

AMERICAN RESOURCES & DEVELOPMENT CO
Form 10QSB
February 28, 2002

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

FORM 10-QSB

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

For the quarterly period ended December 31, 2001;

or

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

For transition period from _____ to _____

American Resources & Development Company

(Exact name of registrant as specified in its charter)

UTAH

87-0401400

(State or other jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

2035 N.E. 181st
Gresham, OR

97230

(Address of principal executive offices)

(Zip Code)

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

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

As of February 22, 2002, the Registrant had outstanding 4,571,817
shares of Common Stock.

Transitional Small Business Disclosure Format (check one):

Yes No

-1-

Item 1: Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets - December 31,
2001 and March 31, 2001

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

Condensed Consolidated Statements of Operations -Nine months ended December 31, 2001 and 2000 and Three months ended December 31, 2001 and 2000	5
Statements of Stockholders' Equity	7
Condensed Consolidated Statements of Cash Flows - Nine months ended December 31, 2001 and 2000 and Three months ended December 31, 2001 and 2000	9
Notes to Condensed Consolidated Financial Statements - December 31, 2001	11
Item 2: Management's Discussion and Analysis or Plan of Operation	21
Item 1. Legal Proceedings	25
Item 2. Changes in Securities	25
Item 3. Defaults upon Senior Securities	25
Item 4. Submission of Matters to a Vote of Security Holders	25
Item 5. Other Information	25
Item 6. Exhibits and Reports on Form 8-K	25

-2-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Balance Sheet

ASSETS

	December 31, 2001

CURRENT ASSETS	
Cash and cash equivalents	\$ 13,082
Accounts receivable, net (Note 1)	870,643
Inventory (Note 1)	548,934
Prepaid and other current assets	6,458

Total Current Assets	1,439,117

PROPERTY AND EQUIPMENT (NOTE 1)	
Furniture, fixtures and equipment	492,147
Capital leases	1,359,241

Total depreciable assets	1,851,388

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

Less: accumulated depreciation	(1,065,192)	-----
Net Property and Equipment	786,196	-----
OTHER ASSETS		
Deposits	88,756	-----
Total Other Assets	88,756	-----
TOTAL ASSETS	\$ 2,314,069	\$ =====

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

-3-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Balance Sheet (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	December 31, 2001	

CURRENT LIABILITIES		
Accounts payable	\$ 1,723,101	\$
Accrued expenses and other current liabilities	1,221,572	
Line of credit (Note 3)	365,372	
Current portion of notes payable (Note 4)	356,491	
Current portion of notes payable, related parties (Note 5)	1,588,349	
Current portion of capital lease obligations (Note 7)	149,835	

Total Current Liabilities	5,404,720	

LONG-TERM DEBT		
Reserve for discontinued operations (Note 2)	840,825	
Notes payable (Note 4)	279,372	
Notes payable, related parties (Note 5)	182,658	
Capital lease obligations (Note 7)	158,797	

Total Long-Term Debt	1,461,652	

Total Liabilities	6,866,372	

COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY (DEFICIT)		

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

Preferred stock, par value \$0.001 per share: 10,000,000 shares authorized; issued and outstanding: 94,953 Series B shares, 150,000 Series C shares	245
Common stock, par value \$0.001 per share: 125,000,000 shares authorized; issued and outstanding: 7,404,752 shares issued and 4,421,817 outstanding. (Note 10)	4,422
Additional paid-in capital	7,855,866
Accumulated deficit	(12,412,836)

Total Stockholders' Equity (Deficit)	(4,552,303)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 2,314,069 \$
	=====

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

-4-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Statements of Operations

	For the Nine Months Ended December 31,	
	2001	2000
	-----	-----
NET SALES	\$ 5,736,708	\$ 4,077,797
COST OF SALES	4,775,583	3,509,941
	-----	-----
GROSS PROFIT	961,125	567,856
	-----	-----
GENERAL AND ADMINISTRATIVE EXPENSES		
Depreciation and amortization	3,600	8,425
General expenses	955,826	1,179,901
	-----	-----
Total General and Administrative Expenses	959,426	1,188,326
	-----	-----
GAIN (LOSS) FROM OPERATIONS	1,699	(620,470)
	-----	-----
OTHER INCOME AND (EXPENSES)		
Other income and expenses	12,403	16,218
Interest expense	(384,996)	(495,919)
	-----	-----

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

Total Other Income and (Expenses)	(372,593)	(479,701)
	-----	-----
GAIN (LOSS) BEFORE INCOME TAXES	(370,894)	(1,100,171)
	-----	-----
INCOME TAXES	-	-
	-----	-----
NET INCOME (LOSS)	\$ (370,894)	\$ (1,100,171)
	=====	=====
OTHER COMPREHENSIVE GAIN (LOSS)		
Gain (loss) on valuation of marketable securities	\$ -	\$ -
Total Other Comprehensive Gain (Loss)	-	-
	-----	-----
NET COMPREHENSIVE GAIN (LOSS)	\$ (370,894)	\$ (1,100,171)
	=====	=====

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

-5-

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

	For the Nine Months Ended December 31,	
	2001	2000
	-----	-----
BASIC LOSS PER SHARE OF COMMON STOCK - CONTINUING OPERATIONS	\$ (.08)	\$ (.28)
	=====	=====
BASIC LOSS PER SHARE OF COMMON STOCK DISCONTINUED OPERATIONS	\$ -	\$ -
	=====	=====

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

-6-

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

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
 Consolidated Statements of Stockholders' Equity
 December 31, 2001 and 2000

	Common Stock		Preferred Stock		Other Comprehen Loss
	Shares	Amount	Shares	Amount	
Balance, April 1, 1999	3,174,286	3,174	244,953	245	(435,
Stock issued for Quade acquisition	451,667	452	-	-	
Stock issued for consulting services	250,000	250	-	-	
Expense recognized for vested options	-	-	-	-	
Recognition of loss on valuation of marketable securities	-	-	-	-	435,
Net loss for the year ended March 31, 2000	-	-	-	-	
Balance, March 31, 2000	3,875,953	\$ 3,876	244,953	\$ 245	\$
Stock issued for consulting services	192,777	193	-	-	
Stock issued for interest on debt	140,087	140	-	-	
Stock exchanged for debt with related parties	140,000	140	-	-	
Stock issued to employees under Employee Stock Plan	73,000	73	-	-	
Expense recognized for vested options	-	-	-	-	
Net loss for the year ended March 31, 2001	-	-	-	-	
Balance, March 31, 2001	4,421,817	\$ 4,422	244,953	\$ 245	\$
Expense recognized for vested options	-	-	-	-	
Net loss for the nine months ended December 31, 2001					

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

Balance at					
December 31, 2001	4,421,817	\$ 4,422	244,953	\$ 245	\$
	=====	=====	=====	=====	=====

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

-7-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Statements of Cash Flows

	For the Nine Months Ended December 31,	
	2001	2000
	-----	-----
OPERATING ACTIVITIES		
Net income (loss)	\$ (370,894)	\$ (1,100,171)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	189,952	205,135
Common stock issued for services and interest	10,231	123,042
Changes in operating assets and liabilities:		
(Increase) decrease in inventory	(378,869)	(81,534)
(Increase) decrease in accounts receivable	(261,187)	(37,468)
(Increase) decrease in other current assets	3,226	1,836
Increase (decrease) in accounts payable	345,638	1,066,145
Increase (decrease) in other current liabilities	400,078	247,813
	-----	-----
Net Cash Provided (Used) by Operating Activities	(61,825)	424,798
	-----	-----
INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	-	2,485
Proceeds from sale of USPA, Ltd.	-	221,470
Purchases of property and equipment	(30,193)	(56,980)
	-----	-----
Net Cash Provided (Used) by Investing Activities	(30,193)	(54,495)
	-----	-----
FINANCING ACTIVITIES		
Payments on capital lease obligations	(202,942)	(244,841)
Proceeds (payments) from notes payable	(109,270)	(25,181)
Borrowings (payments) from related party debt	392,069	43,146
Net borrowings (payments) on factoring line of credit	1,484	(151,612)
	-----	-----
Net Cash Provided (Used) by Financing Activities	81,341	(378,488)
	-----	-----
INCREASE (DECREASE) IN CASH	(10,677)	(8,185)

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

CASH, BEGINNING OF PERIOD	23,759	8,914
	-----	-----
CASH, END OF PERIOD	\$ 13,082	\$ 729
	=====	=====

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

-8-

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

	For the Nine Months Ended December 31,	
	2001	2000
	-----	-----
CASH PAID FOR		
Interest	\$ 140,160	\$ 144,344
Income taxes	\$ -	\$ -
NON-CASH FINANCING ACTIVITIES		
Common stock issued for services	\$ -	\$ 123,042
Equipment purchased through capital lease obligation	\$ -	\$ -

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

-9-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

a. Quarterly Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying consolidated unaudited condensed financial statements have been prepared in accordance with the instructions to Form 10-QSB but do not include all of the information and footnotes required by generally accepted accounting principles and should, therefore, be read in conjunction with the Company's fiscal 2001 financial

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

statements in Form 10-KSB. These statements do include all normal recurring adjustments which the Company believes necessary for a fair presentation of the statements. The interim operating results are not necessarily indicative of the results for a full year. Effective for fiscal quarters ending after March 15, 2000, the Securities and Exchange Commission adopted a rule requiring companies' independent auditors review the companies' financial information prior to the companies filing their Quarterly Reports on Form 10-QSB with the Commission. The Company's December 31, 2001 Form 10-QSB was not reviewed prior to submission to the Commission. A Form 8-K will be filed when the review is completed by the independent auditors.

b. Principles of Consolidation

The accompanying consolidated financial statements include American Resources and Development Company and its subsidiaries, Pacific Printing and Embroidery L.L.C. (PPW) and Fan-Tastic, Inc. (FTI).

c. Estimates

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

d. Cash and Cash Equivalents

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

e. Concentrations of Risk

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

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

f. Inventories

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

-10-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Property and Equipment

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

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

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

h. Accounts Receivable

Accounts receivable are shown net of the allowance for bad debts of \$57,585 at December 31, 2001.

i. Financial Instruments

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

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

j. Income Taxes

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

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

k. Basic Loss Per Common Share

Basic loss per common share is computed based on the weighted average number of common shares outstanding during the period. The common stock equivalents are antidilutive and, accordingly, are not used in the net loss per common share computation. Fully diluted loss per share is the same as the basic loss per share because of the antidilutive nature of common stock equivalents. Basic net loss from continuing operations per common share and diluted net loss from continuing operations per common share amounts, calculated in accordance with SFAS 128, were \$(0.02) and \$(.11). for the three months ended December 31, 2001 and 2000, respectively. Basic net (loss) income from discontinued operations per common share and diluted net loss from discontinued operations per common share were \$0.00 and \$.00, respectively. Weighted average common shares outstanding were 4,421,817 and 4,008,730 for the three months ended December 31, 2001 and 2000, respectively.

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Revenue Recognition

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

m. Goodwill

The Company evaluates the recoverability of goodwill and reviews the amortization period on an annual basis.

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

n. Recent Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" during the year ended March 31, 2000. SFAS No. 130 established standards for reporting and display of comprehensive income (loss) and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. This statement requires that an enterprise classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a balance sheet.

o. Advertising

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

p. Prior Period Reclassification

Certain 2000 amounts have been reclassified to conform to the presentation of the 2001 consolidated financial statements.

-12-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

NOTE 2 - MERGERS AND ACQUISITIONS

Golf Ventures, Inc.

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

The Company has a reserve for discontinued operations of \$840,825 at December 31, 2001. The Company has accrued as of December 31, \$702,825 of accrued interest and dividends in reserve for discontinued operations which relates to the \$187,000 of convertible subordinated debentures (see note 4) and the series B preferred stock (see note 9). This liability is included in reserve for discontinued operations as the funds relating to the interest were used on discontinued operations including Golf Ventures, Inc.

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

In May 1998, the Company acquired 83% of the outstanding shares of Pacific Print Works (PPW). The acquisition was accounted for by the purchase method of accounting, and accordingly, the purchase price was allocated to assets acquired and liabilities assumed based on their fair market value at the date of acquisition. Liabilities assumed in excess of assets acquired was \$629,252 and 213,472 shares of the Company's common stock were issued to PPW shareholders with a guaranteed share value of \$5.00 resulting in goodwill of \$1,686,411. In addition, depending on PPW's performance from April 1, 1998 through March 31, 2001, additional shares of the Company's common stock would be issued to the Sellers if minimum earnings levels were met. Based on the \$5.00 guarantee and the Company's share value from October 1998 through March 1999, the Company is obligated to issue additional shares of common stock to the Sellers. An amendment to the PPW Stock Purchase Agreement is being evaluated by the Company and the Sellers in which the Company would issue another 1,100,000 shares of the Company's common stock to the Sellers and any additional earnings requirements by PPW or per share value guarantee by the Company would be eliminated. As of February 27, 2002, Sellers representing 98.3% of the Company stock issued to the Sellers had agreed to the amendment to the PPW Stock Purchase Agreement.

Effective May 2, 2001, the Company agreed to buy an additional 7% of PPW from a PPW shareholder for \$100,000, payable in monthly installments through July 2003 (See Note 4). The \$100,000 for the additional PPW shares were expensed for the year ended March 31, 2001 as the Company had previously written off all goodwill related to the purchase of PPW.

-13-

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

NOTE 3 - LINE OF CREDIT

In December 2000, the Company entered into an accounts receivable financing agreement to sell, with recourse, up to \$1 million of receivables, net of a 15% collection reserve. The Company is charged prime (as defined by Bank of America) plus 8% per annum for all receivables sold and uncollected under this financing agreement. At December 31 and March 31, 2001, the Company had a payable of \$365,372 and \$363,888, respectively, for net funds advanced from this accounts receivable line of credit. The Company received \$4,472,119 and \$3,355,182 from the sale of receivables for the Nine months ended December 31, 2001 and 2000 and recognized \$61,447 and \$69,361 in interest expense from the discount of selling these receivables, respectively.

NOTE 4 - NOTES PAYABLE

Notes payable are comprised of the following:

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

Convertible subordinated debentures, originally due September 30, 1996 bearing interest at 12% per annum. Interest payable quarterly. Currently in default.

Note payable to debtholder of PPW, unsecured. Modified in August 2000 and January 2002. Modified agreement requires payments of \$102,500 through May 2002 without interest. Additional principal payments of \$147,084 will be required if payments are not made timely plus 9% interest. A gain on the modification of debt for \$137,084 will be recorded when there is no risk of default on this debt.

Note payable to shareholder of PPW for purchase of 7% of PPW shares, unsecured. Note requires monthly payments of \$3,000 from July 2001, increasing to \$5,000 in July 2002 with a final \$9,000 payment July 2003. The note is non-interest bearing but will accrue interest at 9% from inception if the Company is non-timely on payments.

Note payable to former shareholder of PPW, unsecured. Interest rate of 9%. Note requires monthly payments of \$2,000 through June 2002, and increasing to \$3,000, \$4,000 and \$5,000 in July 2002, July 2003 and July 2004. Final payment is due July 2005.

Subtotal

Less current portion

Long-term portion

-14-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

NOTE 4 - NOTES PAYABLE (CONTINUED)

Maturities of long-term debt are as follows:

December 31, 2002
December 31, 2003
December 31, 2004
December 31, 2005

NOTE 5 - NOTES PAYABLE, RELATED PARTIES

Note payable to Miltex Industries, secured by 2,934,193 shares of the Company's common stock. Interest at 15% with monthly principal and interest payments of \$11,000 with a final balloon payment December 31, 2001. Note is in default.

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

Notes payable to a Company owned by a shareholder. Interest payable at 72% with interest and principal payments due currently. Notes are in default.

Notes payable to a Company owned by a shareholder. Interest payable at 18% with interest and principal payments due currently.

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

Subtotal

Less current portion

Long-term portion

Maturities of notes payable, related parties are as follows:

December 31, 2002
December 31, 2003

-15-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

NOTE 6 - INTEREST PAYABLE

As of December 31, 2001, the Company had \$576,576 of interest payable included in accrued liabilities. This interest payable includes \$572,633 of interest payable to related parties and is not currently being paid. The Company also has accrued as of December 31, \$702,825 of accrued interest and dividends in reserve for discontinued operations which relates to the \$187,000 of convertible subordinated debentures (see note 4) and the series B preferred stock (see note 9). This liability is included in reserve for discontinued operations as the funds relating to the interest were used on discontinued operations including Golf Ventures, Inc. (See note 2.)

NOTE 7 - CAPITAL LEASES

Property and equipment payments under capital leases as of March 31, 2001 is summarized as follows:

	Year End March 31,	
	2002	\$ 240,765
	2003	125,335
	2004	87,408
	2005	32,379

Total minimum lease payments		485,887
Less interest and taxes		(55,655)

Present value of net minimum lease payments		430,232
Less current portion		(219,930)

Long-term portion of capital lease obligations		\$ 210,302
		=====

The Company recorded depreciation expense on capitalized lease equipment of \$210,689 and \$232,589 for the years ended March 31, 2001 and 2000, respectively.

NOTE 8 - INCOME TAXES

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary

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

differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Other temporary differences are created by the use of the equity method for reporting investments in subsidiaries. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Income tax benefit for the year ending March, 31, 2001 differs from the amount computed at the federal statutory rates as follows:

Income tax Benefit at statutory rate	\$ 46,200
Valuation allowance	(46,200)

	\$ -
	=====

-16-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

NOTE 8 - INCOME TAXES (CONTINUED)

Deferred tax assets for the year ending March 31, 2001 are comprised of the following:

Net Operating Loss Carryforward	\$ 1,318,000
Valuation allowance	(1,318,000)

	\$ -
	=====

At March 31, 2001, the Company had a net operating loss carryforward of approximately \$4,700,000 that may be offset against future taxable income through 2021. These losses will start to expire in the year 2014 and not included in this carryforward is about \$1,600,000 in carryforwards net operating losses created from Golf Ventures, Inc. that most likely will not be allowed to be offset by any future operations of the Company. No tax benefit has been reported in the financial statements because the Company believes there is a 50% or greater chance the carryforward will expire unused. Accordingly, the potential tax benefits or the loss carryforward are offset by a valuation allowance of the same amount.

NOTE 9 - PREFERRED STOCK

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

SERIES B:

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

At March 31, 2000, there are 94,953 shares of series B preferred stock issued and outstanding. The holders of these series B preferred shares are entitled to an annual cumulative cash dividend of not less than sixty cents per share. At March 31, 2001, there is a total of \$466,533 of accrued and unpaid dividends related to the series B preferred stock which have been included in the reserve for discontinued operations. These series B preferred shares were convertible into shares of the Company's common stock which conversion option expired March 31, 1995.

NOTE 10 - COMMON STOCK ISSUED BUT NOT OUTSTANDING

The Company has issued 160,820 shares of common stock which had been offered to the holders of the Series B preferred stock and the debentures. The shares have not been accepted by the holders of those investments as of the date of the consolidated financial statements. Additionally, the Company has issued 2,934,193 shares of common stock as collateral for the note payable to Banque SCS (Note 5).

-17-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY Notes to the Consolidated Financial Statements December 31, 2001 and 2000

NOTE 11 - STOCK OPTIONS

In March 2001 and August 1997, the Company's Board of Directors approved the 2001 and 1997 American Resources and Development Company Stock Option Plans, respectively (Option Plans). Under the Option Plans, 1,500,000 shares of the Company's common stock are reserved for issuance to Directors and employees. Options are granted at a price and with vesting terms as determined by the Board of Directors.

In August 1999 and January 2001, the Board of Directors granted options to purchase 696,291 and 599,723 shares of common stock at \$0.25. The options issued in August 1999 are currently vested. The options issued in January 2001 vest over four years. The options were issued to various employees, officers and directors of the Company for past services, risk associated with various debt incurred by officers for the Company and guarantees by officers of Company debt, and for future services. No compensation expense was recognized, as the option price was greater than the fair market value of the stock at the date of the option grant.

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

In October 1997, the Board of Directors granted options to purchase 140,000 shares of stock at \$2.00. These options are exercisable beginning March 31, 1998, over staggered periods and expire after ten years. Compensation expense of \$1,458 per month

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

will be recognized for 40,000 of the options issued over a 4 year vesting period. In July 1998, the Board of Directors changed the terms of the 100,000 options vesting over 10 years. 25,000 of these options were fully vested and the remainder of the options were canceled. As a result, compensation expense of \$52,498 was recognized for the year ended March 31, 1998 for the vesting of these options.

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

Pro forma expense in year 1 would be \$77,660, and \$75,335, 28,579, \$22,933 in years 2 , 3, and 4, respectively, with an increase in pro forma expenses per share of \$0.02 in year 1, \$0.02 in year 2 and \$0.01 in years 3 and 4.

-18-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY Notes to the Consolidated Financial Statements December 31, 2001 and 2000

NOTE 11 - STOCK OPTIONS (Continued)

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

	March 31, 2001 -----
Expected dividend yield	0%
Expected stock price volatility	70%
Risk-free interest rate	6.5%
Expected life of options (in years)	10

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Office Lease

The Company leases office and warehouse space in Portland, Oregon. Lease commitments for the years ended March 31, 2002 through March 31, 2003 are \$318,832 and \$49,366, respectively.

Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not

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

have a material adverse effect on the Company's financial position, results of operations, or liquidity.

-19-

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

NOTE 12 - GOING CONCERN

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

-20-

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

Forward Looking Statements

The statements in this report concerning certain expected future expenses as a percentage of net sales, future financing and working capital requirements and availability constitute forward - looking statements that are subject to risks and uncertainties. These risks could cause actual results or activities to differ materially from those expected. Factors that could adversely affect cost of sales and general expenses as a percentage of net sales include, but are not limited to, increased competitive factors, changes in consumer preferences, as well as an inability to increase sales. Other factors could include a failure to adequately fund operations. In addition, unfavorable business conditions, or changes in the general economy could have adverse effects. Factors that could materially affect future financing requirements include, but are not limited to, the ability to obtain additional financing on acceptable terms. Factors that could materially affect future working capital requirements include, but are not limited to, the factors listed above and the industry factors and general business conditions noted above.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2001	2000	2001	2000
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	82.0%	92.7%	83.2%	86.1%
Gross profit	18.0%	7.3%	16.8%	13.9%
General expenses	16.3%	25.4%	16.7%	28.9%
Depreciation and amortization	0.1%	0.1%	0.1%	0.2%
Gain (Loss) from operations	1.7%	-18.2%	0.0%	-15.2%
Other income and expenses	0.3%	0.4%	0.2%	0.4%

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

Interest expense	-7.1%	-13.3%	-6.7%	-12.2%
Gain (Loss) before income taxes	-6.8%	-31.1%	-6.5%	-27.0%
Income taxes	0.0%	0.0%	0.0%	0.0%
Net Income (loss)	-5.2%	-31.1%	-6.5%	-27.0%

For the three months ended December 31, 2001 ("third quarter fiscal 2002"), compared to the three months ended December 31, 2000 ("third quarter fiscal 2001"):

Sales for the three months ended December 31, 2001 were \$1,954,9816 compared to \$1,377,500 for the three months ended December 31, 2000. Pacific Print Works ("PPW") sales for the third quarter fiscal 2002 were \$1,886,728 compared to \$1,300,605 for the third quarter fiscal 2001. PPW sales for the third quarter fiscal 2002 included production, finishing and design revenues of \$805,557 and garment revenues of \$1,081,171 as compared to production, finishing and design revenues of \$670,605 and garment revenues of \$630,000 in the third quarter fiscal 2001. (The garments are sold as part of a "package" that includes the printing and finishing of the garment.) Production and garment revenue increased by \$48,000 and \$298,000, respectively, in the third fiscal quarter 2002 due to sales of U.S.A. patriotic T-shirts. The remaining increase in sales was primarily due to an increase in sales to PPW's largest customers.

Gross profit and the gross profit as a percentage of sales increased for the third quarter fiscal 2002 as compared to the third quarter fiscal 2001, \$351,915 and 18.0% compared to \$101,183 and 7.3%. The increase in gross profit was primarily due to an increase in gross profit margin on garment sales third quarter fiscal 2002 (32%) compared to third quarter fiscal 2001 (4%). The gross profit margin on garment sales improved in the third quarter fiscal 2002 because of better gross margins on sales of U.S.A. patriotic T-shirts in addition to an improvement in gross margins of other garment sales.

-21-

General and administrative expenses for the third quarter fiscal 2002 were \$318,270 as compared to \$349,649 for the third quarter fiscal 2001. Cost cutting measures were implemented in the fourth quarter fiscal 2001 which resulted in the decline of general and administrative expenses from the third quarter fiscal 2002 compared to third quarter fiscal 2001.

The gain (loss) from operations before other income and expenses for the third quarter fiscal 2002 was a gain of \$32,445 as opposed to a loss of \$250,294 for the third quarter fiscal 2001.

Interest expense for the third quarter fiscal 2002 was \$139,654 compared to \$183,746 for the prior year.

For the Nine months ended December 31, 2001 ("YTD fiscal 2002"), compared to the Nine months ended December 31, 2000 ("YTD fiscal 2001"):

Sales for the Nine months ended December 31, 2001 were \$5,736,708 compared to \$4,077,797 for the Nine months ended December 31, 2000. Pacific Print Works ("PPW") sales YTD fiscal 2002 were \$5,557,369 compared to \$3,951,939 for the YTD fiscal 2001 sales. PPW sales YTD fiscal 2002 included production, finishing and design revenues of \$2,632,000 and garment revenues of \$3,105,000 as compared to production, finishing and design revenues of \$2,835,000 and garment revenues of \$1,116,000 in the YTD fiscal 2001. (The garments are sold as part of a "package" that includes the printing and finishing of the garment.) Production and garment revenue increased by \$166,800 and \$1,162,000, respectively, in the YTD fiscal 2002 due to sales of U.S.A. patriotic T-shirts. The remaining increase in garment sales was primarily due to an increase in garment sales to PPW's largest

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

customers.

Gross profit and the gross profit as a percentage of sales increased for YTD fiscal 2002 as compared to the YTD fiscal 2001, \$961,125 and 16.8% compared to \$567,856 and 13.9%. The increase in gross profit was primarily due to an increase in gross profit margin on garment sales YTD fiscal 2002 (24%) compared to YTD fiscal 2001 (6%). The gross profit margin on garment sales improved in the YTD fiscal 2002 because of better gross margins on sales of U.S.A. patriotic T-shirts in addition to an improvement in gross margins of other garment sales.

General and administrative expenses for the YTD fiscal 2002 were \$955,826 as compared to \$1,179,901 for the YTD fiscal 2001. The decline in general and administrative expenses is primarily due to \$110,000 in investor relation expenses incurred in the first quarter fiscal 2001. Fan-Tastic general and administrative costs were also reduce in YTD fiscal 2002 versud YTD fiscal 2001 by \$124,000 due to a decline in rent and payroll expenses from store closings. .

The gain (loss) from operations before other income and expenses for the YTD fiscal 2002 was a gain of \$1,699 as opposed to a loss of \$620,470 for the YTD fiscal 2001.

Interest expense for the YTD fiscal 2002 was \$384,996 compared to \$495,919 for the prior year. In December 2000, PPW entered into an accounts receivable financing agreement to sell receivables at prime plus 8%. This was a significant improvement from PPW's previous factoring agreement and has resulted in significant interest savings. The Company's interest on capital leases has also declined approximately \$36,000 YTD fiscal 2002 compared to YTD fiscal 2001 because of the reduction in capitalized lease payables outstanding. The Company has notes payables to related parties of \$1,771,007with various rates of interest. The Company has accrued but not paid approximately \$194,000 of interest expense for these notes payables to related parties YTD fiscal 2001.

-22-

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000 ----	2000 ----	2000 ----	2000 ----
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	92.7%	70.8%	86.1%	73.6%
Gross profit	7.3%	29.2%	13.9%	26.4%
General expenses	25.4%	24.0%	28.9%	30.4%
Depreciation and amortization	0.1%	0.5%	0.2%	0.7%
Loss from operations	-18.7%	6.9%	-23.0%	-7.8%
Other income and expenses	0.5%	0.0%	0.6%	1.0%
Interest expense	-13.7%	-15.9%	-18.4%	-20.7%
Loss before income taxes and discontinued operations	-32.0%	-9.0%	-40.7%	-27.5%
Discontinued operations	0.0%	0.0%	0.0%	41.9%
Income taxes	0.0%	0.0%	0.0%	0.0%
Net Income (loss)	-32.0%	-9.0%	-40.7%	14.4%

For the three months ended December 31, 2001 ("third quarter fiscal 2001"), compared to the three months ended December 31, 2000 ("third quarter fiscal 2000"):

Sales for the three months ended December 31, 2001 were \$1,340,986 compared to

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

\$1,397,538 for the three months ended December 31, 2000. Pacific Print Works ("PPW") sales for the third quarter fiscal 2001 were \$1,300,605 compared to \$1,217,906 for the third quarter fiscal 2000. Sales to two of PPW's largest customers in the third quarter fiscal 2001 included garment sales, primarily T-shirts. (The garments are sold as part of a "package" that includes the printing and finishing of the garment.) As a result, PPW sales for the third quarter fiscal 2001 included production, finishing and design revenues of \$711,000 and garment revenues of \$630,000 as compared to production, finishing and design revenues of \$1,212,000 and garment revenues of \$5,000 in the third quarter fiscal 2000.

Gross profit and the gross profit as a percentage of sales declined for the third quarter fiscal 2001 as compared to the third quarter fiscal 2000, \$101,183 and 7.3% compared to \$408,067 and 14.6%. The decline in gross profit was caused partially by the decrease in production revenues which resulted in a higher percentage of fixed production costs to production revenues. Direct labor costs for production, finishing and design were \$362,000 or 50.9% of non-garment revenue in the third quarter fiscal 2001 as compared to \$513,000 or 42.3% of non-garment revenue for the third quarter fiscal 2000. In addition, the gross profit as a percentage of sales decrease was partially due to the lower margins on garment sales. The cost of garments was \$575,000 or 91.3% of garment sales in the third quarter fiscal 2001.

General and administrative expenses for the third quarter fiscal 2001 were \$351,477 as compared to \$342,970 for the third quarter fiscal 2000. This 2.4% increase was primarily due to an increase in payroll costs at PPW. Cost cutting measures were implemented in the fourth quarter fiscal 2001 which will result in a decline of approximately \$40,000 general and administrative payroll costs per quarter.

The gain (loss) from operations before other income and expenses for the third quarter fiscal 2001 was a loss of \$250,294 as opposed to a gain of \$65,097 for the third quarter fiscal 2000.

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

-23-

For the Nine months ended December 31, 2001 ("YTD fiscal 2001"), compared to the Nine months ended December 31, 2000 ("YTD fiscal 2000"):

Sales for the Nine months ended December 31, 2001 were \$4,077,797 compared to \$3,466,627 for the Nine months ended December 31, 2000. Pacific Print Works ("PPW") sales YTD fiscal 2001 were \$3,951,939 compared to \$3,104,767 for the YTD fiscal 2000 sales. Sales to two of PPW's largest customers in the YTD fiscal 2001 included garment sales, primarily T-shirts. (The garments are sold as part of a "package" that includes the printing and finishing of the garment.) As a result, PPW sales for the YTD fiscal 2001 included production, finishing and design revenues of \$2,835,000 and garment revenues of \$1,116,000 as compared to production, finishing and design revenues of \$2,971,000 and garment revenues of \$131,000 in the YTD fiscal 2000.

Gross profit and the gross profit as a percentage of sales declined for YTD fiscal 2001 as compared to the YTD fiscal 2000, \$567,856 and 13.9% compared to \$915,267 and 26.4%. The decline in gross profit was caused partially by the decrease in production revenues which resulted in a higher percentage of fixed production costs to production revenues. Direct labor costs for production, finishing and design were \$1,260,000 or 44.4% of non-garment revenue in the YTD fiscal 2001 as compared to \$1,296,000 or 43.6% of non-garment revenue for the YTD fiscal 2000. In addition, the gross profit as a percentage of sales decrease

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

was partially due to the lower margins on garment sales. The cost of garments was \$1,046,000 or 93.7% of garment sales in the YTD fiscal 2001. Rent costs increased by \$95,000 because PPW expanded its warehouse space due to an anticipation of storing and processing additional garments due to increased sales. In addition, the gross profit from Fan-Tastic, Inc. operations declined by \$124,000 in the YTD fiscal 2001 compared to YTD fiscal 2000 primarily due to a decrease of approximately 2 equivalent stores. Fan-Tastic closed its last store in September 2000 in order to reduce general costs.

General and administrative expenses for the YTD fiscal 2001 were \$1,188,326 as compared to \$1,075,733 for the YTD fiscal 2000. The increase in general and administrative expenses is primarily due to \$110,000 in investor relation expenses incurred in the first quarter fiscal 2001. An increase of approximately \$110,000 in PPW general and administrative costs was offset by a decrease in Fan-Tastic general and administrative costs. Cost cutting measures were implemented in the fourth quarter fiscal 2001 which will result in a decline of approximately \$40,000 in PPW general and administrative costs per quarter.

The gain (loss) from operations before other income and expenses for the YTD fiscal 2001 was a loss of \$620,470 as opposed to a loss of \$160,466 for the YTD fiscal 2000.

Interest expense for the YTD fiscal 2001 was \$495,919 compared to \$428,223 for the prior year.

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

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, the Company had total assets of \$2,314,069, total liabilities of \$6,866,372 and total stockholders' deficit of \$4,552,303 compared with total assets of \$1,763,333, total liabilities of \$5,954,973 and total stockholders deficit of \$4,191,640 at March 31, 2001. The increase in the Company's stockholders deficit is due primarily to interest expense. At September 30, 2001 the Company's current ratio of current assets to current liabilities was approximately .267. The Company will seek to convert certain debt to equity which will improve its current ratio. The Company's current liabilities include \$572,633 and \$1,769,948 of interest and notes payable to related parties, respectively. Currently, limited cash payments are being made to these related parties because of the Company's poor financial condition.

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

-24-

Part II - Other Information

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities

Not applicable.

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

Item 3. Default upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Effective for fiscal quarters ending after March 15, 2000, the Securities and Exchange Commission adopted a rule requiring companies' independent auditors review the companies' financial information prior to the companies filing their Quarterly Reports on Form 10-QSB with the Commission. The Company's December 31, 2001 Form 10-QSB was not reviewed prior to submission to the Commission. A Form 8-K will be filed when the review is completed by the independent auditors.

Item 6. Exhibits and Reports on Form 8-K

Not applicable.

-25-

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

AMERICAN RESOURCES AND DEVELOPMENT COMPANY
(Registrant)

/s/ B. Willes Papenfuss ----- B. Willes Papenfuss	President, Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2001
---	---	-------------------

/s/ Timothy M. Papenfuss ----- Timothy M. Papenfuss	Secretary / Treasurer and Director (Chief Financial Officer, Chief Accounting Officer and Controller)	February 22, 2001
---	--	-------------------

-26-