessful NIPSI acquisition.

**NIPSI Demand Letter** - In March 2003, NIPSI and NIPSI General Partner sent a demand letter to the Company to rescind the asset purchase agreement with the Company because certain conditions of the agreement were not satisfied. NIPSI General Partner claimed damages of \$120,000 against the Company. The financial statements reflect the acquisition as having been voided or rescinded and the expenses associated with the voided acquisition have been classified as costs of the unsuccessful NIPSI acquisition. The Company is not currently named in, nor is it aware of, any such suit or legal action against the Company. No accrual for possible losses or settlements, including the \$120,000 in damages claimed by NIPSI General Partner, has been recorded in the accompanying financial statements. The Company's management believes that the Company would be successful in defending against any such claims.

**Possible NIPSI Claims** - For approximately three months, the Company operated the assets of NIPSI pursuant to an asset purchase agreement [See Note 3 and above]. The Company's management believes that the Company is not responsible for any liabilities of NIPSI, but the possibility exists that creditors and others seeking relief from NIPSI



may also include the Company in claims and suits based on the previous relationship. The Company is not currently named in, nor is it aware of, any such claims or suits against NIPSI. The Company's management believes that the Company would be successful in defending against any such claims. No accrual for possible losses or settlements has been recorded in the accompanying financial statements. As further disclosed above, NIPSI General Partner is claiming damages of \$120,000 against the Company.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 14 - COMMITMENTS AND CONTINGENCIES [Continued]**

**Management Agreement** - In March 2004, the Company signed a Management Agreement with Judah Feigenbaum ( JF ) to act as an agent of the Company through July 15, 2004. The agreement calls for the Company to pay \$24,000 plus 3% of the consideration of any pharmacy acquisitions completed through March 2005. During the nine months ended September 30, 2004 and 2003, the services rendered by JF under the agreement amounted to \$18,000 and \$0, respectively.

**NOTE 15 - SUBSEQUENT EVENTS**

**Amendment to Advertising and Promotional Services Agreement** - In October 2004, the Company amended its agreement with HLB so that the Company will issue 600,000 shares of common stock and 50,000 shares of Class A preferred stock for HLB's assistance in raising capital. The shares will be issued as follows: 50,000 shares of common stock each month, 100,000 shares of common stock if HLB assists in raising at least \$100,000 and 50,000 shares of Class A preferred stock during the last month of the agreement.

**Common Stock Issuance** - In October 2004, the Company issued 50,000 shares of its previously authorized but unissued common stock for services.

**NOTE 16 - RESTATEMENT**

The Company previously issued September 30, 2003 financial statements which have been restated to reflect that the Company was unable to close its acquisition of RX Solutions, Inc. [See Note 2]. The following schedule provides disclosure of the effects of the restatement.

For the Three Months Ended

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For the Nine Months Ended

September 30, 2003

September 30, 2003

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As previously

As previously

reported

As restated

Change

reported

As restated

Change

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---

---

Total assets

\$3,334,216

\$1,141,012

\$(2,193,204)

\$3,334,216

\$1,141,012

\$(2,193,204)

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Total equity

\$ 503,459

\$ 665,737

\$ 162,278

\$ 503,459

\$ 665,737

\$ 162,278

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Net loss

\$ (659,523)

\$ (174,031)

\$ 485,492

\$ (742,378)

\$ (609,120)

\$ 133,258

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Net loss per common

share

\$ (.10)

\$ (.01)

\$ .09

\$ (.13)

\$ (.10)

\$ .03

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## **ITEM 2. Management's Discussion and Analysis of Financial Condition or Plan of Operations**

### **Safe Harbor for Forward-Looking Statements**

When used in this report, the words *may*, *will*, *expect*, *anticipate*, *continue*, *estimate*, *project*, *intend*, and other similar expressions are intended to identify forward-looking statements within the meaning of Section 27a of the Securities Act of 1933 and Section 21e of the Securities Exchange Act of 1934 regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, operating results, and financial position.

Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such factors are discussed under the *Item 2. Management's Discussion and Analysis of Financial Condition or Plan of Operations*, and also include general economic factors and conditions that may directly or indirectly impact the Company's financial condition or results of operations.

### **General**

American Hospital Resources, Inc. ( *AMHR* or the *Company* ) originally incorporated in the State of Utah on May 9, 1972, under the name High-Line Investment & Development Company. In 1977, the Company changed its name to Gayle Industries, Inc. In 1978 the Company merged into its subsidiary, Swing Bike, keeping the Swing Bike name.

In 1979 the Company changed its name from Swing Bike to Horizon Energy Corp. In 1992 the Company changed its name to Millennium Entertainment Corp.

In 1993 the Company changed its name to New Horizon Education, Inc. and began focusing on marketing computer education programs. The Company was not successful and in 1995 the Company sold its assets and suspended operations. The Company remained essentially dormant from 1998 through 2000.

In 2001, the Company recommenced operations and in June of 2002, finalized an Agreement and Plan of Reorganization with American Hospital Resources, Inc., a Delaware corporation founded on August 27, 1999. Under the Agreement, American Hospital Resources Inc. became a wholly owned subsidiary of the Company and the Company changed its name from New Horizon Education, Inc. to American Hospital Resources, Inc. The Company also authorized a class of 10,000,000 shares of Preferred Stock at no par value per share and changed its business strategy to focus on providing health care consulting and pharmaceutical outsourcing.



The Company's common stock is quoted on the OTCBB under the symbol AMHR.

### **Nature of Business**

American Hospital Resources provided consulting and management services to hospitals and other acute care facilities. On December 22, 2003 we discontinued our hospital management consulting business. The Company's board of directors determined that the Company had not realized the expected benefits from the acquisition of AHR subsidiary and made the determination to seek to dispose of AHR subsidiary. As a result the Company repurchased 2,131,249 shares of common stock for \$85,250 and obtained a court order to cancel the remaining 1,065,624 shares that were issued to AHR pursuant to the terms of the Reorganization agreement. AHR has since discontinued operations and has been dissolved by the State of Delaware. All operations of AHR subsidiary have been reclassified to discontinued operations. While we are continuing to pursue the acquisition and consolidation of profitable pharmacy outsourcing businesses that provide pharmacy management services and pharmaceutical supplies to acute care hospitals and long-term care facilities such as nursing homes and hospices there is no assurance that the Company will ever successfully implement such a business strategy.

As part of our business strategy, we have structured a program designed to merge profitable regional pharmacy outsourcers into a national team. If we are successful in acquiring and consolidating a number of outsourcers we believe that these regional providers will benefit from the enhanced buying power and market presence of a consolidated healthcare entity.

While we intend to continue seeking suitable healthcare and pharmaceutical companies for potential acquisition opportunities management believes it is in the best interest of the Company and its shareholders to simultaneously seek, investigate, and if warranted, acquire an interest in a different business opportunity. We are not restricting our search to any particular industry or geographical area. We may therefore engage in essentially any business in any industry. Our management has unrestricted discretion in seeking and participating in a business opportunity, subject to the availability of such opportunities, economic conditions and other factors.

The selection of a business opportunity in which to participate is complex and extremely risky and will be made by management in the exercise of its business judgment. There is no assurance that we will be able to identify and acquire any business opportunity which will ultimately prove to be beneficial to our company and shareholders.

Because we have no specific business plan or expertise, our activities are subject to several significant risks. In particular, any business acquisition or participation we pursue will likely be based on the decision of management without the consent, vote, or approval of our shareholders.

### **Sources of Opportunities**

We anticipate that business opportunities may arise from various sources, including officers and directors, professional advisers, securities broker-dealers, venture capitalists, members of the financial community, and others who may present unsolicited proposals.

We will seek potential business opportunities from all known sources, but will rely principally on the personal contacts of our officers and directors as well as indirect associations between them and other business and professional people. Although we do not anticipate engaging professional firms specializing in business acquisitions or reorganizations, we may retain such firms if management deems it in our best interests. In some instances, we may publish notices or advertisements seeking a potential business opportunity in financial or trade publications.

### **Criteria**

We will not restrict our search to any particular business, industry or geographical location. We may acquire a business opportunity in any stage of development. This includes opportunities involving start up or new companies. In seeking a business venture, management will base their decisions on the business objective of seeking long-term capital appreciation in the real value of our company. We will not be controlled by an attempt to take advantage of an anticipated or perceived appeal of a specific industry, management group, or product.

In analyzing prospective business opportunities, management will consider the following factors:

§

available technical, financial and managerial resources;

§

working capital and other financial requirements;

§

the history of operations, if any;

§

prospects for the future;

§

the nature of present and expected competition;

§

the quality and experience of management services which may be available and the depth of the management;

§

the potential for further research, development or exploration;

§

the potential for growth and expansion;

§

the potential for profit;

§

the perceived public recognition or acceptance of products, services, trade or service marks, name identification; and other relevant factors.

Generally, our management will analyze all available factors and make a determination based upon a composite of available facts, without relying on any single factor.

### **Methods of Participation of Acquisition**

Management will review specific business opportunities and then select the most suitable opportunities based on legal structure or method of participation. Such structures and methods may include, but are not limited to, leases, purchase and sale agreements, licenses, joint ventures, other contractual arrangements, and may involve a reorganization, merger or consolidation transaction. Management may act directly or indirectly through an interest in a partnership, corporation, or other form of organization.

### **Procedures**

As part of the our investigation of business opportunities, officers and directors may meet personally with management and key personnel of the firm sponsoring the business opportunity. We may visit and inspect material facilities, obtain independent analysis or verification of certain information provided, check references of management and key personnel, and conduct other reasonable measures.

We will generally ask to be provided with written materials regarding the business opportunity. These materials may include the following:

§

descriptions of product, service and company history; management resumes;

§

financial information;

§

available projections with related assumptions upon which they are based;

§

an explanation of proprietary products and services;

§

evidence of existing patents, trademarks or service marks or rights thereto;

§

present and proposed forms of compensation to management;

§

a description of transactions between the prospective entity and its affiliates;

§

relevant analysis of risks and competitive conditions;

§

a financial plan of operation and estimated capital requirements;

§

and other information deemed relevant.

## **Competition**

We expect to encounter substantial competition in our efforts to acquire a business opportunity. The primary competition is from other companies organized and funded for similar purposes, small venture capital partnerships and corporations, small business investment companies and wealthy individuals.

### **Results for the Three and Nine Month Periods Ended September 30, 2004 and 2003**

AMHR did not generate any revenue during the three months ended September 30, 2004 or during the three months ended September 30, 2003. Total expenses during the three months ended September 30, 2004 consisted of general and administrative expenses of \$1,146,332 and \$54,441 in interest expense. As a result of the foregoing factors the Company recorded a net loss of \$1,200,773 for the three months ended September 30, 2004. Total expenses during the three months ended September 30, 2003 period consisted of general and administrative expenses of \$66,861, \$10,000 in costs associated with the unsuccessful NIPSI acquisition, and \$32,400 in costs associated with the unsuccessful RXS acquisition. The Company also had \$9,137 in interest expense and \$55,633 in losses from operations of its discontinued hospital management consulting business. As a result of the foregoing factors the Company recorded a net loss of \$174,031 for the three months ended September 30, 2003.

AMHR did not generate any revenue during the nine months ended September 30, 2004 or during the nine months ended September 30, 2003. Total expenses during the nine months ended September 30, 2004 consisted of general and administrative expenses of \$1,946,869 and \$167,904 in interest expense. As a result of the foregoing factors the Company recorded a net loss of \$2,114,773 for the nine months ended September 30, 2004. Total expenses during the nine months ended September 30, 2003 period consisted of general and administrative expenses of \$414,865, \$12,006 in costs associated with the unsuccessful NIPSI acquisition, and \$40,000 in costs associated with the unsuccessful RXS acquisition. The Company also had \$9,137 in interest expense and \$133,112 in losses from operations of its discontinued hospital management consulting business. As a result of the foregoing factors the Company recorded a net loss of \$609,120 for the nine months ended September 30, 2003.

### **Liquidity and Capital Resources**

At September 30, 2004, total current assets consisted of \$80 in cash on hand compared to \$5 in cash on hand at December 31, 2003. Also at September 30, 2004, we had \$3,213 in deferred loan costs compared to \$10,503 in deferred loan costs and \$1,069,609 in deferred stock offering costs totaling \$1,080,112 for total other assets at December 31, 2003.

At September 30, 2004, we had total liabilities of \$578,581 compared to \$292,460 at December 31, 2003. The increase is mainly attributable to dividends payable on our preferred stock, increased accrued interest due on loans and an increase of convertible notes payable.

During the next twelve months we hope to reduce liabilities and bring current our outstanding debts. We anticipate that our operating expenses for the next twelve months will be approximately \$120,000 consisting mainly of salaries and consulting fees. We will also have legal and auditing expenses relating to our public reports as well as office rental and other expenses. Management hopes to identify and acquire appropriate on-going business in order to generate revenue to cover operating expenses. Should it become necessary to raise additional capital, we may consider securing loans from officers and directors, selling additional stock or entering into debt financing. We have no material commitments for capital expenditures for the next twelve months.

The Company had entered into an Equity Line of Credit Agreement with Cornell Capital Partners, LP. The agreement required Cornell to purchase up to \$10,000,000 of the Company's common stock at approximately 90% of market price. The agreement allowed the Company to make requests for funds in \$150,000 increments every seven trading days over the next two years following registration of the underlying securities. The agreement also provided for a commitment fee of approximately \$290,000 of the Company's common stock and other provisions. The Company had recorded \$1,084,609 in deferred stock offering costs which were to be offset against the proceeds of the offering. In September 2004, the Company abandoned its plans for a stock offering and expensed the deferred stock offering costs of \$1,084,609 as general and administrative expenses.

### **Item 3. Controls and Procedures**

(a)

Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the chief executive officer/chief financial officer, carried out an evaluation of the effectiveness of the Company's "disclosure, controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(3) and 15-d-15(3) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based upon that evaluation, the chief executive officer/chief financial officer concluded that, as of the Evaluation Date, the Company's disclosure, controls and procedures are effective, providing material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b)

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal controls over financial reporting, known to the chief executive officer or the chief financial officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 2. Changes in Securities and Use of Proceeds**

Unless otherwise noted, the following stock issues were offered in a private transaction without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. No broker was involved and no commissions were paid in the transaction.

In September 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$6,300, or \$.21 per share.

In August 2004 the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$9,600 or \$.32 per share.

In March, 2004, the Company issued 8,108 shares of Class A preferred stock for cash of \$15,000 with a beneficial conversion feature of \$14,189 which has been accounted for as a dividend on the day of issue.

In February 2004, the Company issued 1,100,000 shares of its common stock to pay accounts payable of \$29,382 and for services valued at \$476,618. Of the 1,100,000 shares issued, 250,000 of the shares were registered on Form S-8.

In February 2004, the Company issued 110,000 shares of Class A preferred stock for services valued at \$253,000.

In March 2004, the Company issued 20,000 shares of its common stock for \$1,000 cash upon the exercise of outstanding options.

In December 2003, the Company cancelled 1,065,624 shares of its common stock due to a court order. In December 2003, the Company repurchased and cancelled 2,131,249 shares of the Company's issued and outstanding common stock for \$85,250, or \$.04 per share.

In October 2003, the Company issued 2,537,150 shares of its previously authorized but unissued common stock upon the conversion of 353,750 shares of Class A preferred stock and 153,680 shares of Class C preferred stock.

In October 2003, the Company issued 1,200,000 shares of common stock to pay a liability of \$290,000 or approximately \$.2417 per share.

In September 2003, the Company issued 173,747 shares of Class C preferred stock to a third party in exchange for payment of liabilities totaling \$868,735 which were owed to shareholders of the Company.

In June and July, 2003, the Company issued 8,800 shares of Class C preferred stock for \$44,000 cash.

In May 2003, shareholders of the Company converted 505,010 shares of Class A preferred stock into 2,525,050 shares of common stock.

From April through June 2003, the Company issued a total of 388,300 shares of Class A preferred stock with beneficial conversion features totaling \$324,775 which have been accounted for as dividends on the day of issue.

In April and May 2003, the Company issued 570,000 shares of common stock for services valued at \$131,000.

In February 2003, the Company issued 40,000 shares of common stock for \$10,000 cash.

On December 31, 2002, AMHR issued 2,600,000 shares of its previously authorized but unissued Class A preferred stock in exchange for 13,000,000 shares of common stock held by Phase One LLC. The 13,000,000 shares of common stock were then cancelled. The preferred shares have 5 to 1 voting rights and may be converted into five shares of common stock.

In February 2002, the Company issued 11,000,000 shares of common stock for notes payable in the amount of \$80,000 and a note receivable in the amount of \$30,000. The Company also issued 125,000 shares of common stock for services valued at \$2,500 and 450,000 shares of common stock for services valued at \$5,000. Additionally, the Company issued 500,000 shares of common stock for a note payable of \$20,000 with accrued interest of \$1,281.

In February and March 2002, the Company repurchased and canceled 3,198,736 shares of its issued and outstanding common stock for \$79,500.

In March 2002, the Company issued 1,600,000 shares of common stock for services valued at \$32,000.



In April 2002, the Company issued 2,000,000 shares of common stock for \$20,000 cash.

In May of 2002 we issued 500,000 common shares to an accredited investor to convert \$40,000 in notes and accrued interest of \$789.

In June 2002, the Company issued 3,196,873 shares of common stock to acquire the subsidiary, American Hospital Resources, Inc., a Delaware corporation.

In August 2002, the Company issued 584,000 shares of common stock for services valued at \$146,000.

On October 31, 2002, the Company issued 200,000 shares of previously authorized but unissued restricted common stock for cash of \$50,000, or \$.25 per share to two accredited investors.

### **Option and Warrants**

Unless other wise noted, the following stock issues were offered in a private transaction without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. No broker was involved and no commissions were paid in the transaction.

In December 2003, the Board of Directors authorized the 2004 Stock Bonus Pool which consists of 1,000,000 warrants to purchase common stock at \$0.25 per share. The Company granted 200,000 warrants to purchase common stock from the 2004 Stock Bonus Pool to directors for services rendered valued at \$4,000. The warrants vested immediately and are exercisable at \$0.25 per share for a period of five years. As of September 30, 2004, none of these warrants had been exercised, forfeited or cancelled.

On December 31, 2002, the Board of Directors adopted an Incentive Stock Bonus Plan. The plan allows the company to grant 5-year warrants to purchase shares of common stock to directors, senior management and certain key employees. Awards under this plan are to be determined by the Board of Directors.

Also in December 2002, the Board of Directors authorized the 2003 Stock Bonus Pool which consisted of 1,000,000 warrants to purchase common stock at \$0.25 per share. The Company also granted 300,000 warrants to purchase common stock from the 2003 Stock Bonus Pool to directors and NIPSI personnel for services rendered valued at \$19,577. The warrants vested immediately and are exercisable at \$0.25 per share for five years. In 2004, the

Company obtained a court order to cancel 75,000 of the warrants. At September 30, 2004, none of the remaining 225,000 warrants had been exercised, forfeited or cancelled.

On November 1, 2002, the Company granted a stock option to Spice Island Products Corp. The option allows Spice Island to purchase up to 2,000,000 shares of the Company's common stock at \$0.50 per share at any time between November 1, 2002 and November 1, 2005. As of the date of this report, no options have been exercised.

In March 2002, AMHR granted 10,000 stock options to Mark Buck and 10,000 stock options to Antione Gedeon, for their services as directors. The options vested immediately and are exercisable at \$.05 per share through March of 2004. As of September 30, 2004, all 20,000 options had been exercised.

#### **Item 6. Exhibits and Reports on Form 8-K**

The Company did not file any reports on Form 8-K during the last ninety days of the period covered by this report.

#### **Exhibits:**

##### **Exhibit Number**

##### **Title**

##### **Location**

31.1

Certification of the Principal Executive Officer and

Attached

Principal Financial Officer pursuant to Section 302

of the Sarbanes-Oxley Act of 2002

32.1

Certification of the Principal Executive Officer and

Attached

Principal Financial Officer pursuant to U.S.C. Section

1350 as adopted pursuant to Section 906 of the

Sarbanes-Oxley Act of 2002

### **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 Hospital Resources, Inc.

Date: November 12, 2004

/s/Mark Buck

Mark Buck

Chief Executive Officer

Chief Financial Officer