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AMERICAN HOSPITAL RESOURCES INC
Form 10QSB
May 15, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 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)

1912 WEST BAY CREST
SANTA ANA, CA 92704
(Address of principal executive offices)

714-444-0223
(Issuer's telephone number)

NOT APPLICABLE
(Former name and address)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

At March 31, 2003 the issuer had 8,654,000 shares of no par value common stock
issued and outstanding.

Transitional Small Business Format: Yes No

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AMERICAN HOSPITAL RESOURCES, INC.

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(Inapplicable items have been omitted)

PART I.

FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated 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

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full year.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

| | March 31, 2003 | December 31, 2002 |
|---|-------------------|----------------------|
| | ----- | ----- |
| CURRENT ASSETS: | | |
| Cash | \$ - | \$ 6,779 |
| Accounts receivable, net of allowance for doubtful accounts of \$102,300 | - | - |
| Advance to NIPSI | - | 15,000 |
| Prepaid expense | 67 | 30,075 |
| | ----- | ----- |
| Total Current Assets | 67 | 51,854 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, net | 1,645 | 1,743 |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Goodwill | 60,321 | 60,321 |
| Deferred acquisition costs | 250,000 | - |
| Deferred stock offering costs | 1,059,609 | 1,059,424 |
| | ----- | ----- |
| Total Other Assets | 1,369,930 | 1,119,745 |
| | ----- | ----- |
| | \$ 1,371,642 | \$ 1,173,342 |
| | ===== | ===== |

Continued

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

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[CONTINUED]

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

| | March 31, 2003 | December 31, 2002 |
|---|-------------------|----------------------|
| | ----- | ----- |
| CURRENT LIABILITIES: | | |
| Bank overdraft | \$ 4,794 | \$ - |
| Accounts payable | 1,081,695 | 1,088,150 |
| Accrued expenses | 112,841 | 109,940 |
| Deposit from NIPSI | 24,298 | - |
| | ----- | ----- |
| Total Current Liabilities. | 1,223,628 | 1,198,090 |
| COMMITMENTS AND CONTINGENCIES [See Note 15]. . | | |
| | - | - |
| | ----- | ----- |
| Total Liabilities. | 1,223,628 | 1,198,090 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY (DEFICIT): | | |
| Preferred stock, no par value, 10,000,000 shares authorized: | | |
| Series A convertible preferred stock, 2,600,000 shares issued and outstanding. | 3,900,000 | 3,900,000 |
| Series B convertible preferred stock, no shares issued and outstanding | - | - |
| Common stock, no par value, 100,000,000 shares authorized, 8,654,000 and 7,614,000 shares issued and outstanding, respectively . . | 4,019,122 | 3,759,522 |
| Additional paid-in capital | 955,496 | 955,496 |
| Retained earnings (deficit). | (8,726,604) | (8,639,766) |
| | ----- | ----- |
| Total Stockholders' Equity (Deficit) . . . | 148,014 | (24,748) |
| | ----- | ----- |
| | \$ 1,371,642 | \$ 1,173,342 |
| | ===== | ===== |

Note: The Balance Sheet of December 31, 2002 was taken from the audited financial statements at that date and condensed.

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Three Months Ended March 31, | |
|------------------------------------|---|-------------|
| | 2003 | 2002 |
| REVENUES | \$ - | \$ - |
| EXPENSES: | | |
| General and administrative | 86,838 | 25,408 |
| Total Expenses | 86,838 | 25,408 |
| LOSS BEFORE OTHER EXPENSE. | (86,838) | (25,408) |
| OTHER EXPENSE: | | |
| Interest expense | - | (596) |
| Total Other Expense. | - | (596) |
| LOSS BEFORE INCOME TAXES | (86,838) | (26,004) |
| CURRENT TAX EXPENSE. | - | - |
| DEFERRED TAX EXPENSE | - | - |
| NET LOSS | \$ (86,838) | \$ (26,004) |
| LOSS PER COMMON SHARE. | \$ (.01) | \$ (.00) |

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

AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months
Ended March 31,

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| | 2003 | 2002 |
|--|-------------|-------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (86,838) | \$ (26,004) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation | 98 | - |
| Non-cash services for common stock | - | 7,500 |
| Changes in assets and liabilities: | | |
| Decrease in prepaid expense | 30,008 | - |
| Increase (decrease) in accounts payable | (6,455) | 10,682 |
| Increase in accrued expenses | 2,901 | 596 |
| (Decrease) in related party payable | - | (500) |
| | ----- | ----- |
| Net Cash (Used) by Operating Activities | (60,286) | (7,726) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments received on advance to NIPSI | 15,000 | - |
| Payments received on note receivable | - | 30,000 |
| Payments for deferred acquisition costs | - | (62,520) |
| Payments of NIPSI acquisition costs | (45,702) | - |
| | ----- | ----- |
| Net Cash (Used) by Investing Activities | (30,702) | (32,520) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from bank overdraft | 4,794 | - |
| Proceeds from deposit from NIPSI | 70,000 | - |
| Proceeds from notes payable | - | 120,000 |
| Payments of stock offering costs | (585) | - |
| Proceeds from sale of common stock | 10,000 | - |
| Payments to repurchase common stock | - | (79,500) |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | 84,209 | 40,500 |
| | ----- | ----- |

[Continued]

AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[CONTINUED]

For the Three Months
 Ended March 31,

 2003 2002

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| | | |
|--|---------|--------|
| NET INCREASE (DECREASE) IN CASH. | (6,779) | 254 |
| CASH AT BEGINNING OF THE PERIOD. | 6,779 | 80 |
| | ----- | ----- |
| CASH AT END OF THE PERIOD. | \$ - | \$ 334 |
| | ----- | ----- |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

| | | |
|------------------------|------|------|
| Interest | \$ - | \$ - |
| Income taxes | \$ - | \$ - |

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

For the three months ended March 31, 2003:

In January 2003, the Company issued 1,000,000 shares of common stock as partial consideration of \$250,000 for the proposed acquisition of Coastalmcd.

For the three months ended March 31, 2002:

In February 2002, the Company issued 675,000 shares of common stock as payment of \$7,500 of services related to the acquisition of AHR Subsidiary.

In February 2002, the Company issued 11,000,000 shares of common stock for a \$30,000 note receivable and to convert \$80,000 of notes payable.

In March 2002, the Company issued 1,600,000 shares of common stock as payment of \$10,000 of accounts payable and \$22,000 of related party payable.

In March 2002, the Company granted 20,000 options to purchase common stock to attract new directors.

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

AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - American Hospital Resources, Inc. ("Parent") was organized under the laws of the State of Utah on May 9, 1972 as High-Line Investment & Development Company. In 1977, Parent changed its name to Gayle Industries, Inc. In 1978, Parent merged into Swing Bike. In 1979, Parent changed its name to Horizon Energy Corporation. In 1992, Parent changed its name to Millennium Entertainment Corp. In 1993, Parent changed its name to New Horizon Education, Inc. In 1993, Parent also organized a wholly owned subsidiary with the sole purpose of merging with Ruff Network Marketing, Inc. In 1997, Parent sold its wholly owned subsidiary to Phoenix Ink, LLC.

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On June 17, 2002, Parent changed its name to American Hospital Resources, Inc.

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. On December 31, 2002, the Board of Directors determined to dissolve AHR Subsidiary. AHR Subsidiary is not in good standing with the State of Delaware [See Note 17].

NIPSI Pharmacy of Texas ("NPT Subsidiary") was organized as a wholly owned subsidiary under the laws of the State of Nevada on December 19, 2002 to provide pharmacy services.

American Hospital Resources, Inc., AHR Subsidiary and NPT Subsidiary ("the Company") provides hospital consulting and management. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors.

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 March 31, 2003 and 2002 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, 2002 audited financial statements. The results of operations for the periods ended March 31, 2003 and 2002 are not necessarily indicative of the operating results for the full year.

CONSOLIDATION - The consolidated financial statements include the accounts of Parent, its wholly owned AHR Subsidiary and its wholly owned NPT Subsidiary. All significant intercompany transactions have been eliminated in consolidation.

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.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

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 nonmortgage 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

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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 balance 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 repairs and maintenance are charged to operating expense as incurred. Expenditures for additions and betterments that extend the useful lives of property and equipment are capitalized, upon being placed in service. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization is removed from the accounts and any resulting gain or loss is included in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five years [See Note 6].

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. As of March 31, 2003, the Company has capitalized a total of \$1,541 of website costs which are included in property and equipment. The Company did not incur any planning costs and did not record any research and development costs for the three months ended March 31, 2003 and 2002.

INTANGIBLE ASSETS - The Company accounts for their intangible assets in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" [See Note 7].

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 will be written off to expense.

ACQUISITION COSTS - Costs related to proposed acquisitions are deferred and will be included in the acquisition price. In the event an acquisition is unsuccessful, the costs related to the acquisition will be written off to expense.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

REVENUE RECOGNITION - The Company's revenue comes from the management of hospitals and from the sale of hospital property. Revenue from the management of hospitals is recognized over the term of the managing agreement. A portion of the managing services is subcontracted out by the Company to third party vendors. These direct costs are recorded by the Company as general and administrative expenses. Revenue from the sale of

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hospital property is recorded when property is sold. The Company has purchased the right to receive a portion of the revenues from a consulting and asset sale agreement. Revenue derived from the purchased contract rights is recorded as received on a net basis. On a net basis, only the share of revenue belonging to the Company is recorded as revenue.

STOCK BASED COMPENSATION - The Company accounts for their stock based compensation in accordance with Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation." This statement establishes an accounting method based on the fair value of equity instruments awarded to employees as compensation. However, companies are permitted to continue applying previous accounting standards in the determination of net income with disclosure in the notes to the financial statements of the differences between previous accounting measurements and those formulated by the new accounting standard. The Company has adopted the disclosure only provisions of SFAS No. 123. Accordingly, the Company has elected to determine net income using previous accounting standards.

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 14].

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. 141, "Business Combinations", SFAS No. 142, "Goodwill and Other Intangible Assets", SFAS No. 143, "Accounting for Asset Retirement Obligations", SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", SFAS No. 147, "Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9", and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123", were recently issued. SFAS No. 141, 142, 143, 144, 145, 146, 147 and 148 have no current applicability to the Company or their effect on the financial statements would not have been significant.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

RECLASSIFICATION - The financial statements for periods prior to March 31, 2003 have been reclassified to conform to the headings and classifications used in the March 31, 2003 financial statements.

NOTE 2 - ACQUISITION AND VOIDING OF ACQUISITION

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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 Parent 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, subsequently, in a default judgement against NIPSI in favor of a creditor, the court voided and nullified the transfer of NIPSI assets to the Company [See Notes 15 and 17]. 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 15]. The financial statements reflect the acquisition as having been voided or rescinded and any expenses associated with the voided acquisition have been classified as a cost of the unsuccessful NIPSI acquisition.

NOTE 3 - ACQUISITION

On April 3, 2002, Parent signed an agreement and plan of reorganization with Phase One, LLC and AHR Subsidiary. The agreement provided for Parent 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 reorganization, Parent 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, Parent 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, Parent and AHR Subsidiary entered into three-year consulting agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. [See Note 15]. As a result of the agreement, 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 Series A preferred stock. The agreement was further amended to issue the 2,600,000 shares of Series A preferred stock to the Chief Executive Officer for value received by Phase One, LLC, which effected a change in control of the Company. The amended agreement also grants the Chief Executive Officer the right to convert, at any time, any or all of the common stock that he received under the agreement into Series A preferred stock at a rate of five shares of common stock into one share of Series A preferred stock.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at:

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| | March 31, 2003 | December 31, 2002 |
|---|-------------------|----------------------|
| | ----- | ----- |
| Parkview management consulting services | \$ 7,800 | \$ 7,800 |
| Parkview purchased commission | 94,500 | 94,500 |
| | ----- | ----- |
| | 102,300 | 102,300 |
| Less: allowance for doubtful accounts . | (102,300) | (102,300) |
| | ----- | ----- |
| Net accounts receivable | \$ - | \$ - |
| | ----- | ----- |

At March 31, 2003 and December 31, 2002, the Company had receivables from two agreements with Parkview. Parkview is undergoing bankruptcy reorganization and the receivables were generated as part of the reorganization. While management expects to collect on both Parkview receivables, collection is not certain and an allowance has been recorded.

NOTE 5 - ADVANCE TO NIPSI

Advance to NIPSI consisted of the following at:

| | March 31, 2003 | December 31, 2002 |
|----------------------|-------------------|----------------------|
| | ----- | ----- |
| Advance to NIPSI . . | \$ - | \$ 15,000 |
| | ----- | ----- |
| Net advance to NIPSI | \$ - | \$ 15,000 |
| | ----- | ----- |

At December 31, 2002, the Company had made advances to NIPSI which had not been repaid. In 2003, the Company received \$15,000 from NIPSI; however, NIPSI General Partner subsequently rescinded an asset purchase agreement and, in a default judgement against NIPSI in favor of a creditor, the court voided and nullified the transfer of NIPSI assets to the Company [See Notes 2, 15 and 17].

AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at:

March 31, December 31,

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| | 2003 | 2002 |
|--------------------------------|----------|----------|
| | ----- | ----- |
| Office equipment | \$ 431 | \$ 431 |
| Website. | 1,541 | 1,541 |
| | ----- | ----- |
| | 1,972 | 1,972 |
| Less: accumulated depreciation | (327) | (229) |
| | ----- | ----- |
| Net property and equipment . . | \$ 1,645 | \$ 1,743 |
| | ----- | ----- |

Depreciation expense for the three months ended March 31, 2003 and 2002 was \$98 and \$0, respectively.

NOTE 7 - GOODWILL

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

| | |
|-------------------------------|-----------|
| Goodwill at December 31, 2002 | \$ 60,321 |
| | ----- |
| Goodwill at March 31, 2003 | \$ 60,321 |
| | ===== |

NOTE 8 - ACCRUED EXPENSES

Accrued expenses consist of the following at:

| | March 31, 2003 | December 31, 2002 |
|--------------------------------------|-------------------|----------------------|
| | ----- | ----- |
| Accrued payroll and related expenses | \$ 112,841 | \$ 109,940 |
| | ----- | ----- |
| Total accrued expenses | \$ 112,841 | \$ 109,940 |
| | ----- | ----- |

NOTE 9 - NOTES PAYABLE

On February 27, 2002, the Company signed a \$40,000 convertible note payable to McKinley Enterprises, Inc. Profit Sharing Plan. The note accrued interest at 8% per annum, was due February 27, 2003 and was convertible after 90 days to 500,000 shares of common stock. On May 30, 2002, the \$40,000 note payable and its accrued interest of \$789 were converted to 500,000 shares of common stock [See Note 10].

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NOTE 9 - NOTES PAYABLE [CONTINUED]

On July 11, 2001, the Company signed a \$20,000 note payable to Growth Ventures Inc., Pension Plan and Trust. The note accrued interest at 10% per annum and was due October 9, 2001 but was extended through February 11, 2002. On February 27, 2002, the Company issued 500,000 shares of common stock as full payment of the \$20,000 note payable and its accrued interest of \$1,281 [See Note 10].

NOTE 10 - CAPITAL STOCK

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 series as determined by the Board of Directors. On December 30, 2002, the Company's Board of Directors designated 5,000,000 shares as Series A and 5,000,000 shares as Series B.

SERIES A PREFERRED STOCK - Each share of Series A preferred stock has the voting rights of 5 shares of common stock, is convertible into 5 shares of common stock and is entitled to receive a \$.0575 annual dividend payable monthly. The total annual dividend for all shares of Series A preferred stock is limited to 50% of the Company's earnings before interest, taxes, depreciation and amortization for the year and the monthly payments are adjusted accordingly. For the three months ended March 31, 2003, the Company has negative earnings before interest, taxes, depreciation and amortization; therefore, no dividend is due on the Series A preferred stock and no accrual for future dividend payments has been recorded in the accompanying financial statements. In addition, if shares of the Series A preferred stock are required to be converted as part of a sale or merger of the Company, then each share of Series A preferred stock is convertible into 5.5 shares of common stock.

In December 2002, the Company issued 2,600,000 shares of their previously authorized but unissued Series A preferred stock in exchange for 13,000,000 shares of the Company's common stock.

SERIES B PREFERRED STOCK - Each share of Series B preferred stock is convertible into 1 share of common stock and is entitled to receive a 6.5% annual dividend payable quarterly. The 6.5% annual dividend is based on the purchase price paid to or the consideration received by the Company. At March 31, 2003, no shares were issued and outstanding. The Series B preferred stock rights were subsequently modified [See Note 17].

COMMON STOCK - The Company has authorized 100,000,000 shares of common stock with no par value. In February 2003, the Company issued 40,000 shares of their 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.

In January 2003, the Company issued 1,000,000 shares of their previously authorized but unissued common stock as partial consideration of \$250,000 for the proposed acquisition of Coastalmcd, or \$.25 per share.

In December 2002, the Company repurchased and cancelled 13,000,000 shares of the Company's issued and outstanding common stock for 2,600,000 shares of Series A preferred stock.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - CAPITAL STOCK [CONTINUED]

In October 2002, the Company issued 200,000 shares of their previously authorized but unissued common stock for cash of \$50,000, or \$.25 per share. Stock offering costs of \$5,000 were netted against the proceeds.

In August 2002, the Company issued 584,000 shares of their previously authorized but unissued common stock for services valued at \$146,000, or \$.25 per share.

In June 2002, in connection with an agreement and plan of reorganization, the Company issued 3,196,873 shares of their previously authorized but unissued common stock to acquire AHR Subsidiary [See Note 3].

In May 2002, the Company issued 500,000 shares of their previously authorized but unissued common stock to convert a \$40,000 note payable and its accrued interest of \$789, or \$.081578 per share.

In April 2002, the Company issued 2,000,000 shares of their previously authorized but unissued common stock to Phase One, LLC for cash of \$20,000, or \$.01 per share.

In March 2002, the Company issued 1,600,000 shares of their previously authorized but unissued common stock as payment of \$10,000 of accounts payable and \$22,000 of related party payable, or \$.02 per share.

In February and March 2002, the Company repurchased and cancelled 3,198,736 shares of the Company's issued and outstanding common stock for cash in the amount of \$79,500, or an average of approximately \$.025 per share. The Company had offered to repurchase the shares for an amount up to the original sales price because the National Association of Securities Dealers had imposed a special restriction on the trading of these shares.

In February 2002, the Company issued 11,000,000 shares of their previously authorized but unissued common stock to Phase One, LLC for a \$30,000 note receivable and to convert \$80,000 of notes payable. Total consideration amounted to \$110,000, or \$.01 per share. This issuance resulted in a change in control of the Company.

In February 2002, the Company issued 125,000 shares of their previously authorized but unissued common stock for services rendered related to the acquisition of AHR Subsidiary valued at \$2,500, or \$.02 per share.

In February 2002, the Company issued 450,000 shares of their previously authorized but unissued common stock for services rendered related to the acquisition of AHR Subsidiary valued at \$5,000, or \$.01 per share.

In February 2002, the Company issued 500,000 shares of their previously authorized but unissued common stock to convert a \$20,000 note payable and its accrued interest of \$1,281, or \$.04256 per share.

COMMON STOCK AUTHORIZED - Although none of the shares have been issued, in February 2003 the Board of Directors authorized the future issuance of 720,000 shares of common stock to consultants and an attorney.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - CAPITAL STOCK [CONTINUED]

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 March 31, 2003, 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. At March 31, 2003, none of these options had been exercised, forfeited or cancelled.

STOCK WARRANTS - In December 2002, the Company granted 300,000 warrants to purchase common stock to directors and NIPSI personnel for services rendered valued at \$19,577. The warrants were granted from the 2003 Stock Bonus Pool, vested immediately and are exercisable at \$.25 per share for five years. At March 31, 2003, none of these warrants had been exercised, forfeited or cancelled.

STOCK OPTION AND WARRANT COMPENSATION COST - The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Had compensation cost for the Company's stock options and warrants been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, the Company's net loss and loss per share would have been reduced to the pro forma amounts indicated below:

| | | For the Three Months Ended March 31, | |
|-----------------------|---------------------|---|------------|
| | | 2003 | 2002 |
| | | ----- | ----- |
| Net Loss. | As reported | \$(86,838) | \$(26,004) |
| | Pro forma | (86,838) \$(26,391) | |
| | | ----- | ----- |
| Loss Per Common Share | As reported | \$ (.01) | \$ (.00) |
| | Pro forma | (.01) \$ (.00) | |

The fair value of each option and 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, 2002: risk-free interest rate of 2.78%, expected dividend yield of zero, expected lives of 5 years and expected volatility of 100%. The following assumptions were used for grants on November 1, 2002: risk-free rate of 2.92%, expected dividend yield of zero, expected lives of 3 years and expected volatility of 100%. The following assumptions were used for grants on March 14, 2002: risk-free rate of 3.63%, expected dividend yield of zero, expected lives of 2 years and expected volatility of 100%. The following assumptions were used for grants on March 4, 2002: risk-free rate of 3.24%, expected dividend yield of zero, expected lives of 2 years and expected volatility of 100%.

AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - CAPITAL STOCK [CONTINUED]

INCENTIVE STOCK BONUS PLAN - On December 31, 2002, the Board of Directors of the Company 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 Board of Directors. The Board of Directors further authorized the 2003 Stock Bonus Pool which consists of 1,000,000 warrants to purchase common stock at \$.25 per share. At March 31, 2003, total warrants available to be granted from the 2003 Stock Bonus Pool amounted to 700,000.

A summary of the status of the warrants granted under the Company's Incentive Stock Bonus Plan at March 31, 2003 is presented below:

| | March 31, 2003 | |
|--|----------------|------------------------------------|
| | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year. . . . | 300,000 | \$.25 |
| Granted | - | \$ - |
| Exercised | - | \$ - |
| Forfeited | - | \$ - |
| Expired | - | \$ - |
| Outstanding at end of period. | 300,000 | \$.25 |
| Weighted average fair value of warrants granted during the period | - | \$ - |

A summary of the status of the warrants outstanding under the Company's Incentive Stock Bonus Plan at March 31, 2003 is presented below:

| Range of Exercise Prices | Warrants Outstanding | | | Warrants Exercisable | |
|--------------------------------|-----------------------|---|---------------------------------------|-----------------------|---------------------------------------|
| | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| .25 | 300,000 | 4.8 years | \$.25 | 300,000 | \$.25 |

NOTE 11 - INCOME TAXES

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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 March 31, 2003, the Company has available unused operating loss carryforwards of approximately \$353,000, which may be applied against future taxable income and which expire in various years through 2023. 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.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - INCOME TAXES [CONTINUED]

At March 31, 2003, the total of all deferred tax assets was approximately \$239,000 and the total of all deferred tax liabilities was \$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 \$239,000. The net change in the valuation allowance was approximately \$34,000 during the three months ended March 31, 2003.

The temporary differences gave rise to the following deferred tax asset (liability):

| | March 31, 2003 ----- |
|--|----------------------------|
| Excess of tax over financial accounting depreciation. | \$ 90 |
| Accrued compensation | 44,950 |
| Capital loss carryover | 12,945 |
| Allowance for bad debt | 40,751 |
| Net operating loss carryover | 140,638 |

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

March 31,
2003

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| | |
|---|----------|
| Current income tax expense: | |
| Federal | \$ - |
| State | - |
| | ----- |
| Net current tax expense | \$ - |
| | ----- |
| Deferred tax expense (benefit) resulted from: | |
| Excess of tax over financial | |
| accounting depreciation | \$ 36 |
| Accrued compensation | (1,156) |
| Net operating loss carryover | (33,239) |
| Valuation allowance | 34,359 |
| | ----- |
| Net deferred tax expense | \$ - |
| | ===== |

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

AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - INCOME TAXES [CONTINUED]

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

| | |
|--|-------------------|
| | March 31, 2003 |
| | ----- |
| Computed tax at the expected | |
| federal statutory rate | 34.00% |
| State income taxes, net of federal benefit | 5.83 |
| Other | (.26) |
| Valuation allowance | (39.57) |
| | ----- |
| Effective income tax rates | 0.00% |
| | ===== |

NOTE 12 - 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 just recently commenced operations and all of their revenues have been from one customer. 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

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this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through sales of their common 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 13 - RELATED PARTY TRANSACTIONS

NOTE RECEIVABLE - On February 27, 2002, the Company received a \$30,000 note receivable from Phase One, LLC for the issuance of common stock [See Note 10]. The note was due May 28, 2002 and accrued interest at 10% per annum. The note was paid on March 31, 2002 with no interest being recognized on the note.

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 2, 15 and 17], the Company received \$70,000 from NIPSI as reimbursement of costs incurred as part of the unsuccessful NIPSI acquisition. At March 31, 2003, the Company has \$24,298 remaining which will be used to offset the future expenses of the unsuccessful NIPSI acquisition.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - RELATED PARTY TRANSACTIONS [CONTINUED]

NOTES PAYABLE - On February 11, 2002, the Company signed a \$50,000 convertible note payable to Phase One, LLC. The note was due February 11, 2003, accrued interest at 10% per annum and was convertible to 5,000,000 shares of common stock. On February 27, 2002, the note was converted to common stock and no interest was recognized on the note [See Note 10].

On January 25, 2002, the Company signed a \$30,000 convertible note payable to Phase One, LLC. The note was due January 25, 2003, accrued interest at 10% per annum and was convertible to 3,000,000 shares of common stock. On February 27, 2002, the note was converted to common stock and no interest was recognized on the note [See Note 10].

SERIES A PREFERRED STOCK FOR COMMON STOCK - In December 2002, the Company issued 2,600,000 shares of Series A preferred stock to Phase One, LLC in exchange for 13,000,000 shares of common stock [See Note 10].

COMMON STOCK ISSUANCES - In April 2002, the Company issued 2,000,000 shares of common stock to Phase One, LLC for cash of \$20,000 [See Note 10].

In March 2002, the Company issued 1,100,000 shares of common stock to their former President as payment of \$22,000 for services previously rendered [See Note 10].

In February 2002, the Company issued 11,000,000 shares of common stock to Phase One, LLC for a \$30,000 note receivable and to convert \$80,000 of notes payable [See Note 10].

OPTIONS - In March 2002, the Company granted 20,000 options to purchase

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common stock to attract new directors to the Company [See Note 10].

WARRANTS - In December 2002, the Company granted 275,000 warrants to purchase common stock to directors of the Company for services rendered valued at \$13,750 [See Note 10].

MANAGEMENT COMPENSATION - During the three months ended March 31, 2003 and 2002, respectively, the Company expensed \$30,000 and \$0 as salary to the Chief Executive Officer. At March 31, 2003, the Company owed \$106,937 in accrued salary which includes amounts accrued prior to the acquisition of AHR Subsidiary.

In December 2002, the Company granted 275,000 warrants to purchase common stock to directors of the Company for services rendered valued at \$13,750 [See Note 10].

In March 2002, the Company granted 20,000 options to purchase common stock to attract new directors to the Company [See Note 10].

In February 2002, the Company paid \$1,500 to their former directors.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - RELATED PARTY TRANSACTIONS [CONTINUED]

OFFICE SPACE - Beginning October 1, 2002, the Company pays the Chief Executive Officer \$500 per month on a month-to-month basis for use of his office space. The Company previously paid their former President \$100 per month on an as-needed, month-to-month basis. Total rents to the Chief Executive Officer and President amounted to \$1,500 and \$300, respectively, for the three months ended March 31, 2003 and 2002.

PURCHASE AND SALE AGREEMENT - On September 15, 2002, the Company signed a Purchase and Sale Agreement with Gaelic Capital Group ("Gaelic"), an entity controlled by the Chief Executive Officer. The agreement calls 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 will receive 6% of the sales price for the sale of the peripheral assets of Parkview. As of March 31, 2003, the Company had collected none of this receivable and had recognized no revenues as part of this agreement. At March 31, 2003, the Company was owed a total of \$218,100 from this agreement.

NOTE 14 - LOSS PER SHARE

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

For the Three Months
Ended March 31,

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| | 2003 | 2002 |
|--|-------------|-------------|
| Net loss available to common shareholders (numerator) | \$ (86,838) | \$ (26,004) |
| Weighted average number of common shares outstanding used in loss per common share for the period (denominator). | 8,292,667 | 7,558,840 |

At March 31, 2003, the Company had 2,020,000 outstanding options, 300,000 outstanding warrants and preferred stock convertible into 13,000,000 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. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - COMMITMENTS AND CONTINGENCIES

COMMON STOCK CONVERSION RIGHT - On December 31, 2002, the Chief Executive Officer was granted the right to convert shares of common stock that he had received under an agreement and plan of reorganization into Series A preferred stock at a rate of five shares of common stock into one share of Series A preferred stock [See Note 3].

CONSULTING AGREEMENTS - On April 1, 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 10]. During the three months ended March 31, 2003, the Company paid \$30,000 for services rendered by Consultants under these agreements.

On January 15, 2002, the Company entered into a six-month consulting agreement with Synergistic Connections, Inc. to assist the Company in selecting and negotiating the acquisition of potential merger candidates. The Company paid \$60,000 and issued stock valued at \$12,500 to Synergistic Connections, Inc. as part of this agreement.

EQUITY LINE OF CREDIT AGREEMENT - On November 4, 2002, the Company signed an Equity Line of Credit Agreement with Cornell Capital Partners, LP ("Cornell"). The agreement calls 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 requires 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 is effective. The agreement calls for the Company to issue common stock as payment of a commitment fee of \$290,000 and

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associated legal fees of \$10,000 which are classified as deferred stock offering costs. The agreement also states that, at the time of each stock sale transaction, the Company will pay \$500 in legal fees and pay Cornell 7% of the proceeds received. The agreement was negotiated by consultants of the Company under finder agreements [See below]. At March 31, 2003, the commitment fee of \$290,000 and associated legal fees of \$10,000 were still unpaid and are classified as accounts payable.

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 three months ended March 31, 2003, the Company paid \$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 three months ended March 31, 2003, the Company paid \$5,000 for services rendered by Douglas A. Jackson under this agreement.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - COMMITMENTS AND CONTINGENCIES [CONTINUED]

FINDER AGREEMENTS - On April 1, 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 10]. 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 are 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 10]. At March 31, 2003, finders' fees of \$747,400 were still unpaid and are classified as accounts payable.

JUDGEMENT AND VOIDING OF ACQUISITION - In March 2003, the Company was notified that they were 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. Subsequently, the court entered a default judgement against NIPSI [See Note 17]. 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

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any expenses associated with the voided acquisition have been classified as a cost 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 is claiming 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 a cost of the unsuccessful NIPSI acquisition. 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.

OFFERS TO PURCHASE - In January 2003, the Company signed an Offer to Purchase Rx Solutions, Inc. The offer calls for the Company to purchase 100% of the stock of Rx Solutions, Inc. for \$2,250,000 payable as \$1,100,000 cash, \$750,000 as a five-year 6% note payable with interest-only payments for the first 18 months and \$400,000 as Series B preferred stock. The Company subsequently entered into a Stock Purchase Agreement with the stockholders of Rx Solutions, Inc. [See Note 17].

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - COMMITMENTS AND CONTINGENCIES [CONTINUED]

In October 2002, the Company signed an Offer to Purchase with Coastalmed Inc. and Coastalmed of Panama City, Inc. (collectively "Coastalmed"). The offer called for the Company to purchase all of the assets of Coastalmed for \$7,000,000 payable as \$4,000,000 cash, \$1,375,000 as a five-year 6.5% note payable with interest-only payments for the first 18 months and \$1,625,000 as Series B preferred stock. This offer expired and was replaced by a new Offer to Purchase signed in January 2003. The new offer calls for the Company to purchase 100% of the stock of Coastalmed for \$8,400,000 payable as \$4,900,000 cash, \$1,625,000 as a five-year 6.5% note payable with interest-only payments for the first 18 months and \$1,875,000 as Series B preferred stock. The Company also issued 1,000,000 shares of common stock as partial consideration [See Note 10].

In September 2002, the Company signed an Offer to Purchase to acquire all of the assets of Quantum Pharmacy Alliance, Ltd. ("Quantum"). The offer calls for the Company to purchase all of the assets of Quantum for one of two financing alternatives at Quantum's option. The first alternative is \$250,000 cash, \$500,000 as a five-year 6% note payable and \$400,000 as Series B preferred stock. The second alternative is \$650,000 as a five-year 6% note payable and \$850,000 as Series B preferred stock.

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. 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.

POSSIBLE NIPSI CLAIMS - For approximately three months, the Company

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operated the assets of NIPSI pursuant to an asset purchase agreement [See Notes 2, 17 and above]. Company 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 are they aware of, any such claims or suits against NIPSI. Company 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.

NOTE 16 - CONCENTRATIONS OF CREDIT RISK

ACCOUNTS RECEIVABLE - At March 31, 2003, the Company has accounts receivable of \$102,300 which is owed by only one customer.

NOTE 17 - SUBSEQUENT EVENTS

DISSOLUTION AND STANDING OF AHR SUBSIDIARY - The Company is currently working with the State of Delaware to resolve the taxes due in order for AHR Subsidiary to be in good standing and the Company is preparing articles of dissolution for AHR Subsidiary.

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AMERICAN HOSPITAL RESOURCES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - SUBSEQUENT EVENTS [CONTINUED]

JUDGEMENT AND VOIDING OF ACQUISITION - In April 2003, the court entered a default judgement 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 a cost of the unsuccessful NIPSI acquisition.

SERIES A PREFERRED STOCK CANCELLATION - In May 2003, the Chief Executive Officer returned 720,000 shares of Series A preferred stock to the Company for cancellation.

SERIES A PREFERRED STOCK ISSUANCE - In April 2003, the Company issued 47,000 shares of Series A preferred stock for cash of \$23,500, or \$.50 per share.

SERIES B PREFERRED STOCK RIGHTS MODIFICATION - In April 2003, the Board of Directors modified the rights of the Series B preferred stock such that each share of Series B preferred stock is convertible into 5 shares of common stock and is entitled to receive a 6% annual dividend payable quarterly.

STOCK PURCHASE AGREEMENT - Effective May 1, 2003, the Company entered into a Stock Purchase Agreement with the shareholders of Rx Solutions, Inc. The

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Agreement provides for Parent to acquire all 1,000 shares Rx Solution's common stock. In exchange, Parent will sign a \$300,000 90-day no-interest note payable, will sign a \$600,000 five-year 7% note payable with interest-only payments for the first 24 months and will issue 720,000 shares of Series B preferred stock. The agreement also grants the Chief Executive Officer the right for 18 months to purchase up to 300,000 shares of Series B preferred stock from the shareholders of Rx Solutions, Inc. at \$2.50 per share. In connection with the agreement, the Company entered into a three-year Management Agreement with the former managers of Rx Solutions, Inc. to pay a total of \$17,000 per month plus benefits for continuing management services. The Management Agreement also provides for finder's fees and a growth bonus.

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

FORWARD-LOOKING STATEMENT NOTICE

When used in this report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and 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.

DESCRIPTION OF BUSINESS

GENERAL

American Hospital Resources, Inc. ("American Hospital Resources" 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., and 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 implemented a business plan focusing on marketing computer education programs. Later that year, the Company formed a new subsidiary, Sunset Horizon, Inc. for the purpose of merging with Ruff Network Marketing, Inc. The subsidiary, Sunset Horizon, Inc., owned the marketing rights to the computer education programs and Ruff Network Marketing, Inc. provided the marketing network. The Company was not successful in its marketing activities and in 1995 the Company sold its assets and suspended operations. In 1997 the Company sold its subsidiary and became essentially dormant from 1998 through 2000.

In 2001, the Company recommenced operations and in June of 2002, the Company finalized an Agreement and Plan of Reorganization with American Hospital Resources, Inc. Under the Agreement, American Hospital Resources Inc. became a

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wholly owned subsidiary of the Company and the Company changed its name 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 services and management.

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

NATURE OF BUSINESS

American Hospital Resources is a healthcare services company that provides pharmacy services to long-term care providers and hospitals as well as other acute care consulting and management services. We are currently focusing on the acquisition and consolidation of profitable pharmacy outsourcing businesses. These consolidated pharmacy outsourcing and materials management companies

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provide pharmacy management services and pharmaceutical supplies to acute care hospitals and long-term care facilities such as nursing homes and hospices. As part of our business strategy, we have structured a program designed to merge profitable regional pharmacy outsourcers into a national team. We believe these regional providers will benefit from the enhanced buying power and market presence of a consolidated healthcare entity.

THREE MONTH PERIODS ENDED MARCH 31, 2003 AND 2002

AMHR did not generate any revenue during the three months ended March 31, 2003. Total expenses during this period consisted of general and administrative expenses of \$86,838. These expenses included \$30,000 in executive compensation, \$47,500 for consulting and negotiation services and \$1,500 in office rental. The remaining expenses of approximately \$7,838 consisted of legal and accounting costs and other administrative expenses. AMHR did not generate any revenue during the three months ended March 31, 2002 and had general and administrative expenses of \$25,408 consisting mainly of legal, accounting and other professional expenses. The company also had interest expenses of \$596 during the three months ended March 31, 2002. As a result of these factors, AMHR realized a net loss of \$86,838 during the first three months of fiscal 2003 and a net loss of \$26,004 during the comparable period in 2002.

Higher general and administrative expenses in 2003 are largely attributable to professional and consulting costs associated with implementing our business plan and the acquisition of American Hospital Resources in the summer of 2002.

LIQUIDITY AND CAPITAL RESOURCES

Total assets at March 31, 2003 were \$1,371,642. Assets primarily consisted of \$1,059,609 in deferred stock offering costs, \$250,000 in deferred acquisition costs and \$60,321 in goodwill. AMHR also had \$1,645 in property and equipment. Total current assets during this period consisted of \$67 in prepaid expenses. At December 31, 2002, current assets were \$51,854 consisting of \$6,779 in cash, \$15,000 in an advance due from NIPSI and prepaid expenses of \$30,075. We also had property and equipment of \$1,743. Other assets at December 31, 2002 consisted of \$60,321 in goodwill and \$1,059,424 in deferred stock offering costs.

Current liabilities at March 31, 2003 totaled \$1,223,628 consisting of \$1,081,695 in accounts payable, \$112,841 in accrued expenses, \$24,298 in an unsecured deposit from NIPSI and a bank overdraft of \$4,794. Liabilities at December 31, 2002 were \$1,198,090 consisting of \$1,088,150 in accounts payable and \$109,940 in accrued expenses. Accounts payable during both periods

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consisted mainly of unpaid fees relating to securing a \$10,000,000 equity line of credit with Cornell Capital LP. Accrued expenses during both periods were primarily due to accrued salaries and unpaid executive compensation.

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 generate sufficient operating capital through the continued implementation of our business plan and anticipated cash collections from accounts receivable. 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. Other than as discussed in this report, we have no material commitments for capital expenditures.

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PLAN OF OPERATION

Since acquiring our subsidiary and implementing our business plan, we have been actively engaged in identifying pharmaceutical and healthcare companies to join our healthcare network. During the past year we identified three companies that we thought would be suitable for potential acquisition and/or management opportunities. In December of 2002 we reported on Form 8-K an agreement to acquire the assets of NIPSI Healthcare of Houston LP and its general partner. We operated the assets of NIPSI for approximately three months from December of 2002 through February of 2003. In March of 2003 we returned the assets after learning that AmerisourceBergen Corporation had a prior claim on NIPSI's assets. Subsequent to the date of this report, in April of 2003, a Texas State court entered a default judgment against NIPSI and voided the agreement.

We intend to continue seeking suitable healthcare and pharmaceutical companies for potential acquisition, consulting or management opportunities. Subsequent to the date of this report, in May of 2003, we finalized a stock purchase and management agreement with Rx Solutions, Inc. The agreement documents are filed as an exhibit to this report. We are currently negotiating to acquire the assets of Coastalmed Inc. and Coastalmed of Panama City, Inc. Although we have been actively engaged in negotiations, the proposed acquisition has not been finalized at the date of this report. Our capital requirements may change dramatically if the proposed transaction is consummated.

ITEM 3. CONTROLS AND PROCEDURES

Within the 90-day period prior to the date of this report, we evaluated the effectiveness and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective. There have been no significant changes in internal controls or other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

In January of 2003, the Board of Directors authorized the issuance of 1,000,000 shares valued at \$250,000 or \$.25 per share. The shares were issued as an inducement to acquire Coastalmed, Inc. and its affiliated company. The

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securities were issued 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 February 2003, we issued 40,000 shares of previously authorized but unissued common stock to an accredited investor for \$10,000 or \$.25 per share. The securities were sold in a private transaction without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. The investor had a pre-existing relationship with American Hospital Resources and had access to all material information pertaining to the Company's financial condition. No broker was involved and no commissions were paid in the transaction.

In February 2003, the Board of Directors authorized the issuance of 720,000 shares of common stock to four individuals for ongoing legal and consulting services. At the date of this report, none of these shares have been issued. We intend to register the share on Form S-8.

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On December 31, 2002, AMHR issued 2,600,000 shares of its previously authorized but unissued 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. The securities 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.

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. The 2003 stock bonus pool consists of 1,000,000 warrants to purchase common stock at \$.25 per share. The warrants are issued at the discretion of the Board of Directors. On December 31, 2002, AMHR granted 300,000 warrants to purchase common stock to directors and consultants as payment for prior services collectively valued at \$19,577 or approximately \$.065 per warrant. At March 31, 2003, AMHR had 2,020,000 outstanding options, 300,000 outstanding warrants and preferred stock convertible into 13,000,000 shares of common stock. At the date of this report, no warrants have been exercised.

On October 31, 2002, the Company signed an Offer to Purchase with Coastalmed Inc. and Coastalmed of Panama City, Inc. The offer called for AMHR to purchase all of the assets of Coastalmed Inc. and Coastalmed of Panama City, Inc. for \$7,000,000 payable as \$4,000,000 cash, \$1,375,000 as a five-year, 6.5% note payable with interest-only payment for the first 18 months and \$1,625,000 as 6% convertible preferred stock with dividends payable quarterly. The original offer expired in November of 2002. Subsequent to the date of this report, in January of 2003, AMHR signed a revised offer to purchase 100% of the stock of Coastalmed Inc. and Coastalmed of Panama City, Inc. for \$8,400,000 payable as \$4,900,000 cash, \$1,625,000 as a five-year, 6.5% note payable with interest-only payment for the first 18 months and \$1,875,000 as series B preferred stock. In January of 2003, AMHR issued 1,000,000 shares of common stock as an enticement on the offer to purchase the Coastalmed stock. The securities were issued 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.

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

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and November 1, 2005. The securities 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. No shares have been purchased under the option as of the filing date of this report.

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. The securities were sold in a private transaction without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. The investors had pre-existing relationships with American Hospital Resources and had access to all material information pertaining to the Company's financial condition. No broker was involved and no commissions were paid in the transaction.

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. The securities were sold in a private transaction without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. The investor had a pre-existing relationship with American Hospital Resources and had access to all material information pertaining to the Company's financial condition. No broker was involved and no commissions were paid in the transaction.

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Subsequent to the date of this report, in April of 2003, we issued 47,000 shares of previously authorized but unissued Class A preferred stock to an accredited investor for cash of \$23,500 or \$.50 per share. Each share of Class A preferred stock may be converted to 5 shares of common stock. The securities were sold in a private transaction without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. The investor had a pre-existing relationship with American Hospital Resources and had access to all material information pertaining to the Company's financial condition. No broker was involved and no commissions were paid in the transaction.

Subsequent to the date of this report, in May of 2003, the Board of Directors cancelled 720,000 shares of Class A preferred stock and authorized the issuance of 720,000 shares of Class B preferred stock as part of a transaction to acquire the assets of Rx Solutions, Inc. Each Class B preferred share is convertible into five shares of common stock and is entitled to receive a 6% annual dividend payable quarterly. The securities were sold in a private transaction without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. The investor had a pre-existing relationship with American Hospital Resources and had access to all material information pertaining to the Company's financial condition. No broker was involved and no commissions were paid in the transaction.

ITEM 5. OTHER INFORMATION

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In October of 2002 we began renting office space from our current president for \$500 per month. Rents paid from January 1, 2003 through March 31, 2003 were \$1,500.

On September 15, 2002, AMHR signed a Purchase and Sale Agreement with Gaelic Capital Group, an entity controlled by our president, Mr. Christopher Wheeler. Under the Agreement, AMHR paid Gaelic \$94,500 for the rights to receive 6% of the sale price of the peripheral assets of Parkview Community Hospital Medical Center. During the year ended December 31, 2002, AMHR received no revenues

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under the Agreement. At March 31, 2003, AMHR was still owed \$225,900 under the agreement, however, Parkview is currently undergoing bankruptcy reorganization and recovery of the assets is uncertain.

SUBSEQUENT EVENTS: ACQUISITION OF RX SOLUTIONS, INC.

On May 8, 2003 AMHR finalized a Stock Purchase Agreement to acquire and operate Rx Solutions, Inc., a Mississippi healthcare corporation. The agreement is effective as of May 1, 2003. As a result of this transaction, Rx Solutions became a wholly owned subsidiary of AMHR. Mr. Christopher Wheeler represented AMHR in the transaction and Rx Solutions was represented by its two shareholders, Mr. Danny Myers and Mr. Robert Lang. Prior to the acquisition, there were no material relationships between Mr. Wheeler and the shareholders of Rx Solutions.

Under the Agreement, AMHR acquired 1,000 shares of Rx Solutions common stock representing all of the issued and outstanding shares of Rx Solutions. In exchange, AMHR issued 720,000 shares of AMHR Class B preferred stock and short and long term notes totaling \$900,000 to the Rx Solutions shareholders. A summary of the terms follows:

- The \$300,000 short-term note matures on August 8, 2003. Any unpaid balance after August 8, 2003 is subject to an 18% interest rate.
- The long term notes are payable to Mr. Lang and Mr. Myers, the two shareholders of Rx Solutions. Mr. Myers received a note for \$306,000 and Mr. Lang received a note for \$294,000. The notes accrue interest at 7% per annum and mature on June 1, 2008.

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- Each share of AMHR Class B preferred stock is convertible to five shares of AMHR common stock. The Class B stock is also entitled to receive a 6% annual dividend payable quarterly. Mr. Christopher Wheeler, the Chief Executive Officer of AMHR, has the right to repurchase up to 300,000 shares of Class B preferred stock at \$2.50 per share within 18 months of closing.

Concurrent with the acquisition, AMHR entered into three-year management contracts with the two shareholders of Rx Solutions. Mr. Myers and Mr. Lang will each receive an \$8,500 monthly salary and be eligible for growth bonuses in exchange for managing the operations of Rx Solutions.

At closing, there are 8,654,000 shares of no par value AMHR common stock issued and outstanding. In addition, AMHR has 1,927,000 shares of no par value Class A preferred stock and 720,000 shares of no par value Class B preferred stock issued and outstanding.

DESCRIPTION OF THE BUSINESS

AMHR is a healthcare services company based in Santa Ana, California that incorporated in Utah on May 9, 1972. AMHR provides hospital and acute care consulting and management services including crisis management, financial restructuring, and pharmaceutical outsourcing. The Company is currently focusing on acquiring and consolidating profitable pharmacy outsourcing and materials management businesses. These companies provide pharmacy management services and pharmaceutical supplies to acute care hospitals and long-term care facilities such as nursing homes and hospices.

Rx Solutions, Inc. provides licensed pharmaceutical goods and services to

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residents and patients of long-term care facilities in the states of Mississippi and Alabama. These services include providing pharmaceuticals and medical supplies, medical records support and pharmacy consulting services. According to their audited financial statements, at December 31, 2002, Rx Solutions had total assets of \$646,297 and total liabilities of \$587,919. Net income for Rx Solutions during 2002 was \$284,166.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

| EXHIBIT NUMBER | TITLE | LOCATION |
|----------------|--|----------|
| 2.0 | Rx Solutions Stock Purchase Agreement. | Attached |
| 10.1 | Rx Solutions Management Agreement. | Attached |
| 10.2 | Rx Solutions Short-Term Promissory Note. | Attached |
| 10.3 | Long Term Promissory Note Payable to Danny Myers | Attached |
| 10.4 | Long Term Promissory Note Payable to Robert Lang | Attached |
| 99.0 | Audited Financial Statements of Rx Solutions, December 31, 2002 * . . | Attached |
| 99.1 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Attached |
| 99.2 | Certification of Chief Financial Officer and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Attached |