

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

AMERICAN LEISURE HOLDINGS, INC.
Form 10QSB
May 22, 2006

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2006

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

For the transition period from _____ to _____

Commission file number 333-48312

AMERICAN LEISURE HOLDINGS, INC.

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

Nevada

75-2877111

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

2460 Sand Lake Road, Orlando, FL 32809

(Address of principal executive offices)

(407)-251-2240

(Registrant's telephone number)

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

As of May 16, 2005, 10,642,974 shares of Common Stock of the issuer were outstanding ("Common Stock"), which amount does not include 850,000 shares of common stock held by our Director, William Chiles, which original 850,000 shares held by Mr. Chiles were reissued to Mr. Chiles into a greater number of share certificates in smaller amounts, but which original shares have not been cancelled by our Transfer Agent. We are currently in the process of cancelling the original 850,000 shares issued to Mr. Chiles, at which time Mr. Chiles will beneficially own a total of 850,000 shares of our common stock.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2006 AND YEAR ENDED DECEMBER 31, 2005

	MARCH 31, 2006	DECEMBER 31, 2005
	UNAUDITED	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 335,416	\$
Cash - Restricted	21,249,358	
Accounts receivable, net	1,080,412	
Other receivable	5,788,553	
Prepaid expenses and other	90,894	
Total Current Assets	28,544,633	
PROPERTY AND EQUIPMENT, NET	4,198,657	
LAND HELD FOR DEVELOPMENT	49,312,308	
OTHER ASSETS		
Prepaid Sales Commissions	8,742,733	
Prepaid Sales Commissions - affiliated entity	3,469,838	
Investment-Senior Notes	5,170,000	
Goodwill	5,925,437	
Trademark	968,750	
Other	3,747,452	
Total Other Assets	28,024,210	
TOTAL ASSETS	\$ 110,079,808	\$
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and notes payable	\$ 18,117,620	\$
Current maturities of notes payable-related parties	1,095,541	
Accounts payable and accrued expenses	3,800,767	
Accrued expenses - officers	3,705,500	
Other	109,338	
Total Current Liabilities	26,828,766	
Long-term debt and notes payable	36,360,032	
Put liability	985,000	
Deposits on unit pre-sales	38,068,034	

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Total liabilities	102,241,832	
Commitments and contingencies	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock; 1,000,000 shares authorized; \$.001 par value; 1,000,000 Series "A" shares issued and outstanding at March 31, 2006 and December 31, 2005	10,000	
Preferred stock; 100,000 shares authorized; \$.01 par value; 2,825 Series "B" shares issued and outstanding at March 31, 2006 and December 31, 2005	28	
Preferred stock, 28,000 shares authorized; \$.01 par value 27,189 Series "C" shares issued and outstanding at March 31, 2006 and December 31, 2005	272	
Preferred stock; 50,000 shares authorized; \$.001 par value; 24,101 Series "E" shares issued and outstanding at March 31, 2006 and December 31, 2005	24	
Preferred stock; 150,000 shares authorized; \$.01 par value; 0 and 0 Series "F" shares issued and outstanding at March 31, 2005 and December 31, 2005	-	
Common stock, 6.001 par value; 100,000,000 shares authorized; 10,642,974 shares issued and outstanding at March 31, 2006 and 10,334,974 shares issued and outstanding at December 31, 2005	10,643	
Additional paid-in capital	20,173,901	
Accumulated deficit	(12,356,892)	
Total Stockholders' Equity	7,837,976	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 110,079,808	\$

See accompanying notes to financial statements.

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2006 AND 2005

	THREE MONTHS ENDED MARCH 31, 2006 ----- UNAUDITED	THREE MONTHS ENDED MARCH 31, 2005 ----- UNAUDITED
Revenue		
Operating Revenues	\$ 1,662,295	\$ 1,605,754
Undeveloped Land Sales	13,129,246	4,132,911
	-----	-----
Total Revenue	14,791,541	5,738,665
Cost of Undeveloped Land Sales	(9,796,634)	(3,062,991)
	-----	-----
Gross Margin	4,994,907	2,675,674
Operating Expenses:		

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Depreciation and amortization	(415,372)	(431,382)
General and administrative expenses	(2,259,945)	(2,405,156)
	-----	-----
Income (Loss) from Operations	2,319,590	(160,864)
	-----	-----
Interest Expense	(1,240,148)	(393,319)
Equity in operations of unconsolidated affiliate	64,484	-
	-----	-----
Total Other Income (Expense)	(1,175,664)	(393,319)
	-----	-----
Income (Loss) before Income Taxes	1,143,926	(554,183)
PROVISIONS FOR INCOME TAXES	(1,399)	-
	-----	-----
NET INCOME (LOSS)	\$ 1,142,527	\$ (554,183)
	=====	=====
NET INCOME (LOSS) PER SHARE:		
BASIC AND DILUTED	\$ 0.07	\$ (0.09)
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC AND DILUTED	10,620,530	9,977,974
	=====	=====

See accompanying notes to financial statements.

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2006 AND 2005

	THREE MONTHS ENDED MARCH 31, 2006	THR M
	----- UNAUDITED	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 1,142,527	
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	415,372	
Interest Expense	1,240,148	
Non-cash warrant compensation	110,253	
Changes in assets and liabilities:		
Increase in restricted cash	(8,074,004)	
Decrease in receivables	962,729	
Decrease (Increase) in prepaid and other assets	1,348,704	
Increase in prepaid commissions	(925,413)	
Increase (Decrease) in shareholder advances & notes payable	(172,560)	
Increase (Decrease) in deposits on unit pre-sales	401,666	
Decrease (Increase) in customer deposits	-	
Decrease (Increase) in accounts payable and accrued expenses	153,841	

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Net cash used in operating activities	(3,396,737)

CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of fixed assets	(30,176)
Property sold	9,130,972
Capitalization of real estate carrying costs	(10,361,734)

Net cash used in investing activities	(1,260,938)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from Debt	-
Payment of debt	(129,181)
Proceeds from notes payable	4,896,909
Proceeds from exercise of warrants	308
Payments of notes payable - related parties	-

Net cash provided by financing activities	4,768,036

Net decrease in cash	8,184,365

CASH AT BEGINNING PERIOD	225,055

CASH AT END OF PERIOD	\$ 335,416
	=====
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for interest	\$ 5,829
	=====
Cash paid for income taxes	\$ -
	=====
SUPPLEMENTAL DISCLOSURE OF NON CASH TRANSACTION:	
Purchase of land held for development for notes payable	\$ 13,386,265
	=====

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006
(Unaudited)

NOTE A - PRESENTATION

The balance sheets of the Company as of March 31, 2006 and December 31, 2005, the related consolidated statements of operations for the three months ended March 31, 2006 and 2005, and the consolidated statements of cash flows for the three months ended March 31, 2006 and 2005, (the financial statements) include all adjustments (consisting of normal, recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results of operations for the full year or any other interim period. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and restated Financial Statements and notes thereto included in the Company's December 31, 2005, Form 10-KSB and the Company's Forms 8-K & 8-K/A filings.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

NOTE B - REVENUE RECOGNITION

American Leisure recognizes revenues on the accrual method of accounting. For the sales of units on the Orlando property and other property sales, revenues will be recognized upon the Orlando property and other property sales, upon the close of escrow for the sales of its real estate.

Revenues from travel, call center and other segments are recognized as earned, which is primarily at the time of delivery of the related service, publication or promotional material. Costs associated with the current period are expensed as incurred; those costs associated with future periods are deferred.

Costs associated with the acquisition and development, architectural and engineering costs of vacation resorts, including carrying costs such as interest and taxes, are capitalized as land held for development and will be allocated to cost of real estate sold as the respective revenues are recognized.

NOTE C - PROPERTY AND EQUIPMENT, NET

As of March 31, 2006, property and equipment consisted of the following:

	Useful Lives	Amount
	-----	-----
Equipment	3-5	\$7,642,255
Furniture & fixtures	5-7	1,559,375

Subtotal		9,201,630
Less: accumulated depreciation and amortization		5,002,973

Property and equipment, net		\$4,198,657
		=====

Depreciation expense for the three-month period ended March 31, 2006 amounts to \$415,372.

NOTE D - NOTES PAYABLE - RELATED PARTIES

The Current maturities of notes payable - related parties is as follows:

Xpress Ltd	\$ 174,433
Officers of Hickory Travel Services	429,445
Malcolm Wright	167,401
Peter Webb	124,262
Shareholders of Hickory Travel Services	180,000
Others	20,000

Notes payable - related parties	\$1,095,541
	=====

The current portion of notes payable includes amounts owed to the officers of Hickory Travel Systems, Inc., a subsidiary of the Company in the amount of \$429,445. \$131,945 of such amount is owed to L. William Chiles, a Director of the Company.

Included in Long-term debt and notes payable are debts and notes payable to the following related parties:

Officers of Hickory Travel Services	\$378,670

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Related party debt and notes	\$378,670
	=====

The long-term portion of notes payable includes amounts owed to the officers of Hickory Travel Systems, Inc., a subsidiary of the Company in the amount of \$378,670. \$93,670 of such amount is owed to L. William Chiles, a Director of the Company.

NOTE E - RELATED PARTY TRANSACTIONS

The Company accrues salaries payable to Malcolm Wright in the amount of \$500,000 per year (and \$250,000 per year in 2002 and 2003) with interest at 12%. As of March 31, 2006, the amount of salaries payable accrued to Mr. Wright amounts to \$2,900,000 plus accrued interest on those salaries of \$558,000.

The Company accrued director fees to each of its four (4) directors in an amount of \$18,000 per year for their services as directors of the Company. No payments of director fees were paid during the current quarter and the balance of accrued director fees as of the end of the quarter covered by this report amounts to \$195,000.

Malcolm Wright is the majority shareholder of American Leisure Real Estate Group, Inc. (ALRG). On November 3, 2003 TDSR entered into an exclusive Development Agreement with ALRG to provide development services for the development of the Tierra Del Sol Resort. Pursuant to the Development Agreement ALRG is responsible for all development logistics and TDSR is obligated to reimburse ALRG for all of ALRG's costs and to pay ALRG a development fee in the amount of 4% of the total costs of the project paid by ALRG. During the period from inception through March 31, 2006 the total costs plus fees amounted to \$19,829,898.

A trust for the natural heirs of Malcolm Wright is the majority shareholders of Xpress Ltd. ("Xpress"). On November 3, 2003, TDSR entered into an exclusive sales and marketing agreement with Xpress to sell the units being developed by TDSR. This agreement provides for a sales fee in the amount of 3% of the total sales prices received by TDSR payable in two installments: one-half of the fee is paid when the rescission period has elapsed in a unit sales agreement and one-half is paid upon the conveyance of the unit. The agreement also provides for a marketing fee of 1.5% of the total sales prices received by TDSR. The marketing fee is paid when the first segment of the sales fee is paid. During the period since the contract was entered into and ended March 31, 2006 the total sales amounted to approximately \$231,322,549. As a result of the sales, TDSR was obligated to pay Xpress a fee of \$6,939,677, consisting of one-half of the sales fee and the full amount of the marketing fee. As of March 31, 2006, \$6,765,244 has been paid to Xpress and \$174,433 remains unpaid and is included in current maturities of notes payable - related parties (see Note D regarding Notes payable - Related parties). Based on the sales contracts as of March 31, 2006, TDSR will be obligated to pay Xpress \$3,469,838, the other half of the sales fee, upon the conveyance of the units.

NOTE F - NET INCOME (LOSS) PER SHARE

Dividends have not been declared on the Company's cumulative preferred stock. The accumulated dividends are deducted from Net Loss to arrive at Net income (loss) per share as follows:

Description	Three months	Three months
-------------	--------------	--------------

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

	ended 3/31/2006 -----	ended 3/31/2005 -----
NET INCOME (LOSS)	\$ 1,142,527	\$ (554,183)
UNDECLARED PREFERRED STOCK DIVIDEND	(355,005) -----	(350,890) -----
NET LOSS AFTER PREFERRED STOCK DIVIDEND	\$ 787,522 =====	\$ (905,073) =====
NET INCOME (LOSS) PER SHARE BASIC AND DILUTED	0.07	(0.09)

NOTE G - SHARES FOR SERVICES

In December 2004, FASB issued a revision to SFAS 123 (also known as SFAS 123R) that amends existing accounting pronouncements for share-based payment transactions in which an enterprise receives employee and certain non-employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB 25 and generally requires such transactions be accounted for using a fair-value-based method. SFAS 123R's effective date would be applicable for awards that are granted, modified, become vested, or settled in cash in interim or annual periods beginning December 15, 2005. SFAS 123R includes three transition methods: a prospective method, a modified prospective method and a retroactive method. The Company adopted SFAS 123R in the first quarter of the fiscal year ending December 31, 2006.

In accordance with SFAS No. 123R we have recorded approximately \$110,000 as stock based compensation under the fair value method for the three months ended March 31, 2006. There was no proforma stock based compensation under the fair value method for the three months ended March 31, 2005.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free rate of 3.5%; volatility of 131% for 2006 and 196% for 2005 with no assumed dividend yield; and expected lives of five years.

During the three months ended March 31, 2006, the Company issued 200,000 warrants to two executives of the Company (100,000 to Michael Crosbie as Corporate General Counsel, Executive Vice President and Secretary of the Company and 100,000 to Jeff Scott as President of Hickory Travel Services); for each executive, 50,000 were immediately vested and the other 50,000 will vest in equal amounts in the next two years. In addition, 450,000 warrants were issued to Malcolm Wright for debt guarantees relating to the acquisition of land held for development during the three months ended March 31, 2006. As of March 31, 2006, there were 4,933,096 warrants outstanding to officers and directors and 2,191,000 warrants outstanding to third parties for a total outstanding of 7,124,096. In January 2006, 308,000 warrants were exercised of the Company's common stock at \$.001 per share which increased the common stock outstanding to 10,642,974 shares and resulted in the Company receiving \$10,643.

NOTE H - OPERATING SEGMENTS

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

The Company has adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". At March 31, 2006, the Company's three business units have separate management teams and infrastructures that offer different products and services. The business units have been aggregated into three reportable segments.

Tierra Del Sol, Inc. is planning to construct a 972-unit resort in Orlando, Florida on 122 acres of undeveloped land. Development is scheduled to commence in the summer of 2006. Presales commenced in February 2004.

American Leisure operates a call center and revenues are recognized upon the completion of the earning process from the completion of the travel of the customer, the trip to the properties for the potential purchase, or the appropriate event based on the agreement with American Leisure's client as to the ability to be paid for the service.

Travel Unit ("Travel") provides travel related services.

For the three months ending March 31, 2006:

In (000's)	Real Estate	Call Center	Travel	Elim.	Consol.
Revenue	\$ 13,493	\$ 64	\$ 1,285	\$ (50)	\$ 14,792
Segment income (loss)	\$ 2,304	\$ (125)	\$ (369)	\$ (667)	\$ 1,143
Total Assets	\$ 96,142	\$ 2,755	\$ 11,505	\$ (322)	\$ 110,080
Capital					
Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 186	\$ 162	\$ 67	\$ -	\$ 415

For the three months ending March 31, 2005:

In (000's)	Real Estate	Call Center	Travel	Elim.	Consol.
Revenue	\$ 4,279	\$ -	\$ 1,460	\$ -	\$ 5,739
Segment income (loss)	\$ 26	\$ (240)	\$ (340)	\$ -	\$ (554)
Total Assets	\$ 65,521	\$ 3,380	\$ 16,000	\$ (18,293)	\$ 66,608
Capital					
Expenditures	\$ -	\$ 1	\$ 3	\$ -	\$ 4
Depreciation	\$ 181	\$ 162	\$ 88	\$ -	\$ 431

The Company evaluates the performance of its operating segments based on income before net interest expense, income taxes, depreciation and amortization expense, accounting changes and non-recurring items.

NOTE I - RECLASSIFICATIONS

Certain amounts in the 2005 financial statements have been reclassified to conform with the 2006 financial statement presentation.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

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

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-QSB (THIS "FORM 10-QSB"), CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF AMERICAN LEISURE HOLDINGS, INC. ("AMLH", "AMERICAN LEISURE," "THE COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-QSB, UNLESS ANOTHER DATE IS STATED, ARE TO MARCH 31, 2006.

BUSINESS HISTORY

We were incorporated in Nevada in June 2000 as "Freewillpc.com, Inc.," and until June 2002, operated as a web-based retailer of built-to-order personal computers and brand name related peripherals, software, accessories and networking products. In June 2002, we acquired American Leisure Corporation, Inc. ("American Leisure Corporation"), in a reverse merger (discussed below). We re-designed and structured our business to own, control and direct a series of companies in the travel and tourism industries so that we can achieve vertical and horizontal integration in the sourcing and delivery of corporate and vacation travel services.

On June 14, 2002, we entered into a stock purchase agreement with the former stockholders of American Leisure Corporation, in connection with the acquisition of American Leisure Corporation, pursuant to which we issued the former stockholders of American Leisure Corporation 4,893,974 shares of our common stock and 880,000 shares of our Series A preferred stock having 10 votes per share. As part of this transaction, Vyrtext Limited, a UK company, which owned 3,830,000 shares of our common stock, surrendered 3,791,700 of the 3,830,000 shares owned by them. The transaction was treated as a reverse merger and a re-capitalization of American Leisure Corporation, which was considered the accounting acquirer. The operations of Freewillpc.com prior to the transaction were not carried over and were adjusted to \$0. Effective July 24, 2002, we changed our name to American Leisure Holdings, Inc.

We are in the process of developing a large, multi-national travel services, travel management and travel distribution organization. We have established a Travel Division, a Resort Development Division and a Communications Division. Through our various subsidiaries, we manage and distribute travel services, and develop, construct and will manage vacation home ownership and travel destination resorts and properties, develop and operate affinity-based travel clubs and own a call center in Antigua-Barbuda. Our businesses are intended to complement each other and create cross-marketing opportunities within our business. We intend to take advantage of the synergies between the distribution of travel services and the development, marketing, sale and management of vacation home ownership and travel destination properties.

On October 1, 2003, we acquired a 50.83% majority interest in Hickory Travel Systems, Inc. ("Hickory" or HTS") as the first building block of our Travel Division. Hickory is a travel management service organization that serves its network/consortium of approximately 160 well-established travel agency members, comprised of over 3,000 travel agents worldwide that focus primarily on

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

corporate travel. We intend to complement our other businesses through the use of Hickory's 24-hour reservation services, international rate desk services, discount hotel programs, preferred supplier discounts, commission enhancement programs, marketing services, professional services, automation and information exchange. We view the members of Hickory as a resource for future acquisitions of viable travel agencies as we intend to continue to add well-positioned travel agencies to our Travel Division.

In December 2004, Caribbean Leisure Marketing, Ltd. ("Caribbean Leisure Marketing"), a wholly owned subsidiary of our company that is focused on telecommunications, entered into a joint venture with IMA Antigua, Ltd. to operate a call center in Antigua that Caribbean Leisure Marketing owns. The joint venture is operated through Caribbean Media Group, Ltd., an international business corporation formed under the laws of Barbados. We own 49% of Caribbean Media Group, Ltd., which is currently operating the call center. Our co-venturer, IMA, Ltd. owns the remaining 51%.

On December 31, 2004, American Leisure Equities Corporation ("ALEC"), one of our wholly owned subsidiaries, acquired substantially all of the assets of Around The World Travel, Inc. ("Around The World Travel" or "AWT") which included all of the tangible and intangible assets necessary to operate the business including the business name "TraveLeaders". We engaged Around The World Travel to manage the assets and granted Around The World Travel a license to use the name "TraveLeaders". TraveLeaders is a fully-integrated travel services distribution business that provides its clients with a comprehensive range of business and vacation travel services in both traditional and e-commerce platforms including corporate travel management, leisure sales, and meeting, special event and incentive planning. TraveLeaders is based in Coral Gables, Florida.

Except as expressly indicated or unless the context otherwise requires, "we," "our," or "us" means American Leisure Holdings, Inc. and its subsidiaries.

BUSINESS INTEGRATION

Our mission is to Develop Resort Properties in areas which we believe have good year round occupancy levels and then to manage the completed Resort Property and distribute its room nights through our multi-national travel services, travel management and travel distribution organization. We are focused on the development, construction and management of vacation homes and vacation condominiums in Vacation Travel Destination Resorts and as such have completed the planning stage for "The Sonesta Orlando Resort at Tierra Del Sol" (the "Sonesta Resort"), a planned 972-unit vacation home resort located just 10 miles from Walt Disney World, in Orlando, Florida. Additionally, we are in the planning stages of developing our Reedy Creek Property, which is situated in the northwest section of Osceola County, Florida about one mile from the "Maingate" entrance to Walt Disney World, Orlando and 0.75 miles from the entrance to "Disney's Animal Kingdom" theme park. The Reedy Creek Property consists of three parcels totaling over 40 gross acres with approximately 29 acres of buildable land. The Reedy Creek Property is currently planned to consist of approximately 522 residential units consisting of mid-rise condominium buildings.

We are also in the process of integrating the administrative operations of Hickory and TraveLeaders to distribute, fulfill and manage our travel services and our Resort Properties which integration, we anticipate completing during fiscal year 2006.

Our business model for support between our divisions is to use the travel

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

distribution, fulfillment and management services of the combined resources of Hickory and TraveLeaders to provide consumer bookings at our planned resorts, to rent vacation homes that we plan to manage at these resorts, and to fulfill the travel service needs of our affinity-based travel clubs. We intend to complement our other businesses through the use of Hickory's 24-hour reservation services, international rate desk services, discount hotel programs, preferred supplier discounts, commission enhancement programs, marketing services, professional services, automation and information exchange. TraveLeaders is a fully integrated travel services distribution business that provides its clients with a comprehensive range of business and vacation travel services in both traditional and e-commerce platforms including corporate travel management, leisure sales, and meeting, special event and incentive planning. TraveLeaders currently fulfills travel orders produced by our affinity travel clubs.

During the quarter ended March 31, 2006, we received the majority of our operating revenues through the operations of Hickory which manages and distributes travel services, which accounted for approximately 70% of our operating revenues for the quarter ended March 31, 2006. Additionally, we had undeveloped land sales of \$13,129,246, which were generated by Tierra del Sol in connection with the sale of forty-two acres of land in the Sonesta Resort for \$9,090,130 to the Westridge Community Development District ("District") and an additional \$4,039,116, which was received from the District in connection with reimbursements for site improvements on the land purchased by the District.

RECENT EVENTS

On January 9, 2006, with an effective date of June 14, 2002, the Company entered into an Amended Debt Guarantor Agreement ("Amended Debt Agreement") with Malcolm J. Wright, its Chief Executive Officer and Chairman and L. William Chiles, a Director of the Company (collectively, Mr. Wright and Mr. Chiles are referred to herein as the "Guarantors"). Pursuant to the Amended Debt Agreement, the Company and the Guarantors agreed to amend the terms of the prior Debt Guarantor Agreement entered into between the parties. The original Debt Guarantor Agreement provided for the Guarantors to receive warrants to purchase shares of the Company's common stock at \$2.96 per share in an amount equal to 3% of any Company indebtedness that they personally guarantee. The Amended Debt Agreement decreased the exercise price of the warrants to be issued in connection with any of the Guarantor's guarantees to \$1.02 per share (the "Guarantor Warrants"). Under the Amended Debt Agreement, the warrants issued to the Guarantors are exercisable until five years after the date the Guarantor is no longer obligated to personally guarantee such Company indebtedness.

Additionally, under the Amended Debt Agreement, the fee which the Guarantors receive for a pledge of personally owned collateral to secure Company indebtedness was increased from 1% of such total indebtedness guaranteed (as was provided under the original Debt Guarantor Agreement), to 2% of the total amount of indebtedness guaranteed. The 2% fee is paid to the Guarantors in Guarantor Warrants with the same terms and conditions as provided above.

We also entered into a Third Party Debt Guarantor Agreement (the "3rd Party Guarantor Agreement") on March 20, 2006, with an effective date of June 14, 2002, which provided for fees identical to those which are provided to Mr. Wright and Mr. Chiles pursuant to the Amended Debt Agreement, described above, to be issued to certain third parties who guarantee the indebtedness of the Company.

SETTLEMENT AGREEMENT WITH AROUND THE WORLD TRAVEL

On or about November 14, 2005, the Company and ALEC asserted certain claims

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

against AWT with respect to the alleged breach of the Asset Purchase Agreement and a Management Agreement (the "Management Agreement"). The claimed breach of the Management Agreement was the failure of AWT to pay withholding taxes for its employees to the Internal Revenue Service. After negotiations among the parties, the parties agreed to settle the claims made by the Company and ALEC regarding the Asset Purchase Agreement pursuant to the terms of a Settlement Agreement entered into on February 24, 2006, and effective as of December 31, 2005 (the "Settlement Agreement"). The claimed breach of the Management Agreement remains unsettled pending the good faith efforts of AWT to completely fund its tax deposit obligations.

The Settlement Agreement provides that the purchase price under the Amended Purchase Agreement will be reduced from \$17,500,000 to \$9,000,000. The parties agreed to implement the reduction of the purchase price by eliminating the remaining balance of the Purchaser Note approximately \$5,297,788 and by establishing an obligation of AWT to pay to ALEC the amount of \$3,185,548, which is payable on demand.

Under the terms of the Settlement Agreement, the Company, ALEC and AWT agreed to release each other (and their respective officers and directors) from all claims based upon the Asset Purchase Agreement. Additionally, the parties agree to waive any right to indemnity or contribution which they may have against each other (and their respective officers and directors) for any liability which they might incur to certain plaintiff's in certain pending litigation including Simon Hassine and Seamless Technologies, provided that the waiver does not cover any liability incurred by the releasing party that is attributable to any act or omission of the released party that constitutes bad faith or is not known to the releasing party.

SONESTA RESORT FINANCING

On December 29, 2005, certain affiliates of the Company closed two (2) credit facilities with Key Bank, National Association ("KeyBank") related to the Sonesta Resort. The credit facilities consisted of a \$40,000,000 revolving construction loan to be used to construct Phase 1 of the Sonesta Resort (the "Construction Loan") and a \$14,850,000 term loan on the Phase 2 land the

proceeds of which were contributed to the Phase 1 partnership as equity and used to repay existing debt on the property and finance part of the site work of the property for the Resort and to pay certain related costs (the "Land Loan"). To facilitate the financing for the Sonesta Resort, the Company has formed two limited partnerships, each of which will develop Phase 1 and Phase 2 of the Resort (the "Development Partnerships"). Each Development Partnership has several subsidiaries, which have been formed to develop different portions of the Sonesta Resort.

Phase 1 will also include construction of related amenities, including a swimming pool complex and sun decks, a lazy river, a poolside restaurant and other amenities typical of a resort of this kind. Phase 2 will include construction of 252 additional residential condominium units and 426 additional town home units, as well as a 126,000 square foot clubhouse (84,000 square feet under air). Construction of Phase 2 is expected to overlap with the construction of Phase 1.

The general partner of each Development Partnership is TDS Management LLC, a newly organized limited liability company controlled by Malcolm J. Wright, the Company's Chairman, Chief Executive Officer, Chief Financial Officer and a Director. The principal limited partner of each Development Partnership is Tierra Del Sol, which owns a 99.9% interest in each Development Partnership. The Company owns 100% of Tierra Del Sol Resort, Inc., as a result of the

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

transactions described below under "Recent Events."

Each Development Partnership has granted Stanford Venture Capital Holdings, Inc. ("Stanford") the right to acquire a 2% interest in each partnership in connection with the release of a mortgage lien formerly held by Stanford.

THE CONSTRUCTION LOAN

The borrowers under the Construction Loan are Tierra Del Sol Resort (Phase 1), Ltd. (the "Phase 1 Partnership") and three other special purpose entities that are owned by the Phase 1 Partnership. The Construction Loan is structured as a \$40,000,000 revolving credit facility, with maximum borrowings of up to \$72,550,000.

The interest rate on the outstanding balance of the Construction Loan is the daily London Interbank Offered Rate ("LIBOR") plus 2.75%, currently 8.16% as of May 17, 2006, with the LIBOR rate as of that date of approximately 5.41%. The term of the Construction Loan is 24 months, with a maturity date of December 28, 2007. Interest on the Construction Loan is due and payable monthly beginning on the fifth day of the first month following the closing. If an event of default occurs under the Construction Loan (as described and defined below), the interest rate then in effect will become the greater of (a) the interest rate otherwise applicable plus 3%; or (b) 18%.

The Construction Loan is secured by a first lien on the land within Phase 1 of the Sonesta Resort, including any improvements, easements, and rights of way; a first lien and security interest in all fixtures and personal property, an

assignment of all leases, subleases and other agreements relating to the property; an assignment of construction documents; a collateral assignment of all contracts and agreements related to the sale of each condominium unit; a collateral assignment of all purchase deposits and any management and/or operating agreement.

The borrowers will be able to draw amounts under the Construction Loan upon the fulfillment of various conditions. One of these conditions is, in the case of borrowings to construct a condominium building, the sale of at least 33 of the 36 units of each such building. As of the closing, the Company had delivered approximately 100% of the contracts required for construction of the town homes and 84% of the contracts required to commence construction of the condominium buildings. The Company's management believes that vertical construction of the Phase 1 units will begin as early as the second or third quarter of 2006.

The obligations of the borrowers under the Construction Loan are guaranteed by the Company, its Chief Executive Officer and Chairman, Malcolm J. Wright, and TDS Development, LLC, a subsidiary of Tierra Del Sol Resort, Inc., pursuant to a Payment Guaranty and a Performance and Completion Guarantee. In connection with Mr. Wright's guaranty of the Construction Loan, he earned 1,200,000 warrants of the Company's common stock for such guaranty equal to three percent (3%) of the total indebtedness of the Construction Loan at an exercise price of \$1.02 per share.

In consideration of Mr. Wright's guaranty of the Construction Loan, the Phase 1 Partnership has agreed to pay Mr. Wright an annual guaranty fee equal to 2.5% of the amount of such guaranty. The payment of this fee is subordinated to the Partnership's obligations under the Construction Loan and the Partnership will accrue Mr. Wright's annual guaranty fee until such time as the Construction Loan is satisfied.

The borrowers paid 1% of the maximum borrowings under Construction Loan as a

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

commitment fee, which totaled approximately \$725,500. The Company was obligated to pay all costs and expenses of KeyBank in connection with the commitment and the closing of the loan.

On December 29, 2005, KeyBank and the borrowers entered into the "Addendum to Construction Loan Agreement Condominium and Townhouse Project Development," which changed and amended some of the terms of the Construction Loan (the "Construction Addendum"). The Construction Addendum sets forth certain terms whereby condominium and/or townhouse units to be constructed pursuant to the Construction Loan may be released from the first priority lien on the units held by KeyBank so that the units may be sold. Unless stated otherwise, all discussions of the Construction Loan herein include the changes and additions to the Construction Loan affected by the Construction Addendum.

The occurrence of any one or more "events of default" under the Construction Loan allow KeyBank to pursue certain remedies including taking possession of the Sonesta Resort project; withholding further disbursement of the proceeds of the loan and/or terminate KeyBank's obligations to make further disbursements thereunder; and/or declaring the note evidencing the loans to be immediately due and payable.

PCL CONSTRUCTION GUARANTEE AND LOAN.

The Orlando based contractor, PCL Construction Services, Inc., a subsidiary of PCL Construction Enterprises, Inc. of Denver, Colorado ("PCL"), is the General Contractor for Phase 1 of the project. In conjunction with its designation as the General Contractor, PCL has committed to a guaranteed maximum price for the construction of Phase 1.

PCL also provided a \$4,000,000 loan to TDS Development, LLC, a subsidiary of Tierra Del Sol Resort, Inc. (the "PCL Loan"). The proceeds of the PCL Loan were used to establish a \$4,000,000 account with KeyBank, which was pledged as security for the Construction Loan. The loan bears interest at the rate of 14% per annum. The term of the loan is two years.

The PCL Loan is guaranteed by the Company, the Company's Chief Executive Officer and Chairman, Malcolm J. Wright, individually, and Tierra Del Sol Resort, Inc. In consideration of Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright will earn a fee equal to three percent (3%) of the loan. The Company paid this fee through the grant of 120,000 warrants to purchase the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration of the guaranty.

We may choose to repay the PCL Loan in the future, with separately sourced capital in order to facilitate a more favorable financial arrangement in relation to the proposed construction and related costs, of which there can be no assurance.

THE LAND LOAN

The borrowers under the Land Loan are Tierra Del Sol Resort (Phase 2), Ltd. (the "Phase 2 Partnership") and four other special purpose entities that are owned by the Phase 2 Partnership.

The Land Loan is a \$14,850,000 term loan with a maturity date of June 28, 2007. The proceeds of the Land Loan were primarily used to repay existing debt of the property for the Sonesta Resort. The Land Loan bears interest at LIBOR plus 3.10% per annum, equal to 8.51% as of May 17, 2006, with the LIBOR equal to 5.41% as of that date.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

The Land Loan is secured by a first lien on the land within Phase 2 of the Sonesta Resort, including any improvements, easements, and rights of way; a first lien and security interest in all fixtures and personal property, an assignment of all leases, subleases and other agreements relating to the property; an assignment of construction documents; a collateral assignment of all contracts and agreements related to the sale of each condominium unit; a collateral assignment of all purchase deposits and any management and/or operating agreement.

The borrowers paid 1% of the Land Loan Agreement as a commitment fee, which totaled \$148,500. The Borrowers were obligated to pay all costs and expenses of KeyBank in connection with the commitment and closing of the loan. Additionally,

the Company will pay an exit fee equal to 4% of the maximum loan amount unless the loan is repaid with a construction loan from KeyBank or KeyBank declines to grant a construction loan to the Company for Phase 2. The Company was obligated to pay all costs and expenses of KeyBank in connection with the commitment and the closing of the loan.

The Company and Mr. Wright have issued guarantees to KeyBank on the Land Loan. Pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright will earn a fee for such guarantee equal to threepercent (3%) of the total original indebtedness of the Land Loan. This fee was paid by granting 445,500 warrants to purchase the Company's common stock to Mr. Wright at an exercise price of \$1.02 per share which warrants will expire 5 years from the expiration of the guarantee.

The occurrence of any one or more "events of default" under the Land Loan allow KeyBank to pursue certain remedies including taking possession of the Sonesta Resort project; withholding further disbursement of the proceeds of the loan and/or terminate KeyBank's obligations to make further disbursements thereunder; and/or declaring the note evidencing the loans to be immediately due and payable.

WESTRIDGE COMMUNITY DEVELOPMENT DISTRICT BONDS

The closing of the new credit facilities with KeyBank triggered the closing of the sale of \$25,825,000 in community development bonds issued by the Westridge Community Development District (the "District"). The proceeds of the bonds will be used, in part, to fund infrastructure at the Sonesta Resort and to acquire land for public purposes from Tierra Del Sol Resort (Phase1), Ltd., The debt service and retirement of these bonds will be funded by a special district tax upon the property owners in the District at an interest rate of 5.8% over a 30-year amortization period.

Additionally, on January 11, 2006, the Company sold forty-two acres of land in the Sonesta Resort for \$9,090,130 to the District and received an additional \$4,039,116 from the District in connection with reimbursements for site improvements on the land purchased by the District. The land sold to the District will be used for public infrastructure for the Sonesta Resort, including the creation of roads and for water collection among other purposes.

RELEASE OF LIEN BY STANFORD

In connection with the closing of the new credit facilities with KeyBank, Stanford Venture Capital Holdings Inc. ("Stanford") released its existing mortgage lien on the Sonesta Resort property. In consideration of this release, the Development Partnerships granted Stanford warrants to acquire a 2% interest in each Partnership at a nominal exercise price. The Company also granted

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Stanford the right to exchange any distributions that it might receive on account of these interests into shares of the Company's Series E preferred stock at a strike price of \$15.00 per common share.

SIBL CREDIT FACILITY

On December 29, 2005, Stanford International Bank, Ltd. ("SIBL") provided Tierra Del Sol with financial assistance to facilitate the closings of the Land Loan and the Construction Loan. The financial assistance consisted of a loan to Tierra Del Sol of \$2,100,000 (the "SIBL Tierra Del Sol Loan"), and the establishment of letters of credit in favor of KeyBank in the amount of \$4,000,000 and \$2,000,000, respectively (the "Letters of Credit"). The financial assistance provided by SIBL was evidenced by a Credit Agreement dated as of December 29, 2005 between SIBL, Tierra Del Sol Resort, Inc. and the Company (the "SIBL Credit Agreement").

Tierra Del Sol utilized the proceeds of the SIBL Tierra Del Sol Loan to make a capital contribution to the Phase 1 Development Partnership, which in turn pledged this amount to KeyBank as additional collateral for the Construction Loan. SIBL is an affiliate of Stanford Venture Capital Holdings Inc. Tierra Del Sol used the Letters of Credit in lieu of cash to complete its equity requirements under the Construction Loan.

The SIBL Tierra Del Sol Loan has a 2-year term, with an initial interest rate of 12% per annum. The Letters of Credit are in the amounts of \$4,000,000 and \$2,000,000, with terms of 24 months and 12 months, respectively. Tierra Del Sol is obligated to pay a monthly fee for each letter of credit equal to 1% of the face amount of such letter of credit. Upon release of the letters of credit and upon either the payment of the note in full or the maturity of the loan from KeyBank, Tierra Del Sol is also required to pay a minimum fee equal to 3%. After six months, this fee increases by 1% each month until the letters of credit are released. Any unpaid amounts on the SIBL Tierra Del Sol Loan or Letters of Credit bear interest at the rate of 12% per year.

The obligations of Tierra Del Sol under the SIBL credit facility (the "Stanford Credit Facility") were guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman, along with other third party entities, which third party entities are beneficially owned, in part, by Roger Maddock, a significant shareholder of the Company, pursuant to an Irrevocable and Unconditional Guaranty. These obligations were also secured by a first mortgage lien on a parcel of real property owned by the third party entities. The consideration paid for the third party entities' guarantees was consistent with the existing debt guarantor agreement issued by the Company for its executives. The third party entities will receive and share in a guarantee fee equal to 3% of the amount guaranteed. The third party entities, by virtue of pledging collateral for a debt that benefits the Company, will also receive a collateral pledge fee equal to 2% of the amount guaranteed. The Company paid this fee through the grant of 405,000 warrants to the third party entities to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration date of the guarantees.

In consideration of Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright earned a fee for such guarantee equal to three percent (3%) of the amount guaranteed. The Company will pay this fee through the grant of 243,000 warrants to Mr. Wright to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration date of the guarantee.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Tierra Del Sol has pledged its partnership interests in the Development Partnerships to Stanford as additional collateral for this facility. Following an event of default as defined under the Credit Agreement, Stanford has the right for thirty (30) days following such event of default, directly or through its affiliates, to purchase any unsold units in the Sonesta Resort at a price equal to the developer's cost, but only to the extent permitted by KeyBank.

The Company's relationship with Stanford includes the requirement that the Company utilize services provided by US Funding Corporation, an investment banking firm. US Funding Corporation earned an administration fee of approximately one half of one percent of the financing provided by Stanford.

As additional consideration for the loan, the Company granted SIBL warrants to purchase 308,000 shares at an exercise price of \$5.00 per share of common stock and warrants to purchase 154,000 shares at an exercise price of \$0.001 per share. The warrants expire 5 years from issuance. The warrants contain anti-dilution provisions, including a provision which requires the Company to issue additional shares under the warrants if the Company issues or sells any common stock at less than \$1.02 per share, or grants, issues or sells any options or warrants for shares of the Company's common stock to convert into shares of the Company's common stock at less than \$1.02 per share.

In connection with the warrants, the Company and Stanford entered into a Registration Rights Agreement (the "Registration Rights Agreement"). Under the Registration Rights Agreement, the Company agreed to prepare and file a Registration Statement with the SEC covering the shares underlying the warrants within 180 days of notice from SIBL of their demand that we file such Registration Statement and to use the Company's best efforts to obtain effectiveness of such Registration Statement as soon as practicable thereafter. In the event the Company does not file a Registration Statement in connection with the shares issuable in connection with the exercise of the warrants after 180 days notice from the warrant holders, the Company agreed to issue the warrant holders as liquidated damages, warrants to purchase 10% of the shares issuable in connection with the warrants, under the same terms and conditions as the warrants, upon such default and for every consecutive quarter in which such default is occurring.

We estimate that the cost to complete the construction of Phase I of the Sonesta Resort will be \$135,500,000 of which \$8,000,000 will be for resort amenities, \$64,000,000 will be for vertical construction on 294 units and \$ 49,500,000 will be for other costs such as contingencies, closing costs and soft costs such as architectural, engineering, and legal costs. An additional approximate amount of \$14,000,000 will be expended for horizontal construction costs which include all of Phase I requirements plus most of the infrastructure requirements for the entire Project. The \$14,000,000 will be funded by the bonds proceeds held by the Westridge Development District and from equity reserves held by Key Bank. Disbursement of the Construction Loan proceeds is structured as a \$40,000,000 revolving construction loan credit facility. A Land Loan was also funded by Key Bank which was described above in the amount of \$14,850,000 in connection with our planned Phase 2 development. As a result, we currently believe that we have

sufficient funds to provide for the completion of Phase 1, assuming there are no material cost overruns, delays or increases in material costs. Phase 2 will be financed separately.

In November 2003, we entered into an exclusive sales and marketing agreement with Xpress Ltd. ("Xpress") to sell the vacation homes in the Sonesta Resort. Malcolm J. Wright, one of our founders and our Chief Executive Officer and Chairman, and members of his family are the majority shareholders of Xpress. As

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

of March 31, 2006, Xpress has pre-sold approximately 653 vacation homes in a combination of contracts on town homes and reservations on condominiums for total sales volume of over \$230 million.

REEDY CREEK ACQUISITION COMPANY, LLC TRANSACTIONS

Background

In July 2005, the Company and Stanford Financial Group Company ("SFG") formed a new limited liability company named Reedy Creek Acquisition Company LLC ("Reedy Creek Acquisition Company") for the purpose of acquiring a parcel of approximately 40 acres of land located adjacent to the Animal Kingdom Theme Park at Walt Disney World, in Orlando, Florida (the "Reedy Creek Property"). The Reedy Creek Property is described in greater detail below under "Development Plans for Reedy Creek Property."

Reedy Creek Acquisition Company acquired the Reedy Creek Property in July 2005 for a purchase price of \$12,400,000. Reedy Creek Acquisition Company paid \$8,000,000 of the purchase price in cash and paid the \$4,400,000 balance pursuant to the terms of a promissory note issued to the sellers secured by a first mortgage lien on the Reedy Creek Property. At the time of the purchase, Reedy Creek Acquisition Company obtained a \$7,150,000 loan from SIBL (the "SIBL Reedy Creek Loan"), secured by a second mortgage lien on the property. The proceeds of this loan were used to pay part of the cash portion of the purchase price and for closing costs associated with the closing. The Company contributed the remainder of the purchase price.

SFG and SIBL are affiliates of Stanford Venture Capital Holdings Inc., a significant shareholder of the Company.

At the time of the acquisition of the Reedy Creek Property, Reedy Creek Acquisition Company was owned 99% by SFG and 1% by one of the Company's wholly owned subsidiaries, American Leisure Reedy Creek Inc. ("ALRC"). In connection with the acquisition of the Reedy Creek Property, the Company, ALRC and SFG entered into an Option Agreement (the "Option Agreement"), pursuant to which SFG granted ALRC the right to acquire SFC's 99% interest in Reedy Creek Acquisition Company (the "Reedy Creek Option").

Option Exercise

On December 27, 2005, the Company and ALRC entered in to an Option Exercise Agreement with SFG, pursuant to which ALRC acquired the 99% interest in Reedy Creek Acquisition Company held by SFG for the exercise price of \$600,000 (the "Exercise Price"), which was less than the exercise price originally stated in the Option Agreement.

Pursuant to the terms of the Option Exercise Agreement, the parties took the following actions:

- SFG transferred its 99% interest in Reedy Creek Acquisition Company to ALRC.
- SIBL loaned an additional \$850,000 to Reedy Creek Acquisition Company. This amount was used by Reedy Creek Acquisition Company to pay the Exercise Price and to pay an additional placement fee of \$250,000 to certain affiliates of SIBL.
- The Company issued warrants to SIBL. The warrants entitle SIBL to

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

purchase 154,000 shares of the Company's common stock at an exercise price of \$5.00 per share and 77,000 shares of the Company's common stock at \$.001 per share. Additionally, the Company granted warrants to four affiliates of SIBL, entitling them to purchase an aggregate of 154,000 shares of the Company's common stock at an exercise price of \$5.00 per share and 77,000 shares at an exercise price of \$.001 per share. The warrants have a term of five years and are immediately exercisable. The warrants contain anti-dilution provisions, including a provision which requires the Company to issue additional shares under the warrants if the Company issues or sells any common stock at less than \$1.02 per share, or grants, issues or sells any options or warrants for shares of the Company's common stock to convert into shares of the Company's common stock at less than \$1.02 per share.

- The Company entered into a Registration Rights Agreement (the "Reedy Creek Registration Rights Agreement") with Stanford, pursuant to which, the Company agreed to prepare and file a Registration Statement with the SEC covering the shares underlying the Warrants within 180 days of notice from Stanford of their demand and to use its best efforts to obtain effectiveness of such Registration Statement as soon as practicable thereafter. In the event that the Company does not file a Registration Statement in connection with the shares issuable in connection with the exercise of the warrants after 180 days notice from the warrant holders, the Company must issue the warrant holders as liquidated damages, warrants to purchase 10% of the shares issuable in connection with the warrants, under the same terms and conditions as the warrants, upon such default and for every consecutive quarter in which such default is occurring.
- Reedy Creek Acquisition Company agreed to modify the existing SIBL mortgage on the Reedy Creek Property to secure the additional \$850,000 loan made by SIBL. As a result, the principal amount secured by the SIBL mortgage was increased to \$8,000,000.
- SIBL agreed to subordinate its mortgage on the Reedy Creek Property to a new \$7,000,000 loan to be made to Reedy Creek Acquisition Company by Bankers Credit Corporation. This loan is described below.

SIBL Reedy Creek Loan Terms

In connection with the exercise of the Reedy Creek Option, Reedy Creek Acquisition Company and SIBL agreed to modify the terms of the SIBL Reedy Creek Loan made by SIBL to Reedy Creek Acquisition Company. The modified loan terms are evidenced by a Renewed, Amended and Increased Promissory Note (the "Amended Note") made by Reedy Creek Acquisition Company in favor of SIBL. The Amended Note has a maturity date of December 31, 2006, a principal balance of \$8,000,000 and bears interest at the rate of 8% per year. Interest on the Amended Note is payable quarterly on June 30, 2006, September 30, 2006 and on the maturity date of the Amended Note. Upon an event of default as described in the Amended Note, SIBL has several rights and remedies, including causing the Amended Note to be immediately due and payable.

The Amended Note is secured by a second lien on the Reedy Creek Property. It is guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman pursuant to a Modification and Reaffirmation of Guaranty and Environmental Indemnity Agreement. In consideration for Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright earned a fee equal to three percent (3%) of principal amount

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

of the Amended Note. The Company will pay this fee through the grant of 240,000 warrants to Mr. Wright to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration of the guaranty.

Bankers Credit Corporation Loan

In connection with the exercise of the Reedy Creek Option, the Company and Reedy Creek Acquisition Company arranged to receive a \$7,000,000 loan from Bankers Credit Corporation ("Bankers Credit").

Under the terms of the Bankers Credit loan, Bankers Credit advanced Reedy Creek Acquisition Company \$3,000,000 at closing and an additional \$4,000,000 subsequent to the date of closing.

The Bankers Credit loan is evidenced by a Promissory Note (the "Bankers Credit Note") and bears interest at the greater of the Wall Street Journal published prime rate plus 7.75%, not to exceed the highest rate allowable under Florida law or 15% per year. The interest rate of the Bankers Credit Note as of May 17, 2006 was 15% (with a prime rate, as reported by the Wall Street Journal of 8%). Interest on the Bankers Credit Note is payable monthly. The maturity date of the Bankers Credit Note is January 3, 2007, when all principal and unpaid interest is due and payable. Pursuant to the Bankers Credit Note, Reedy Creek Acquisition Company agreed to pay a 10% late charge on any amount of unpaid principal or interest under the Bankers Credit Note. The Bankers Credit Note is subject to a 1% exit fee. Additionally, if repaid by Reedy Creek Acquisition Company prior to July 3, 2006, the Bankers Credit Note is subject to an additional 1% repayment fee; however, if repaid after July 3, 2006, the Bankers Credit Note is not

subject to the repayment fee. Upon an event of default as described in the Bankers Credit Note, Bankers Credit has several rights and remedies, including causing the Bankers Credit Note to be immediately due and payable.

The Bankers Credit Note is secured by a first lien on the Reedy Creek Property. Additionally, the Bankers Credit Note is guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman pursuant to a Guaranty Agreement. In consideration for Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright earned a fee equal to three percent (3%) of the Bankers Credit Note. The Company will pay this fee through the grant of 210,000 warrants to Mr. Wright to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration of the guaranty.

Reedy Creek Acquisition Company utilized the initial proceeds from the Bankers Credit loan to pay a portion of the amount owed on the existing first mortgage note issued to the sellers of the Reedy Creek Property. The holder of this mortgage agreed to release the mortgage in exchange for this payment. Reedy Creek Acquisition Company has now paid the balance of this mortgage note upon the receipt of the balance of the Bankers Credit loan.

Development Plans for Reedy Creek Property

The Reedy Creek Property is situated in the northern section of Osceola County, Florida and lies on three contiguous development parcels located to the immediate north of U.S. Highway 192 West, about one mile from the "Maingate" entrance to Walt Disney World, Orlando and 0.75 miles from the entrance to "Disney's Animal Kingdom" theme park. The property is one of only a small number of privately owned parcels abutting Walt Disney World (north and east

boundaries).

The Reedy Creek Property consists of three parcels totaling over 40 gross acres with approximately 29 acres of buildable land. The Osceola County Comprehensive Land Plan for the site allows vacation homes at a density of 18 units per acre, which results in a maximum allowable project density of 522 residential units. To achieve the maximum density, it is anticipated that the project will consist of mid-rise condominium buildings. Amenities proposed on-site include a water park with swimming pools, guest services clubhouse, and other related on-site resort amenities.

It is anticipated that Walt Disney World's Reedy Creek Improvement District (the "District"), a quasi-government body whose constituents are all affiliated with Walt Disney World Company, will agree to construct and pave the widening and extension of Reedy Creek Boulevard north and westward at its expense. The

District will have a public hearing during which it is anticipated that the District will be given the authority to acquire the land from Reedy Creek Acquisition Company and make the improvements to Reedy Creek Boulevard. If the District acquires the requisite authority from its constituents, Reedy Creek Acquisition Company has agreed to convey relatively small portions of the three combined properties to constitute this roadway. Reedy Creek Acquisition Company will benefit from the conveyance by saving the cost of the road it would have to build anyway and it will enhance the required road frontage for the project.

The Company's development of the Reedy Creek Property is currently planned to begin in the fourth quarter of 2007 and is currently planned to be completed sometime in 2009, funding and scheduling permitting. The Company will not know the total estimated cost of the development of the Reedy Creek Property until it has determined the market and completed designs for the properties. The Company does not currently have any funding in place for any of the capital which will be required to complete the development of the Reedy Creek Property and there is no assurance that funding will be available on favorable terms, if at all. The Company is currently seeking a joint venture partner for this property.

Note Modification Agreement

In February 2006, we entered into a Note Modification Agreement with SIBL, whereby we agreed to modify certain provisions of our outstanding promissory notes with SIBL to grant extensions of payments due. Pursuant to the Note Modification Agreement, we and SIBL agreed that all interest due on our \$6,000,000 note, from January 1, 2005, through September 30, 2006, shall be due and payable on September 30, 2006, with all interest thereafter payable with the original terms of that note; that all interest accrued on the \$3,000,000 note we have with SIBL, from the date of the note until September 30, 2006, shall be due and payable on September 30, 2006, with all interest thereafter payable with the original terms of that note; that the maturity date of our \$1,250,000 note with SIBL be extended until September 30, 2006, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; that the maturity date of our \$1,355,000 note with SIBL be extended until June 30, 2007, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; that the maturity date of our \$305,000 note with SIBL be extended until June 30, 2007, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; and that interest on our \$2,100,000 note with SIBL be payable in arrears, on a quarterly basis, with the first payment due on March 28, 2006, and subsequent payments due on each June 28, September 28, December 28 and March 28, until the maturity date of December 27, 2007, with the outstanding principal and interest shall be due (collectively, all the notes described above shall be

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

referred to as the "Notes").

Furthermore, SIBL agreed, pursuant to the Note Modification Agreement, to waive any defaults arising under the Notes prior to the date of the Note Modification Agreement, attributable to our failure to make any payments of interest due under the Notes prior to the date of the Note Modification Agreement; and any default of us and/or Around The World Travel, Inc. ("AWT") under the \$1,250,000

note to fulfill the financial reporting requirements under the loan documents related to the \$1,250,000 note. SIBL also waived our obligation and AWT's under the \$1,250,000 note to fulfill the financial reporting requirements described in the note in the future, provided that SIBL may reinstate such requirements at any time upon written demand to us of such note.

PURCHASE OF MINORITY INTEREST IN TIERRA DEL SOL

In March 2006, and effective as of December 31, 2005, we purchased the minority interest of our now wholly owned subsidiary, Tierra Del Sol, Inc. (the "Minority Interest") from Harborage Leasing Corporation ("Harborage"). The purchase price of the Minority Interest from Harborage was a promissory note for \$1,411,705 ("Harborage Note"); the right to receive, without payment, two (2) three-bedroom condominium units to be constructed in Phase 2 of the Sonesta Resort, or in the event title to both such units is not delivered by December 31, 2007, then, in lieu thereof, payment of \$500,000 for each such unit that is not transferred by such date; 197,000 shares of the Company's common stock; and warrants to acquire 300,000 additional shares of the Company's common stock at an exercise price of \$5.00 per share. The warrants expire if unexercised five (5) years from their date of grant. Pursuant to the Stock Purchase Agreement, Harborage has the right to require the Company to purchase all or a portion of the Harborage 197,000 shares at \$5.00 per share, for sixty (60) days, beginning January 1, 2007 (the "Put Option"). The Put Option will no longer be in effect provided that both of the following events occur: (i) Harborage is able to sell the Harborage Shares pursuant to an effective Registration Statement under the Securities Act of 1933 (the "Act"), or pursuant to Rule 144 of the Act; and after the fulfillment of (i) above, the average closing price of the Company on the Over-The-Counter Bulletin Board or principal exchange on which the Company's common stock then trades, exceeds \$5.00 per share for a period of thirty (30) consecutive days. The Harborage Note and shares are guaranteed by Malcolm J. Wright, the Company's Chief Executive Officer and Director, for which he received a guaranty fee equal to three percent (3%) of the amount guaranteed. The Company paid this fee through the grant of 102,351 warrants to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration date of the guaranty.

SUBSEQUENT EVENTS

On or about May 1, 2006, with an effective date of March 15, 2006, we entered into an Employment Agreement with our Executive Vice President, General Counsel and Secretary, Michael D. Crosbie (the "Executive" and the "Employment Agreement"). The term of the Employment Agreement is from March 15, 2006, until March 15, 2009, unless he is terminated by us sooner as set forth in the Employment Agreement, during which time Mr. Crosbie will serve as our Executive Vice President, General Counsel and Secretary. Pursuant to the Employment Agreement, Mr. Crosbie agreed to work for us on a full-time basis and have no other outside business activities which require the devotion of a substantial amount of his time, without the consent of our Chief Executive Officer. In consideration for Mr. Crosbie's employment with us, we agreed to pay him a base salary of \$170,000 per year, during the first year of his employment (pro rated

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

from the effective date of the Employment Agreement), which salary shall

increase no less than 10% annually. Additionally, Mr. Crosbie shall be eligible for a yearly bonus, which may be equal to or greater than his then base salary, based on the satisfactory performance of his duties under the Employment Agreement, however we have not committed to grant Mr. Crosbie any yearly bonus. Additionally, we agreed to provide Mr. Crosbie a vehicle allowance equal to 5% of his then annual salary.

In connection with Mr. Crosbie's Employment Agreement, we agreed to issue him 50,000 warrants which vested as of the effective date of the Employment Agreement; and 25,000 warrants vesting each year, on the anniversary of the effective date of his employment, that Mr. Crosbie is employed by the Company pursuant to the Employment Agreement, which warrants have an exercise price of \$1.02 per share.

We may terminate Mr. Crosbie's Employment Agreement for cause as provided in the Employment Agreement and Mr. Crosbie may terminate his employment with us if we materially breach any term of the Employment Agreement. If we materially breach a term of the Employment Agreement and Mr. Crosbie terminates the agreement, he shall be entitled to receive his base salary for a period of one and a half years from the effective date of such termination as long as he does not accept any other full-time employment (the "Termination Payments"). If he accepts other full-time employment after the date of such termination or otherwise notifies us of his intent to terminate such payments, he will be entitled to receive, at our option, a one-time lump sum payment, discounted for the present value of such payment, equal to the balance of the payments he would have received during the remaining time of the one and one half year period pursuant to the Employment Agreement.

If the Employment Agreement has not been terminated pursuant to the terms of the Employment Agreement prior to the expiration of the term of the Employment Agreement, such employment shall automatically continue for additional six month periods, subject to either party providing 60 days written notice to the other party. However, if we terminate Mr. Crosbie after the initial term of the Employment Agreement for any reason other than for cause, he shall be entitled to Termination Payments as described above.

Additionally, pursuant to the Employment Agreement, Mr. Crosbie is able to terminate the Employment Agreement with us at any time, for any reason, provided that if his termination is not for breach of the Employment Agreement by us, he is only entitled to receive his compensation earned through the termination date.

PLAN OF OPERATIONS

We are currently in the process of integrating the administrative operations of Hickory and TraveLeaders. The integration process has been slower than we anticipated because it has taken us longer than expected to identify those operations that could be consolidated and determine the allocation and re-assignment of the personnel best suited for the consolidated enterprise; however, we expect such integration process to be completed in fiscal 2006. In addition, time has been required to analyze and determine the impact, if any, of

certain litigation commenced by Around The World Travel regarding its contracts with Seamless Technologies, Inc. and others, as discussed in "Legal Proceedings," herein.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Under our arrangement with Around The World Travel, which operates the TravelLeaders assets on our behalf and from whom we acquired the assets, we receive and recognize as income 90% of the net earnings of the TravelLeaders assets before interest, taxes, depreciation and amortization. The balance is retained by Around The World Travel as a management fee.

We are currently generating modest revenues from our call center joint venture in Antigua. We expect revenues from our call center operations to increase throughout the year based on existing contracts with major clients that will require an increase in the number of seats in the second quarter of 2006.

We believe that the capital requirement for the first phase of the resort will be approximately \$135,500,000, of which \$8,000,000 will be for the resort amenities, \$64,000,000 will be for vertical construction on 294 units and \$49,500,000 will be for other costs such as contingencies, closing costs and soft costs such as architectural, engineering, and legal costs. An additional approximate amount of \$14,000,000 will be expended for horizontal construction costs which include all of Phase I requirements plus most of the infrastructure requirements for the entire Project. On or about December 29, 2005 we closed on \$54.85 million of senior debt to be used in the development of The Sonesta Orlando Resort at Tierra Del Sol (the "Project"), described in greater detail above. KeyBank, N.A. is the lender of two credit facilities for the benefit of AMLH. The first is a land loan in the amount of \$14,850,000, which is secured by Project land that is dedicated to specific phases of the development. The second is a \$40,000,000 revolving construction loan, for up to \$72,550,000 in funding that will fund the development and construction for Phase 1 of the Resort. Both loans are part of a comprehensive finance plan from KeyBank, N.A. who had the underwriting role in the sale of the Community Development District Bonds. Financing for the balance of the development budget, which includes infrastructure, retention, roads and green space of approximately \$26,000,000, was through the sale of Westridge Community Development District bonds which was completed on December 29, 2005 as described above. In June 2005, we began the earth moving and clearing process on the land for the resort and we expect to begin the vertical construction in the third quarter of 2006.

As of the date of this filing, the Company anticipates using "Resorts Construction LLC," to construct and develop part of the Sonesta Resort and properties ("Resorts Construction"). It is anticipated that Resorts Construction will be 40.5% owned by Malcolm J. Wright, the Company's Chief Executive Officer and Chairman. It is also anticipated that the yet to be signed construction contract with Resorts Construction will provide significant construction savings over the PCL contract described in detail above.

KNOWN TRENDS, EVENTS, AND UNCERTAINTIES

We expect to experience seasonal fluctuations in our gross revenues and net earnings due to higher sales volume during peak periods. Advertising revenue from the publication of books by Hickory that list hotel availability is recognized either when the books are published (December) or on a performance basis throughout the year, depending on the contractual terms. This seasonality may cause significant fluctuations in our quarterly operating results and our cash flows. In addition, other material fluctuations in operating results may occur due to the timing of development of resort projects and our use of the completed contracts method of accounting with respect thereto. Furthermore, costs associated with the acquisition and development of vacation resorts, including carrying costs such as interest and taxes, are capitalized as inventory and will be allocated to cost of real estate sold as the respective revenues are recognized. We intend to continue to invest in projects that will require substantial development and significant amounts of capital funding during 2006 and in the years ahead.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities. We base our estimates on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. On an on-going basis, we evaluate our estimates. Actual results may differ from these estimates if our assumptions do not materialize or conditions affecting those assumptions change. For a detailed discussion of our significant accounting policies, see Note 2, Summary of Significant Accounting Policies to the Notes to our audited consolidated financial statements included in "Item 7. Financial Statements."

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

GOING CONCERN CONSIDERATIONS

We have incurred losses during the development stage during our existence, and we have negative retained earnings. We had an accumulated deficit of \$13,499,420 at December 31, 2005 and \$12,356,892 as of March 31, 2006. We expect our travel operations through the end of the current fiscal year to require additional working capital of approximately \$2,000,000 and Hickory to require approximately \$500,000 in working capital during the next twelve months. If we are unable to obtain these funds, we may have to curtail or delay our travel business plan. In addition to our ability to raise additional capital, our continuation as a going concern also depends upon our ability to generate sufficient cash flow to conduct our operations. If we are unable to raise additional capital or generate sufficient cash flow to conduct our Travel Division operations and/or to complete the construction of our planned vacation homes, we may be required to

delay the acquisition of additional travel agencies and restructure or refinance all or a portion of our outstanding debt. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

REVENUE RECOGNITION

We recognize revenues on the accrual method of accounting. Revenues from Hickory are recognized as earned, which is primarily at the time of delivery of the related service, publication or promotional material. Fees from advertisers to be included in the hotel book and web service operated by Hickory are recognized upon the annual publication of the book or when performance levels are achieved. Revenue from the delivery of services is recognized when it is invoiced to the recipient of the service.

One of our principal sources of revenue is associated with access to the travel portals that provide a database of discounted travel services. Annual renewals occur at various times during the year. Costs and revenue related to portal usage charges are incurred in the month prior to billing. Customers are charged additional fees for hard copies of the site access information. Occasionally

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

these items are printed and shipped at a later date, at which time both revenue and expenses are recognized.

Revenues and expenses from our TraveLeaders business are not included in our results as the same are borne by Around The World Travel, Inc., the third party manager of the business. We recognize as revenue only the net operating results of TraveLeaders after deducting the management fee paid to Around The World Travel of 10% of net earnings before interest expense, taxes, depreciation and amortization.

We have entered into approximately 653 pre-construction sales contracts for units in the Sonesta Orlando Resort at Tierra Del Sol. We will recognize revenue when title is transferred to the buyer.

Revenues include property sales which are accounted for as the profits on the sales at the time of closing.

GOODWILL

We adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." This statement requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation under the provisions of SFAS No. 144. In 2004, we recorded an impairment of \$1,500,000 related to the acquisition of the TraveLeaders assets in December 2004, based on our payment of more than fair value. The remaining goodwill of \$14,425,437 as of December 31, 2004 was composed of \$12,585,435 from the TraveLeaders acquisition and \$1,840,002 from

the Hickory acquisition. In 2005 we renegotiated and ultimately reached a settlement on the acquisition which resulted in an acquisition of goodwill of \$5,585,435 of which \$1,500,000 was previously impaired resulting in a goodwill balance of \$4,085,435. Our remaining goodwill of \$1,840,002 is related to the Hickory acquisition and has not been further impaired as of either March 31, 2006 or December 31, 2005. Therefore, total goodwill amounts to \$5,925,437. The goodwill will be evaluated on an annual basis and impaired whenever events or circumstances indicate the carrying value of the goodwill may not be recoverable.

COMPARISON OF OPERATING RESULTS

THREE MONTHS ENDED MARCH 31, 2006 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2005

We had total revenue for the three months ended March 31, 2006 of \$14,791,541, which was composed of operating revenues of \$1,662,295 and undeveloped land sales of \$13,129,246. This represented an increase in total revenues of \$9,052,876, from total revenues of \$5,738,665 of total revenues for the three months ended March 31, 2005. The reasons for the increase in total revenue for the three months ended March 31, 2006; compared to the three months ended March 31, 2005 were the \$8,996,335 or 217.7% increase in undeveloped land sales relating to sale of forty-two acres of land to the District and the \$56,541 or 3.5% increase in operating revenues relating to increased travel business.

Total cost of undeveloped land sales for the three months ended March 31, 2006, was \$9,796,634, compared to cost of undeveloped land sales of \$3,062,991 for the three months ended March 31, 2005, an increase of \$6,733,643 or 219.8% from the prior period. The increase in cost of undeveloped land sales was directly

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

related to the increased land sales for the three months ended March 31, 2006, compared to the three months ended March 31, 2005.

We had a gross margin of \$4,994,908 for the three months ended March 31, 2006, compared to a gross margin of \$2,675,674 for the three months ended March 31, 2005, an increase of \$2,319,234 or 86.7% from the prior period, which increase in gross margin was mainly due to the 157.8% increase in total revenue offset by the 219.8% increase in cost of undeveloped land sales for the three months ended March 31, 2006, compared to the three months ended March 31, 2005.

We had total operating expenses of \$2,675,317 for the three months ended March 31, 2006, compared to total operating expenses of \$2,836,538 for the three months ended March 31, 2005, a decrease in total operating expenses of \$161,221 or 5.7% from the prior period. The decrease in total operating expenses from the prior period was mainly due to the \$145,211 or 6.0% decrease in general and administrative expenses caused by personnel reductions and cost containment efforts in our travel sector plus a large decrease in expenditures in our communications sector.

We had total income from operations of \$2,319,590 for the three months ended March 31, 2006, compared to total loss from operations of \$160,864 for the three months ended March 31, 2005, an increase in income from operations of \$2,480,454 from the prior period. The increase in total income from operations was mainly due to the sale of forty-two acres of undeveloped land to the District, as described above.

We had total interest expense of \$1,240,148 for the three months ended March 31, 2006, compared to total interest expense of \$393,319 for the three months ended March 31, 2005, an increase in interest expense of \$846,829 or 215% from the prior period. The increase in interest expense was mainly due to interest on loans from Stanford that were not in place in the first quarter of 2005 and the amortization of deferred financing costs.

We had equity in operations of unconsolidated affiliate of \$64,484 for the three months ended March 31, 2006, compared to equity in operations of unconsolidated affiliate of \$-0- for the three months ended March 31, 2006. Equity in operations of unconsolidated affiliate for the three months ended March 31, 2006 was due to the call center operations of Caribbean Media Group, Ltd. Caribbean Leisure Marketing, Ltd., our wholly owned subsidiary, owns 49% of Caribbean Media Group, Ltd.

We had income before income taxes of \$1,143,926 for the three months ended March 31, 2006, compared to loss before income taxes of \$554,183 for the three months ended March 31, 2005, an increase in income before income taxes of \$1,698,109 or 306% from the prior quarter.

We had provision for income taxes of \$1,399 for the three months ended March 31, 2006, compared to provision for income taxes of \$-0- for the three months ended March 31, 2005.

We had net income of \$1,142,527 for the three months ended March 31, 2006, compared to net loss of \$554,183 for the three months ended March 31, 2005, an increase in net income of \$1,696,710 or 306% from the prior period. The increase in net income was due to the sale of forty-two acres of undeveloped land.

LIQUIDITY AND CAPITAL RESOURCES

We had total current assets of \$25,544,633 as of March 31, 2006, which included cash of \$335,416, restricted cash of \$21,249,358, accounts receivable of

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

\$1,080,412, other receivable of \$5,788,553 and prepaid expenses and other of \$90,893. This represented an increase in total current assets of \$6,414,308 from December 31, 2005, when total current assets were \$22,130,325. The main reason for the increase in total current assets as of March 31, 2006, compared to December 31, 2005, was an \$8,074,004 increase in restricted cash in connection with additional deposits on units in the Sonesta Resort and funds raised from the sale of the District bond, as described above. Restricted cash consisted of escrowed deposit funds from customers as well as funds devoted exclusively to the development of the Sonesta Resort.

We had net property and equipment as of March 31, 2006 of \$4,198,657, which was a decrease of \$385,196 from net property and equipment of \$4,583,853 as of December 31, 2005. The decrease in net property and equipment from prior period was mainly caused by the depreciation of our equipment over the three months ended March 31, 2006.

We had \$49,312,308 of land held for development as of March 31, 2006, which was an increase of \$14,617,027 or 42% from land held for development of \$34,695,281 as of December 31, 2005. The increase in land held for development was due to capitalization of costs such as interest, professional fees, operating expenses on Tierra Del Sol, Inc. until the units at the Sonesta Resort property are completed and the acquisition of Reedy Creek Acquisition Company for \$13,386,265 which increased our ownership in such entity and the undeveloped Reedy Creek Property from 1% to 100%. The \$49,312,308 of land held for development as of March 31, 2006, represented the total costs capitalized since 2002 including the cost of the land.

We had total other assets of \$28,024,210 as of March 31, 2006, which included prepaid sales commissions of \$8,742,733; prepaid sales commissions from an affiliated entity, Xpress, Ltd., of \$3,469,838; investment senior notes \$5,170,000; goodwill of \$5,925,437; trademark of \$968,750 and other assets of \$3,747,452, which included deferred financing costs, member contracts and customer lists. Trademark of \$968,750 as of March 31, 2006, represented the Company's trademark on "Traveleaders." Prepaid sales commissions are paid to a sales agent at the point of sale and the agent then executes a note indicating that if the customer does not ultimately close on the sale of the property, the agent will return the advance. One half of the total sales commissions are paid at the point of sale, with the remaining balance being paid to the agent at closing.

We had total assets of \$110,079,808 as of March 31, 2006, which included total current assets of \$28,544,633; net property and equipment of \$4,198,657; land held for development of \$49,312,308 and total other assets of \$28,024,210, compared to total assets of \$89,923,247 as of December 31, 2005. The increase in total assets was mainly due to the increases in total current assets and total other assets as described above.

We had total current liabilities of \$26,828,766 as of March 31, 2006, which included current maturities of long-term debt and notes payable of \$18,117,620; current maturities of notes payable-related parties of \$1,095,541; accounts payable and accrued expenses of \$3,800,767; accrued expenses-officers of \$3,705,500 and other liabilities of \$109,338. Accrued expenses-officers included \$2,900,000 in salaries due to our Chief Executive Officer and Chairman, Malcolm J. Wright, as well as \$558,000 in interest due on that amount (accrued officer and director salaries bear interest at 12% per year, compounded annually until paid), and \$225,000 due to L. William Chiles, the Chief Executive Officer of Hickory and our Director, and \$22,500 of interest on such salary. This was an increase in current liabilities of \$16,308,092 from total current liabilities of

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

\$10,520,674 as of December 31, 2005. The increase in current liabilities was mainly attributable to an increase of \$16,326,812 or 911.7% in current maturities of long term debt and notes payable which increase was mainly due to the Reedy Creek Acquisition Company loans with SIBL and Banker's Credit, which we received during the three months ended March 31, 2006.

As of March 31, 2006, we owed \$1,474,211 in connection with notes payable to related parties including \$225,615 owed to our Director, William Chiles; \$582,500 owed to Charles Sieberling, the Secretary of Hickory, \$167,401 owed to our Chief Executive Officer and Chairman, Malcolm J. Wright, and \$174,433 owed to Xpress, Ltd., of which Mr. Wright is the President.

We had total liabilities of \$102,241,832 as of March 31, 2006, which included total current liabilities of \$26,828,766; long-term debt and notes payable of \$36,360,032; a put liability related to the purchase of the minority interest in Tierra Del Sol, Inc. of \$985,000, and deposits on pre-unit sales of \$38,068,034. This represents an increase in total liabilities of \$18,536,939 or 22.1% from total liabilities of \$10,520,674 as of December 31, 2005, which increase was mainly due to the \$16,326,812 or 911.7% increase in current maturities of long-term debt and notes payable, described in greater detail above.

We had total working capital of \$1,715,867 and a ratio of current assets to current liabilities of 1.06 as of March 31, 2006.

We had net cash flows provided by operating activities of \$4,677,267 for the three months ended March 31, 2006, which was mainly attributable to an increase in prepaid and other assets of \$1,348,704, and an increase in prepaid commissions of \$925,413 in connection with prepaid commissions paid on sales of condominiums and town homes in the Sonesta Resort, offset by a \$962,729 decrease in receivables, \$1,148,515 of interest expense and \$1,142,527 of net income. The increase in prepaid and other assets was caused by our settlement of the Around The World Travel, Inc. ("AWT") Asset Purchase Agreement, described in greater detail above, which caused certain funds and assets that had been remitted to AWT to be treated as receivables.

We had total cash flows used in investing activities of \$1,260,938 for the three months ended March 31, 2006, which included \$30,176 spent for the acquisition of fixed assets and \$10,361,734 in capitalization of real estate carrying costs, offset by \$9,130,972 of income from financing activities in connection with the property sold to the District, as described in greater detail above. The \$9,130,972 of capitalized real estate carrying costs are costs related to the construction and development of the Sonesta Resort properties, which are capitalized until the units are closed (ownership is transferred to the buyer), and include the sale proceeds from the sale of the land to the District as described above. Once the units close, the accumulation of costs related to that particular unit is recognized as cost of goods sold.

We had net cash provided by financing activities of \$4,768,036 for the three months ended March 31, 2006, which was due to \$4,896,909 of proceeds from notes payable and \$308 from proceeds from the exercise of warrants offset by \$129,182 of payment of debt. The proceeds from note payable of approximately \$3,267,000 was due to amounts advanced pursuant to the Land Loan with Keybank as of March 31, 2006.

The purchase of the 99% interest in Reedy Creek Acquisition Company was financed through notes payable with SIBL and Banker's Credit Corporation.

We expect that we will require approximately \$2,500,000 through the end of the 2006 fiscal year for working capital for our travel management and services

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

businesses.

We estimate that the cost to complete the construction of Phase I of the Sonesta Resort will be approximately \$135,500,000 of which \$ 8,000,000 will be for resort amenities, \$64,000,000 will be for vertical construction on 294 units and \$49,500,000 will be for other costs such as contingencies, closing costs and soft costs such as architectural, engineering, and legal costs. An additional approximate amount of \$14,000,000 will be expended for horizontal construction costs which include all of Phase I requirements plus most of the infrastructure requirements for the entire Project. As of March 31, 2006, approximately \$14,850,000 had been advanced to the Company pursuant to the Land Loan and \$-0- had been advanced to the Company pursuant to the Construction Loan (as described and defined above).

On December 30, 2005, we closed on an aggregate of \$54,850,000 in senior debt to be used in the development of The Sonesta Orlando Resort at Tierra Del Sol. KeyBank, N.A. is the lender of the senior debt, which was provided to us in the form of two credit facilities. The first is a land loan in the amount of \$14,850,000, which is secured by Project land that is dedicated to specific phases of the development. The second is a \$40,000,000 revolving construction loan that will fund the development and construction for Phase 1 of the Sonesta Resort. Both loans are part of a comprehensive finance plan for the development of the Project that also includes funding in the amount of \$25,825,000 from the Westridge Community Development District ("CDD"), which bonds will be used to pay for infrastructure facilities for public purposes such as water supply and retention systems, roadways, green space and nature recreation areas. In addition to the KeyBank provided senior debt, the Project is also benefiting from \$25,825,000 in bonds issued by the CDD, a special purpose taxing district formed for the purpose of financing the installation of vital public services such as water supply and retention, sanitary and storm water sewer systems, roadways and the landscaping attendant to those uses. The CDD supports these initiatives, through the provision of capital and maintenance, via a tax upon the property owners of the district that utilizes a low finance rate (5.8% per annum) and a long-term amortization of the capital costs (30 years).

The first phase of site work on the Sonesta Resort, at an estimated cost exceeding \$19 million, will be funded by the CDD via the sale by the CDD of bonds issued on a non-recourse basis to the Company ("CDD Bonds"). The CDD was initially created by the Company in September 2003 and enabled by an order of a Florida State District Court. The CDD Bond issue was underwritten by KeyBanc Capital Markets Group in the amount of \$25,825,000. The first issue of the CDD Bonds were successfully sold and closed simultaneous with the closing of the Key Bank senior debt facilities. Upon closing of the loan, we repaid \$7,862,250 of short-term debt plus accrued interest of approximately \$256,512. This short-term debt originally matured on March 31, 2005, but it was extended until the closing of the KeyBank credit facilities in December 2005.

We believe that the sum of the construction loan and the bond sale proceeds will provide sufficient capital for the construction of Phase 1 of The Sonesta Orlando Resort at Tierra Del Sol. In June 2005, we began the earth moving and clearing process on the land for the Sonesta Resort and we expect to begin the vertical construction of Phase 1 in the third quarter of 2006. We will need to raise additional capital to begin and complete Phase 2 of the Sonesta Resort, assuming the construction of Phase 1 is successful, of which there can be no assurance. Additionally, we will need to raise significant capital to plan and construct our planned development activities on our Reedy Creek Property.

At March 31, 2006, we had an outstanding principal balance of \$6,000,000 under our secured revolving credit facility with Stanford, which bears interest at a fixed rate of 6% per annum payable quarterly in arrears and matures on December

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

18, 2008. At the sole election of the lender, any amount outstanding under the credit facility may be converted into shares of our common stock at a conversion price of \$15.00 per share. The \$6,000,000 credit facility is guaranteed by Malcolm J. Wright, our Chief Executive Officer and Chairman and is secured by a second mortgage on our Sonesta Orlando Resort property, including all fixtures and personal property located on or used in connection with these properties, and all of the issued and outstanding capital stock and assets of two of our subsidiaries, American Leisure Marketing & Technology, Inc. and Caribbean Leisure Marketing Limited.

As of March 31, 2006, we had an outstanding principal balance of \$4,250,000, under another secured revolving credit facility with Stanford, which bears interest at a fixed rate of 8% per annum payable quarterly in arrears. The credit facility is comprised of two tranches. The first tranche of \$1,250,000 matures on September 30, 2006, may solely be used for the working capital of our Hickory and TraveLeaders travel business and must immediately be repaid to the extent that the borrowed amount together with accrued and unpaid interest exceeds a borrowing base which is generally calculated as the lesser of \$1,250,000, or 50% of the dollar amount of TraveLeaders eligible accounts receivable minus such reserves as the lender may establish from time to time in its discretion. The second tranche of \$3,000,000 matures on April 22, 2007. At the sole election of the lender, any amount outstanding under the credit facility may be converted into shares of our common stock at a conversion price of \$10.00 per share. The credit facility is secured by collateral assignments of our stock in the active Travel Division subsidiaries as well as a collateral assignment of our first lien security interest in the assets formerly owned by Around The World Travel, Inc.

As of March 31, 2006, we had a total of \$1,355,000 outstanding under our secured revolving credit facility with Stanford, which bears interest at a fixed rate of 8% per annum and matures on April 22, 2007. The proceeds of this facility may be used solely for our call center operations in Antigua. Interest for the period from January 1, 2005 to March 31, 2006 was due on April 3, 2006 and interest is due quarterly in arrears for periods after April 1, 2006. At the sole election of the lender, any amount outstanding under the credit facility may be converted into shares of our common stock at a conversion price of \$10.00 per share. The credit facility is secured by all of the issued and outstanding stock of our subsidiary, Caribbean Leisure Marketing Limited.

We entered into another credit facility in the amount of \$305,000 with Stanford in September 2005 of which \$289,000 had been drawn as of March 31, 2006. The credit facility bears interest at 8.0% per annum and is secured by the assets and stock of the Company.

On December 29, 2005, Stanford International Bank, Ltd. ("SIBL") provided Tierra Del Sol with financial assistance to facilitate the establishment of the Land Loan and the Construction Loan. The financial assistance consisted of a loan to Tierra Del Sol of \$2,100,000 (the "SIBL Tierra Del Sol Loan"), and the establishment of letters of credit in favor of KeyBank in the amount of \$4,000,000 and \$2,000,000, respectively (the "Letters of Credit"). As additional consideration for this financial assistance, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of \$5.00 per share and warrants to purchase 154,000 shares of our common stock at an exercise price of \$0.001 per share. Additionally, in January 2006, in connection with the SIBL Reedy Creek Loan, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of \$5.00 per share and warrants to purchase 154,000 shares of the Company's common stock at an exercise price of \$0.001 per share. The warrants expire 5 years from issuance. The warrants contain anti-dilution provisions, including a provision which requires us to issue additional shares under the warrants if we issue or

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

sell any common stock at less than \$1.02 per share, or grant, issue or sell any options or warrants for shares of the Company's common stock to convert into shares of our common stock at less than \$1.02 per share. If we do issue or sell common stock, which would cause a re-pricing of the warrants issued to SIBL, it would likely have an adverse effect on the trading value of our common stock and could cause substantial dilution to our then shareholders.

Our subsidiary Hickory Travel Systems, Inc. owes \$250,000 pursuant to a note payable to Sabre, Inc. ("Sabre"), which final payment of \$250,000 on such note was due December 31, 2003. The note originally accrued interest at 8% per annum and is secured by the personal guaranty of William Chiles who is a Director of the Company. Interest has not been paid or accrued on this note since December 31, 2003, as there is no interest penalty or default rate applicable to the final unpaid payment. Sabre has not requested the final payment of \$250,000 of the promissory note from Hickory to date.

Additionally, Hickory has a \$375,900 loan through the U.S. Small Business Administration ("SBA") of which \$367,367 has been drawn as of March 31, 2006. The SBA loan is due by May 2033 and bears interest at 4% per annum with principal and interest payments of \$1,862 due monthly from May 2005 until May 2033. The SBA note is secured by Hickory's assets and the personal guaranty of William Chiles, who is our Director.

In connection with our purchase of the assets of Around The World Travel, Inc. ("AWT"), as of March 31, 2006 there is a balance from those liabilities we assumed from AWT of \$3,801,886, of which approximately \$376,375 is due in the next twelve months.

All of our credit facilities with Stanford contain customary covenants and restrictions, including covenants that prohibit us from incurring certain types

of indebtedness, paying dividends and making specified distributions. Failure to comply with these covenants and restrictions would constitute an event of default under our credit facilities, notwithstanding our ability to meet our debt service obligations. Upon the occurrence of an event of default, the lender may convert the debt to the company's common stock, accelerate amounts due under the applicable credit facility and may foreclose on collateral and/or seek payment from a guarantor of the credit facility. At March 31, 2006, we believe we were in compliance with the covenants and other restrictions applicable to us under each credit facility.

In connection with the exercise of the Reedy Creek Option, Reedy Creek Acquisition Company and SIBL agreed to modify the terms of the SIBL Reedy Creek Loan made by SIBL to Reedy Creek Acquisition Company. The modified loan terms are evidenced by a Renewed, Amended and Increased Promissory Note (the "Amended Note") made by Reedy Creek Acquisition Company in favor of SIBL. The Amended Note has a maturity date of December 31, 2006, a principal balance of \$8,000,000 and bears interest at the rate of 8% per year. Interest on the Amended Note is payable quarterly on June 30, 2006, September 30, 2006 and on the maturity date of the Amended Note. Upon an event of default as described in the Amended Note, SIBL has several rights and remedies, including causing the Amended Note to be immediately due and payable.

The Amended Note is secured by a second lien on the Reedy Creek Property. It is guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman pursuant to a Modification and Reaffirmation of Guaranty and Environmental Indemnity Agreement. In consideration for Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright earned a fee equal to three percent (3%) of principal amount of the Amended Note. The Company will pay this fee through the grant of 240,000

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

warrants to Mr. Wright to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration of the guaranty.

In connection with the exercise of the Reedy Creek Option, the Company and Reedy Creek Acquisition Company arranged to receive a \$7,000,000 loan from Bankers Credit Corporation ("Bankers Credit"). Under the terms of the Bankers Credit loan, Bankers Credit advanced Reedy Creek Acquisition Company \$3,000,000 at closing and an additional \$4,000,000 subsequent to the date of closing, for an aggregate of \$7,000,000.

The Bankers Credit loan is evidenced by a Promissory Note (the "Bankers Credit Note") and bears interest at the greater of the Wall Street Journal published prime rate plus 7.75%, not to exceed the highest rate allowable under Florida law or 15% per year. The interest rate of the Bankers Credit Note as of May 17, 2006 was 15% (with a prime rate, as reported by the Wall Street Journal of 8%). Interest on the Bankers Credit Note is payable monthly. The maturity date of the Bankers Credit Note is January 3, 2007, when all principal and unpaid interest is due and payable. Pursuant to the Bankers Credit Note, Reedy Creek Acquisition Company agreed to pay a 10% late charge on any amount of unpaid principal or interest under the Bankers Credit Note. The Bankers Credit Note is subject to a 1% exit fee. Additionally, if repaid by Reedy Creek Acquisition Company prior to July 3, 2006, the Bankers Credit Note is subject to an additional 1% repayment

fee; however, if repaid after July 3, 2006, the Bankers Credit Note is not subject to the repayment fee. Upon an event of default as described in the Bankers Credit Note, Bankers Credit has several rights and remedies, including causing the Bankers Credit Note to be immediately due and payable.

The Bankers Credit Note is secured by a first lien on the Reedy Creek Property. Additionally, the Bankers Credit Note is guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman pursuant to a Guaranty Agreement. In consideration for Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright earned a fee equal to three percent (3%) of the Bankers Credit Note. The Company will pay this fee through the grant of 210,000 warrants to Mr. Wright to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration of the guaranty.

Reedy Creek Acquisition Company utilized the initial proceeds from the Bankers Credit loan to pay a portion of the amount owed on the existing first mortgage note issued to the sellers of the Reedy Creek Property. The holder of this mortgage agreed to release the mortgage in exchange for this payment. Reedy Creek Acquisition Company has now paid the balance of this mortgage note upon the receipt of the balance of the Bankers Credit loan.

While we currently believe we have sufficient funds to continue our business plan and complete the construction of Phase 1 of the Sonesta Resort, moving forward, our growth and continued operations may be impaired by limitations on our access to the capital markets. In the event that our current anticipated costs of developing the Sonesta Resort and/or the Reedy Creek Property, are more than we anticipate, and/or our other travel service operations do not continue to generate revenue at their current levels, we may not have sufficient funds to complete such construction projects and/or repay amounts owed on the notes payable described above. As a result, we may be forced to abandon our development and construction plans and/or scale back our operations which would have a material adverse impact upon our ability to pursue our business plan and/or the value or common stock. There can be no assurance that capital from outside sources will be available, or if such financing is available, that it will not involve issuing further securities senior to our common stock or equity

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

financings which are dilutive to holders of our common stock.

RISK FACTORS

RISKS RELATING TO OUR CAPITAL AND LIQUIDITY NEEDS

WE HAVE A LIMITED HISTORY OF OPERATIONS AND WE HAVE A HISTORY OF OPERATING LOSSES.

Since our inception, we have been assembling our Travel Division including the acquisition of Hickory in October 2003 and TraveLeaders in December 2004, planning The Sonesta Orlando Resort at Tierra Del Sol, building travel club

membership databases, and assembling our management team. We have incurred net operating losses since our inception. As of December 31, 2005, we had an accumulated deficit of \$13,499,420 and as of March 31, 2006, we had an accumulated deficit of \$12,155,007.

WE MAY NOT GENERATE ENOUGH OPERATING REVENUE OR CAPITAL TO MEET OUR OPERATING AND DEVELOPMENT COSTS.

Our costs of establishing our business models for both the Travel Division and the Resort Development Division, including acquisitions and the due diligence costs of that process, together with the un-financed development costs incurred in the Resort Development Division requires significant capital. Historically, our sources for capital have been through loans from our founding and majority shareholders as well as from loans from our capital partner, Stanford. On December 29, 2005, certain affiliates of the Company closed two (2) credit facilities with Key Bank related to the Sonesta Resort. The credit facilities consisted of a \$40,000,000 revolving construction loan to be used to construct Phase 1 of the Sonesta Resort (the "Construction Loan") and a \$14,850,000 term loan used to finance the acquisition of the property for the Resort and to pay certain related costs (the "Land Loan"). If we are unable to generate enough operating revenue to satisfy our capital needs, or we cannot obtain future capital from our founding and majority shareholders or from Stanford, and/or if we are not able to repay the Construction Loan or the Land Loan, it will have a material adverse effect on our financial condition and results of operation.

WE OWE A SIGNIFICANT AMOUNT OF MONEY TO KEYBANK IN CONNECTION WITH THE CONSTRUCTION LOAN AND LAND LOAN, WHICH MONEY WE DO NOT CURRENTLY HAVE, AND WHICH LOANS ARE SECURED BY THE SONESTA RESORT.

The occurrence of any one or more "events of default" under the Land Loan and/or Construction Loan would allow KeyBank to pursue certain remedies against us including taking possession of the Sonesta Resort project; withholding further disbursement of the proceeds of the loan and/or terminate KeyBank's obligations to make further disbursements thereunder; and/or declaring the note evidencing the loans to be immediately due and payable. We do not currently have cash on hand sufficient to repay the approximately \$14,850,000 which was borrowed from KeyBank pursuant to the Land Loan and Construction Loan as of March 31, 2006. The Land Loan and Construction Loan are due on June 28, 2007 and December 28, 2007, respectively, and we do not currently have sufficient cash to repay such loans when due. Furthermore, we will likely not have sufficient cash to repay such loans until the completion of the units in the Sonesta Report, if at all. If we do not repay the amounts owing under the Construction Loan and Land Loan when due, KeyBank may take possession of the Sonesta Resort project, and we may be forced to curtail or abandon our current business plans, which could cause the value of our securities to become worthless.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

WE HAVE RECEIVED \$11,605,000 MILLION OF CONVERTIBLE DEBT FINANCING FROM STANFORD, WHICH IS SECURED BY MORTGAGES ON OUR PROPERTY AND LIENS ON OUR ASSETS.

We have received an aggregate of \$11,605,000 million of convertible debt financing from Stanford. The terms of our financial arrangements with Stanford are secured by the following mortgages on our properties and liens on our assets:

- Our \$6,000,000 credit facility has been re-structured to be secured by a first mortgage on land owned by third parties. However, Stanford has agreed that the mortgage securing the \$6,000,000 credit facility shall be released in exchange for payment of the primary obligations it secures, which includes the \$2,100,000 loan to Tierra Del Sol and the release of the Letters Of Credit. In consideration of Stanford's release of the mortgage securing the \$6,000,000 credit facility, we have granted Stanford warrants to acquire up to 2% of each of the Development Partnerships. A component of that collateral is that Stanford has an option to elect to receive warrants to purchase Series E Preferred Stock in lieu of and equivalent to distributions (after tax) from the Development Partnerships. Series E Preferred Stock has a conversion value to common stock at \$15.00 per common share. Other assets previously provided to secure this credit facility, including all of the issued and outstanding capital stock and assets of two of our subsidiaries, American Leisure Marketing & Technology, Inc. and Caribbean Leisure Marketing Limited remain as security for the debt.
- Our \$4,250,000 credit facility is secured by collateral assignments of our stock in the active Travel Division subsidiaries as well as a collateral assignment of our first lien security interest in the assets formerly owned by Around The World Travel, Inc.
- Our \$1,355,000 credit facility is secured by all of the issued and outstanding stock of our subsidiary, Caribbean Leisure Marketing Limited. This facility is non-recourse to the Company but for the assets and revenues of that subsidiary.

In addition, Malcolm J. Wright, our Chief Executive Officer and Chairman provided a personal guarantee for our \$6,000,000 credit facility. If we fail to comply with the covenants in our credit facilities, Stanford can elect to accelerate the amounts due under the credit facilities and may foreclose on our assets and property that secure the loans.

BUSINESS ACQUISITIONS OR JOINT VENTURES MAY DISRUPT OUR BUSINESS, DILUTE SHAREHOLDER VALUE OR DISTRACT MANAGEMENT ATTENTION.

As part of our business strategy, we may consider the acquisition of, or investments in, other businesses that offer services and technologies complementary to ours. If the analysis used to value acquisitions is faulty, the acquisitions could have a material adverse affect on our operating results and/or the price of our common stock. Acquisitions also entail numerous risks, including:

- difficulty in assimilating the operations, products and personnel of the acquired business;
- potential disruption of our ongoing business;
- unanticipated costs associated with the acquisition;
- inability of management to manage the financial and strategic

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

- position of acquired or developed services and technologies;
- the diversion of management's attention from our core business;
- inability to maintain uniform standards, controls, policies and procedures;
- impairment of relationships with employees and customers, which may occur as a result of integration of the acquired business;
- potential loss of key employees of acquired organizations;
- problems integrating the acquired business, including its information systems and personnel;
- unanticipated costs that may harm operating results; and
- risks associated with entering an industry in which we have no (or limited) prior experience.

If any of these occur, our business, results of operations and financial condition may be materially adversely affected.

RISKS RELATED TO OUR RESORT DEVELOPMENT DIVISION

WE OWE A SIGNIFICANT AMOUNT OF MONEY TO KEYBANK, NATIONAL ASSOCIATION, WHICH WE DO NOT CURRENTLY HAVE FUNDS TO RE-PAY, AND WHICH LOANS INCLUDE LIENS ON OUR PROPERTIES.

In December 2005, we closed two credit facilities with KeyBank, National Association ("KeyBank") related to the Sonesta Resort. The credit facilities consisted of a \$40,000,000 revolving credit line, for financing up to \$72,550,000 (the "Construction Loan") and a \$14,850,000 term loan to be used to finance the acquisition of the property for the resort (the "Land Loan"). The Construction Loan and the Land Loan bear interest at the rate of the daily London Interbank Offered Rate ("LIBOR") plus 2.75%, and plus 3.10%, respectively, currently 8.16% and 8.51%, respectively, with the LIBOR equal to 5.51% as of May 17, 2006. The maturity date of the Construction Loan is December 28, 2007 and the maturity date of the Land Loan is June 28, 2007. The Construction Loan and the Land Loan are secured by a first lien on the land within Phase 1 and Phase 2, respectively of the Sonesta Resort, including any improvements, easements, and rights of way; a first lien and security interest in all fixtures and personal property, an assignment of all leases, subleases and other agreements relating to the property; an assignment of construction documents; a collateral assignment of all contracts and agreements related to the sale of each condominium unit; a collateral assignment of all purchase deposits and any management and/or operating agreement. As of the date of this filing we have borrowed \$0.00 from KeyBank pursuant to the Construction Loan and \$14,850,000 under the Land Loan, which amount we do not currently have funds on hand to repay. We are under no pressure to repay the Land Loan. Our business plan includes retiring that debt with a construction loan to build Phase 2 of

the Sonesta Resort. We intend to use the proceeds of the sale of the units built with the Phase 1 Construction Loan. Since any units that are built with the Construction Loan are subject to bona fide third party sales agreements that have been approved by Key Bank, we believe that the risk of not repaying any amounts drawn under the Construction Loan is manageable.

WE NEED SIGNIFICANT ADDITIONAL FINANCE FACILITIES TO BEGIN AND COMPLETE THE DEVELOPMENT OF PHASE 2 OF THE SONESTA RESORT AND OUR PLANNED CONSTRUCTION OF THE REEDY CREEK PROPERTY.

While we currently believe we have sufficient capital to complete the development of Phase 1 of the Sonesta Resort, we do not plan to use Company's revenue to begin or complete Phase 2 of the Sonesta Resort and/or our planned development of the Reedy Creek Property (as described above). Our plan for the financing of the Phase 2 town homes is to use a program from a national mortgage

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

lender to employ construction loans issued to each purchaser that will, upon completion, convert to permanent, conventional mortgages. The finance plan for the Phase 2 amenities is to employ a line of credit secured by a segment of the profits from the sale of the residential units. We will employ a conventional construction loan for the condominium units. As of this date, the Company has not yet secured the line of credit for the amenities or the construction loan for the condominium units. It is impossible at this time for us to estimate the cost of completing Phase 2 of the Sonesta Resort and/or the development of the Reedy Creek Property, however, based upon the size of the projects, we would anticipate such costs to be substantial. We will not begin the construction of Phase 2 until we have capitalized the construction appropriately. If we cannot obtain the appropriate financing, we may have to delay the commencement of the construction of Phase 2 until such time as we have adequate funding available. We may never have sufficient capital to begin or complete the development of Phase 2 of the Sonesta Resort which could force us to modify the development plan for the Sonesta Resort. Our business plan for the development of the Reedy Creek Property is to enter into a partnership agreement with an experienced and high credit development partner, and as such, we do not expect to raise capital or incur debt to begin or complete that project. At present, the Company has not yet chosen such partner although we are in receipt of proposals from qualified developers that are consistent with our business plan.

THE CONSTRUCTION OF THE SONESTA RESORT IS SUBJECT TO DELAYS AND COST OVERRUNS, WHICH COULD CAUSE THE ESTIMATED COST OF THE RESORT TO INCREASE AND WHICH COULD CAUSE US TO CURTAIL OR ABANDON THE CONSTRUCTION OF THE SONESTA RESORT.

We believe that we currently have sufficient capital to complete Phase 1 of the Sonesta Resort. However, all construction projects, especially construction projects as large as our planned Sonesta Resort are subject to delays and cost overruns. We have experienced cost increases and overruns since sales commenced in 2004, due to significant price increases in construction materials, which have been exacerbated by the hurricanes of 2004 and 2005. The increased costs have impacted construction throughout the southeastern United States and are not unique to us. Because of the significant cost increases, we are evaluating and plan to implement a program to revise upwards the price of sold and unsold units

or to cancel contracts on units because of cost overruns. If we continue to experience substantial delays or additional cost overruns during the construction of Phase 1 of the Sonesta Resort, or both, we could be forced to obtain additional financing to complete the project, which could be at terms worse than our current funding, and could force us to curtail or abandon our current plans for Phases 1 and 2 of the Sonesta Resort. As a result, sales of our town homes and condominiums could be severely effected, which could force us to curtail or abandon our business plans and/or could make it difficult if not impossible to repay the significant amount of money due to KeyBank (as explained above), which as a result could cause the value of our securities to become worthless.

EXCESSIVE CLAIMS FOR DEVELOPMENT-RELATED DEFECTS IN ANY REAL ESTATE PROPERTIES THAT WE PLAN TO BUILD THROUGH OUR RESORT DEVELOPMENT DIVISION COULD ADVERSELY AFFECT OUR LIQUIDITY, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We will engage third-party contractors to construct our resorts. However, our customers may assert claims against us for construction defects or other perceived development defects including, but not limited to, structural integrity, the presence of mold as a result of leaks or other defects, electrical issues, plumbing issues, or road construction, water or sewer defects. In addition, certain state and local laws may impose liability on property developers with respect to development defects discovered in the future. To the extent that the contractors do not satisfy any proper claims as

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

they are primarily responsible, a significant number of claims for development-related defects could be brought against us. To the extent that claims brought against us are not covered by insurance, our payment of those claims could adversely affect our liquidity, financial condition, and results of operations.

MALCOLM J. WRIGHT, WHO SERVES AS OUR CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND AS CHAIRMAN OF THE BOARD OF DIRECTORS, IS INVOLVED IN OTHER BUSINESSES THAT HAVE CONTRACTED WITH US AND IS ALSO INVOLVED WITH PROPERTY DEVELOPMENT PROJECTS THAT MAY BE IN COMPETITION WITH US.

Malcolm J. Wright is the President of American Leisure Real Estate Group, Inc., a real estate development company with which we have contracted for the development of our resorts including The Sonesta Orlando Resort at Tierra Del Sol ("ALREG"). Mr. Wright has an 81% interest in ALREG; however, we have no interest in ALREG. Additionally, Mr. Wright is an officer of Xpress Ltd., with which we have contracted for exclusive sales and marketing for The Sonesta Orlando Resort at Tierra Del Sol. Mr. Wright is also an officer and shareholder of Inovative Concepts, Inc., which operates a landscaping business, M J Wright Productions, Inc., which owns our Internet domain names, Resorts Development Group, LLC which develops resort properties in Orlando including Bella Citta, Los Jardines Del Sol, The Preserve, Tortuga Cay and Sherberth Development LLC, Resorts Construction, LLC with whom we intend to contract to construct part of the Sonesta Resort as described above, Resorts Concepts, LLC which operates a design business, Titan Manufacturing, LLC from whom we intend to purchase roof tiles for our developments, South Beach Resorts LLC in conjunction with Mr. Pauzar and Mr. Maddock which is redeveloping the Boulevard Hotel on South Beach, Miami. Because Mr. Wright is employed by us and the other party to these transactions, Mr. Wright might profit from a transaction when we do not.

Management believes that these transactions are in the best interest of, or not detrimental to, the Company, and are as good or better than could be achieved, if even possible to achieve, by contracting with a wholly unrelated party. Additionally, the transactions were negotiated by us in a manner akin to an arms length transaction. Additionally, from time to time, Mr. Wright pursues real estate investment and sales ventures that may be in competition with ventures that we pursue or plan to pursue. Mr. Wright, however, has personally guaranteed our debts, and has encumbered his personal assets to secure financing for the above described projects. Additionally, to preserve Company liquidity, Mr. Wright has been deferring his annual base salary since 2002.

BECAUSE MALCOLM J. WRIGHT, WHO SERVES AS OUR CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER AND THE CHAIRMAN OF THE BOARD OF DIRECTORS, IS INVOLVED IN A NUMBER OF OTHER BUSINESSES, HE MAY NOT BE ABLE OR WILLING TO DEVOTE A SUFFICIENT AMOUNT OF TIME TO OUR BUSINESS OPERATIONS.

Malcolm J. Wright is the President of ALREG, Xpress Ltd., Inovative Concepts, Inc., M J Wright Productions, Inc., Resorts Development Group, LLC, Resorts Construction, LLC, Titan Manufacturing LLC, Tortuga Cay Resort, LLC, Osceola Business Managers, Inc., Florida World, Inc., SBR Holding LLC (a non trading holding company of South Beach Resorts, LLC), RDG LLC, and SunGate Resort Villas, Inc., It is possible that the demands on Mr. Wright from these other businesses could increase with the result that he may have less time to devote to our business. We do not have an employment agreement with Mr. Wright and he is under no requirement to spend a specified amount of time on our business. As a result, Mr. Wright may not spend sufficient time in his roles as an executive officer and as Chairman of our company to realize our business plan. If Mr. Wright does not have sufficient time to serve our company, it could have a material adverse effect on our business and results of operations.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

WE MAY PROVIDE THE EXECUTIVE OFFICERS OF OUR SUBSIDIARIES AN AGGREGATE BONUS OF UP TO 19% OF THE PRE-TAX PROFITS OF THE SUBSIDIARY IN WHICH THEY SERVE AS OUR EXECUTIVE OFFICERS, WHICH WOULD REDUCE ANY PROFITS THAT WE MAY EARN.

We may provide the executive officers of each of our subsidiaries an aggregate bonus of up to 19% of the pre-tax profits, if any, of the subsidiaries in which they serve as executive officers. For example, Malcolm J. Wright would receive 19% of the pre-tax profits of Leisureshare International Ltd, Leisureshare International Espanola SA, American Leisure Homes, Inc., Advantage Professional Management Group, Inc., Tierra Del Sol Resort, Inc., and Wright Resorts Villas & Hotels, Inc. However, we do not have any agreements with our officers regarding the bonus other than our agreement with L. William Chiles. Mr. Chiles is entitled to receive 19% of the profits of Hickory up to a maximum payment over the life of his contract of \$2,700,000. As Mr. Chiles' bonus is limited, it is not subject to the buy-out by us described below. The executive officers of our other subsidiaries would share a bonus of up to 19% of the pre-tax profits of the subsidiary in which they serve as executive officers. We would retain the right, but not the obligation to buy out all of the above agreements after a period of five years by issuing such number of shares of our common stock equal

to the product of 19% of the average after-tax profits for the five-year period multiplied by one-third of the price-earnings ratio of our common stock at the time of the buyout divided by the greater of the market price of our common stock or \$5.00. If we pay bonuses in the future, it will reduce our profits and the amount, if any, that we may otherwise have available to pay dividends to our preferred and common stockholders. Additionally, if we pay bonuses in the future it will take away from the amount of money we have to repay our outstanding loans and the amount of money we have available for reinvestment in our operations and as a result, our future results of operations and business plan could be affected by such bonuses, and we could be forced to curtail or abandon our current business plan and plans for future expansion.

WE HAVE EXPERIENCED DELAYS IN OBTAINING SIGNATURES FOR AGREEMENTS AND TRANSACTIONS, WHICH HAVE PREVENTED THEM FROM BEING FINALIZED AND/OR DISCLOSED IN OUR FILINGS.

We have experienced delays in obtaining signatures for various agreements and transactions in the past. In some cases, we have either disclosed the terms of these agreements and transactions in our periodic and other filings with the SEC and/or filed such agreements with only the limited signatures which we could obtain by the required filing dates of such reports, with the intention to re-file such agreements at a later date once we are able to obtain all of the required signatures; however, these agreements and transactions are not final. Until they are finalized, their terms are subject to change although we do not have any present intention to do so. If the terms of these agreements and transactions were to change, we may be required to amend our prior disclosure and any revisions could be substantial.

WE RELY ON KEY MANAGEMENT AND IF WE LOSE ANY OF THEM, IT COULD HAVE A MATERIAL ADVERSE AFFECT ON OUR BUSINESS AND RESULTS OF OPERATIONS.

Our success depends, in part, upon the personal efforts and abilities of Malcolm J. Wright and Frederick Pauzar. Mr. Wright is the Chairman of the Company and the Company's Chief Executive Officer. Mr. Pauzar is the President, Chief Operating Officer and a Director of the Company. Our ability to operate and implement our business plan is dependent on the continued service of Messrs. Wright and Pauzar. We are in the process of entering into written employment agreements with Mr. Wright and Mr. Pauzar. If we are unable to retain and motivate them on economically feasible terms, our business and results of operations will be materially adversely affected. In addition, the absence of

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Mr. Wright or Mr. Pazuar may force us to seek a replacement who may have less experience or who may not understand our business as well.

IF WE DO NOT EVENTUALLY PAY MALCOLM J. WRIGHT, OUR CHIEF EXECUTIVE OFFICER AND DIRECTOR FOR HIS SERVICES AS AN EXECUTIVE OFFICER AND A DIRECTOR, WE COULD LOSE HIS SERVICES.

We have not paid cash to Malcolm J. Wright for his services as an executive officer and a Director as of the filing of this report; however, he is entitled to receive various forms of remuneration from us such as accrued salary of \$500,000 per year beginning in 2004, accrued salary of \$250,000 per year from 2002 to 2004, and accrued compensation of \$18,000 per year for serving as a director. We may pay Mr. Wright a bonus of up to 19% of the pre-tax profits, if any, of various subsidiaries as discussed above. We have made payments to entities controlled by Mr. Wright in consideration for substantial valuable services that those entities have provided to us for The Sonesta Orlando Resort at Tierra Del Sol. As of March 31, 2006, the total remuneration which Mr. Wright had accrued in connection with his salary as an officer of the Company had totaled \$2,900,000 and such salary had accrued \$558,000 in interest as of March 31, 2006. If we do not eventually pay cash to Mr. Wright for his salary, director's compensation and bonus, he may determine to spend less of his time on our business or to resign his positions as an officer and a director.

COMPANY'S AFFILIATED WITH OUR CHIEF EXECUTIVE OFFICER AND DIRECTOR, MALCOLM J. WRIGHT ARE PAID A SUBSTANTIAL AMOUNT OF OUR REVENUES IN CONNECTION WITH SERVICES RENDERED.

Certain companies controlled by our Chief Executive Officer and Director, Malcolm J. Wright, including American Leisure Real Estate Group, Inc. ("ALRG"), which entered into an exclusive Development Agreement with our subsidiary, Tierra del Sol Resort, Inc. ("TDSR") and Xpress, Ltd. ("Xpress"), which entered into an exclusive sales and marketing agreement with TDSR in November 2003, are paid substantial fees in connection with services rendered to us in connection with such agreements. In connection with ALRG's Development Agreement with TDSR, we are required to pay ALRG a fee in the amount of 4% of the total costs of the development of the Sonesta Resort paid by ALRG. As of March 31, 2006, the total costs and fees paid by ALRG amounted to \$19,829,898, of which 4% of such amount is equal to approximately \$793,196. In connection with Xpress' sales and marketing agreement, we agreed to pay Xpress a sales fee in the amount of 3% of the total sales prices received by TDSR in connection with sales of units in the Sonesta Resort, which shares are payable in two installments, one-half when the rescission period has elapsed in a unit sales agreement and the other half upon the actual conveyance of the unit. As of March 31, 2006, total sales of units in the Sonesta Resort were approximately \$231,322,549, and as a result, TDSR was obligated to pay Xpress a fee of \$6,939,677 in connection with sales and management fees, and as of March 31, 2006, \$6,765,244 had been paid to Xpress and \$174,433 remains. Additionally, TDSR will be obligated to pay Xpress \$3,469,838, the other half of the sales fees upon conveyance of the units. These payments represent a significant portion of our non-restricted current cash and equivalents and as a result of such payments, we could have less cash on hand than we will require for our operations and upcoming liabilities. Additionally, as a result of such payments, we may be forced to curtail or scale back our business plan, which could have a material adverse effect on the trading value of our common stock.

RISKS RELATED TO OUR TRAVEL DIVISION

WE NEED APPROXIMATELY \$2,500,000 OF CAPITAL THROUGH THE END OF THE 2005 FISCAL

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

YEAR FOR OUR TRAVEL DIVISION OPERATIONS AND THE OPERATIONS OF HICKORY, WHICH MAY NOT BE AVAILABLE TO US ON FAVORABLE TERMS, IF AT ALL.

We anticipate needing to raise approximately \$2,000,000 through the end of the 2006 fiscal year for the working capital needs for the Travel Division, as well as approximately \$500,000 for the operations of Hickory, which includes Hickory's requirement to cover its seasonal losses, and Travelers' requirements during its reorganization to adopt our business models. If we do not receive a sufficient amount of additional capital on acceptable terms, or at all, we may be unable to fully implement our business plan. We have identified sources of additional working capital, but we do not have any written commitments from third parties or from our officers, directors or majority shareholders. Additional capital may not be available to us on favorable terms, if at all. If we cannot obtain a sufficient amount of additional capital, we will have to delay, curtail or scale back some or all of our travel operations, any of which would materially adversely affect our travel businesses. In addition, we may be required to delay the acquisition of additional travel agencies and restructure or refinance all or a portion of our outstanding debt.

OUR COMMISSIONS AND FEES ON CONTRACTS WITH SUPPLIERS OF TRAVEL SERVICES FOR OUR TRAVEL DIVISION MAY BE REDUCED OR THESE CONTRACTS MAY BE CANCELLED AT WILL BY THE SUPPLIERS BASED ON OUR VOLUME OF BUSINESS, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS.

Our suppliers of travel services including airline, hotel, cruise, tour and car rental suppliers may reduce the commissions and fees that we earn under contract with them based on the volume of business that we generate for them. These contracts generally renew annually and in some cases may be cancelled at will by the suppliers. If we cannot maintain our volume of business, our suppliers could contract with us on terms less favorable than the current terms of our contracts or the terms of their contracts with our competitors, exclude us from the products and services that they provide to our competitors, refuse to renew our contracts, or, in some cases, cancel their contracts with us at will. In addition, our suppliers may not continue to sell services and products through global distribution systems on terms satisfactory to us. If we are unable to maintain or expand our volume of business, our ability to offer travel service or lower-priced travel inventory could be significantly reduced. Any discontinuance or deterioration in the services provided by third parties, such as global distribution systems providers, could prevent our customers from accessing or purchasing particular travel services through us. If these suppliers were to cancel or refuse to renew our contracts or renew them on less favorable terms, it could have a material adverse effect on our business, financial condition or results of operations.

OUR SUPPLIERS OF TRAVEL SERVICES TO OUR TRAVEL DIVISION COULD REDUCE OR ELIMINATE OUR COMMISSION RATES ON BOOKINGS MADE THROUGH US BY PHONE AND OVER THE INTERNET, WHICH COULD REDUCE OUR REVENUES.

We receive commissions paid to us by our travel suppliers such as hotel chains and cruise companies for bookings that our customers make through us by phone and over the Internet. Consistent with industry practices, our suppliers are not obligated by regulation to pay any specified commission rates for bookings made through us or to pay commissions at all. Over the last several years, travel suppliers have substantially reduced commission rates and our travel suppliers have reduced our commission rates in certain instances. Future reductions, if any, in our commission rates that are not offset by lower operating costs or increased volume could have a material adverse effect on our business and results of operations.

FAILURE TO MAINTAIN RELATIONSHIPS WITH TRADITIONAL TRAVEL AGENTS FOR OUR TRAVEL

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

DIVISION COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS.

Hickory has historically received, and expects to continue to receive, a significant portion of its revenue through relationships with traditional travel agents. Maintenance of good relationships with these travel agents depends in large part on continued offerings of travel services in demand, and good levels of service and availability. If Hickory does not maintain good relations with its travel agents, these agents could terminate their memberships and use of Hickory's products and services, which would have a material adverse effect on our business and results of operations.

DECLINES OR DISRUPTIONS IN THE TRAVEL INDUSTRY COULD SIGNIFICANTLY REDUCE OUR REVENUE FROM THE TRAVEL DIVISION.

Potential declines or disruptions in the travel industry may result from any one or more of the following factors:

- price escalation in the airline industry or other travel related industries;
- airline or other travel related strikes;
- political instability, war and hostilities;
- long term bad weather;
- fuel price escalation;
- increased occurrence of travel-related accidents; and/or
- economic downturns and recessions.

OUR TRAVEL REVENUES MAY FLUCTUATE FROM QUARTER TO QUARTER DUE TO SEVERAL FACTORS INCLUDING FACTORS THAT ARE OUTSIDE OF OUR CONTROL, AND IF BECAUSE OF THESE FACTORS, OUR REVENUES ARE BELOW OUR EXPECTATIONS IT WOULD LIKELY HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS.

We may experience fluctuating revenues because of a variety of factors, many of which are outside of our control. These factors may include, but are not limited to, the timing of new contracts; reductions or other modifications in our clients' marketing and sales strategies; the timing of new product or service offerings; the expiration or termination of existing contracts or the reduction in existing programs; the timing of increased expenses incurred to obtain and support new business; changes in the revenue mix among our various service offerings; labor strikes and slowdowns at airlines or other travel businesses; and the seasonal pattern of Travelers' business and the travel agency members of Hickory. In addition, we make decisions regarding staffing levels, investments and other operating expenditures based on our revenue forecasts. If our revenues are below expectations in any given quarter, our operating results for that quarter would likely be materially adversely affected.

GLOBAL TRAVEL DISTRIBUTION SYSTEM CONTRACTS THAT WE MAY ENTER INTO GENERALLY PROVIDE FOR FINANCIAL PENALTIES FOR NOT ACHIEVING PERFORMANCE OBJECTIVES.

We are seeking to enter into multi-year global distribution system contracts. These contracts typically cover a five-year period and would require us to meet certain performance objectives. If we do not structure a global distribution system contract effectively, it may trigger financial penalties if the performance objectives are not met. In the event that we enter into global distribution system contracts and are unable to meet the performance objectives, it would have a material adverse effect on our business, liquidity and results of operations.

OUR CONTRACTS WITH CLIENTS OF THE TRAVELERS BUSINESS DO NOT GUARANTEE THAT WE WILL RECEIVE A MINIMUM LEVEL OF REVENUE, ARE NOT EXCLUSIVE, AND MAY BE TERMINATED ON RELATIVELY SHORT NOTICE.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Our contracts with clients of the TraveLeaders business do not ensure that we will generate a minimum level of revenue, and the profitability of each client may fluctuate, sometimes significantly, throughout the various stages of our sales cycles. Although we will seek to enter into multi-year contracts with our clients, our contracts generally enable the client to terminate the contract, or terminate or reduce customer interaction volumes, on relatively short notice. Although some contracts require the client to pay a contractually agreed amount in the event of early termination, there can be no assurance that we will be able to collect such amount or that such amount, if received, will sufficiently compensate us for our investment in any canceled sales campaign or for the revenues we may lose as a result of the early termination. If we do not generate minimum levels of revenue from our contracts or our clients terminate our multi-year contracts, it will have a material adverse effect on our business, results of operation and financial condition.

WE RECEIVE CONTRACTUALLY SET SERVICE FEES AND HAVE LIMITED ABILITY TO INCREASE OUR FEES TO MEET INCREASING COSTS.

Most of our travel contracts have set service fees that we may not increase if, for instance, certain costs or price indices increase. For the minority of our contracts that allow us to increase our service fees based upon increases in cost or price indices, these increases may not fully compensate us for increases in labor and other costs incurred in providing the services. If our costs increase and we cannot, in turn, increase our service fees or we have to decrease our service fees because we do not achieve defined performance objectives, it will have a material adverse effect on our business, results of operations and financial condition.

THE TRAVEL INDUSTRY IS LABOR INTENSIVE AND INCREASES IN THE COSTS OF OUR EMPLOYEES COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, LIQUIDITY OR RESULTS OF OPERATIONS.

The travel industry is labor intensive and has experienced high personnel turnover. A significant increase in our personnel turnover rate could increase our recruiting and training costs and decrease operating effectiveness and productivity. If we obtain a significant number of new clients or implement a significant number of new, large-scale campaigns, we may need to recruit, hire and train qualified personnel at an accelerated rate, but we may be unable to do so. Because significant portions of our operating costs relate to labor costs, an increase in wages, costs of employee benefits, employment taxes or other costs associated with our employees could have a material adverse effect on our business, results of operations or financial condition.

OUR INDUSTRY IS SUBJECT TO INTENSE COMPETITION AND COMPETITIVE PRESSURES COULD ADVERSELY AFFECT OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

We believe that the market in which we operate is fragmented and highly competitive and that competition may intensify in the future. We compete with small firms offering specific applications, divisions of large entities, large independent firms and the in-house operations of clients or potential clients. A number of competitors have or may develop greater capabilities and resources than us. Additional competitors with greater resources than us may enter our market. Competitive pressures from current or future competitors could cause our services to lose market acceptance or result in significant price erosion, all of which could have a material adverse effect upon our business, results of operations or financial condition.

WE RELY AND PLAN TO RELY ON ONLY A FEW MAJOR CLIENTS FOR OUR REVENUES.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

We plan to focus our marketing efforts on developing long-term relationships with companies in our targeted travel and vacation resort industry. As a result, we will derive a substantial portion of our revenues from relatively few clients. There can be no assurances that we will not continue to be dependent on a few significant clients, that we will be able to retain those clients, that the volumes of profit margins will not be reduced or that we would be able to replace such clients or programs with similar clients or programs that would generate a comparable profit margin. Consequently, the loss of one or more of those clients could have a material adverse effect on our business, results of operations or financial condition.

RISKS RELATED TO OUR COMMUNICATIONS DIVISION

WE MAY NOT BE ABLE TO KEEP UP WITH CURRENT AND CHANGING TECHNOLOGY ON WHICH OUR BUSINESS IS DEPENDENT.

Our call center and communications business is dependent on our computer and communications equipment and software capabilities. The underlying technology is continually changing. Our continued growth and future profitability depends on a number of factors affected by current and changing technology, including our ability to:

- expand our existing service offerings;
- achieve cost efficiencies in our existing call centers; and
- introduce new services and products that leverage and respond to changing technological developments.

The technologies or services developed by our competitors may render our products or services non competitive or obsolete. We may not be able to develop and market any commercially successful new services or products. We have considered integrating and automating our customer support capabilities, which we expect would decrease costs by a greater amount than any decrease in revenues; however, we could be wrong in these expectations. Our failure to maintain our technological capabilities or respond effectively to technological changes could have a material adverse effect on our business, results of operations or financial condition.

A BUSINESS INTERRUPTION AT OUR CALL CENTER, WHETHER OR NOT PROLONGED, COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Our call center business operations depend upon our ability to protect our call center, computer and telecommunications equipment and software systems against damage from fire, power loss, telecommunications interruption or failure, computer viruses, natural disaster and other similar events. In the event we experience a temporary or permanent interruption at our call center and our contracts do not provide relief, our business could be materially adversely affected and we could be required to pay contractual damages to some clients or allow some clients to terminate or renegotiate their contracts with us. In the event that we experience business interruptions, it would have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATING TO OUR STOCK AND GENERAL BUSINESS RISKS

RE-PRICING WARRANTS AND ISSUING ADDITIONAL WARRANTS TO OBTAIN FINANCING HAS CAUSED AND MAY CAUSE ADDITIONAL DILUTION TO OUR EXISTING STOCKHOLDERS.

In the past, to obtain additional financing, we have modified the terms of our

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

warrant agreements to lower the exercise price per share to \$.001 from \$5.00 with respect to warrants to purchase 100,000 shares of our common stock and to \$.001 from \$2.96 with respect to warrants to purchase 1,350,000 shares of our common stock. Additionally, we have granted an additional 616,000 warrants to SIBL and affiliates to purchase shares of our Common Stock at \$5.00 per share and 308,000 warrants to SIBL and affiliates to purchase shares of our Common Stock at \$.001 per share. Re-pricing of our warrants and issuing additional warrants has caused and may cause substantial additional dilution to our existing shareholders and shareholders owning shares of our common stock at the time of the exercise of such warrants described above, if exercised.

WARRANTS GRANTED TO STANFORD INTERNATIONAL BANK, LTD., IN CONNECTION WITH THE TIERRA DEL SOL LOAN AND LETTERS OF CREDIT CONTAIN ANTI-DILUTION FEATURES, WHICH COULD EFFECT THE VALUE OF OUR COMMON STOCK.

On December 29, 2005, Stanford International Bank, Ltd. ("SIBL") provided Tierra Del Sol with financial assistance to facilitate the establishment of the Land Loan and the Construction Loan. The financial assistance consisted of a loan to Tierra Del Sol of \$2,100,000 (the "SIBL Tierra Del Sol Loan"), and the establishment of letters of credit in favor of KeyBank in the amount of \$4,000,000 and \$2,000,000, respectively (the "Letters of Credit"). As additional consideration for this financial assistance, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of \$5.00 per share and warrants to purchase 154,000 shares of our common stock at an exercise price of \$.001 per share. Additionally, in January 2006, in connection with the SIBL Reedy Creek Loan, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of \$5.00 per share and warrants to purchase 154,000 shares of the Company's common stock at an exercise price of \$.001 per share. The warrants expire 5 years from the dates of issuance. The warrants contain anti-dilution provisions, including a provision which requires us to issue additional shares under the warrants if we issue or sell any common stock at less than \$1.02 per share, or grant, issue or sell any options or warrants for shares of the Company's common stock to convert into shares of our common stock at less than \$1.02 per share. If we do issue or sell common stock which causes a re-pricing of the warrants issued to SIBL, it would likely have an adverse effect on the trading value of our common stock and could cause substantial dilution to our then shareholders.

THERE MAY NOT BE AN ACTIVE OR LIQUID TRADING MARKET FOR OUR COMMON STOCK, WHICH MAY LIMIT INVESTORS' ABILITY TO RESELL THEIR SHARES.

An active and liquid trading market for our common stock may not develop or, if developed, such a market may not be sustained. In addition, we cannot predict the price at which our common stock will trade. If there is not an active or liquid trading market for our common stock, investors in our common stock may have limited ability to resell their shares.

WE HAVE AND MAY CONTINUE TO ISSUE PREFERRED STOCK THAT HAS RIGHTS AND PREFERENCES OVER OUR COMMON STOCK.

Our Articles of Incorporation, as amended, authorize our Board of Directors to issue preferred stock, the relative rights, powers, preferences, limitations, and restrictions of which may be fixed or altered from time to time by the Board of Directors. Accordingly, the Board of Directors may, without approval from the shareholders of our common stock, issue preferred stock with dividend, liquidation, conversion, voting, or other rights that could adversely affect the voting power and other rights of the holders of our common stock. The preferred stock can be utilized, under certain circumstances, as a method of discouraging, delaying, or preventing a change in our ownership and management that shareholders might not consider to be in their best interests. We have issued

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

various series of preferred stock, which have rights and preferences over our common stock including, but not limited to, cumulative dividends and preferences upon liquidation or dissolution.

WE DO NOT EXPECT TO PAY DIVIDENDS IN THE NEAR FUTURE.

We have never declared or paid dividends on our common stock. We do not anticipate paying dividends on our common stock in the near future. Our ability to pay dividends is dependent upon, among other things, future earnings as well as our operating and financial condition, capital requirements, general business conditions and other pertinent factors. We intend to reinvest in our business operations any funds that could be used to pay dividends. Our common stock is junior in priority to our preferred stock with respect to dividends. Cumulative dividends on our issued and outstanding Series A preferred stock, Series B preferred stock, Series C preferred stock and Series E preferred stock accrue dividends at a rate of \$1.20, \$12.00, \$4.00, and \$4.00, respectively, per share per annum, payable in preference and priority to any payment of any cash dividend on our common stock. We have authorized Series F preferred stock with cumulative dividends that accrue at a rate of \$1.00 per share per annum and are also payable in preference and priority to any payment of any cash dividend on our common stock. Dividends on our preferred stock accrue from the date on which we agree to issue such preferred shares and thereafter from day to day whether or not earned or declared and whether or not there exists profits, surplus or other funds legally available for the payment of dividends. We have never paid any cash dividends on our preferred stock. We will be required to pay accrued dividends on our preferred stock before we can pay any dividends on our common stock.

BECAUSE OF THE SIGNIFICANT NUMBER OF SHARES OWNED BY OUR DIRECTORS, OFFICERS AND PRINCIPAL SHAREHOLDERS, OTHER SHAREHOLDERS MAY NOT BE ABLE TO SIGNIFICANTLY INFLUENCE OUR MANAGEMENT.

Our directors, officers, and principal shareholders beneficially own a substantial portion of our outstanding common and preferred stock. Malcolm J. Wright, who serves as our Chief Executive Officer and Chief Financial Officer and as a Director, and Roger Maddock, one of our majority shareholders, own, directly and indirectly, approximately an aggregate of 73% of the voting power in our company. As a result, these persons control our affairs and management,

as well as all matters requiring shareholder approval, including the election and removal of members of the Board of Directors, transactions with directors, officers or affiliated entities, the sale or merger of the Company or substantially all of our assets, and changes in dividend policy. This concentration of ownership and control could have the effect of delaying, deferring, or preventing a change in our ownership or management, even when a change would be in the best interest of other shareholders.

IF WE ARE LATE IN FILING OUR QUARTERLY OR ANNUAL REPORTS WITH THE SEC, WE MAY BE DE-LISTED FROM THE OVER-THE-COUNTER BULLETIN BOARD.

Pursuant to new Over-The-Counter Bulletin Board ("OTCBB") rules relating to the timely filing of periodic reports with the SEC, any OTCBB issuer which fails to file a periodic report (Form 10-QSB's or 10-KSB's) by the due date of such report (notwithstanding any extension granted by the filing of a Form 12b-25), three (3) times during any twenty-four (24) month period is automatically de-listed from the OTCBB. Such removed issuer would not be re-eligible to be listed on the OTCBB for a period of one-year, during which time any subsequent late filing would reset the one-year period of de-listing. If we are late in our filings three times in any twenty-four (24) month period and are de-listed from the OTCBB, our securities may become worthless and we may be forced to curtail

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

or abandon our business plan.

IF THERE IS A MARKET FOR OUR COMMON STOCK, OUR STOCK PRICE MAY BE VOLATILE.

If there is a market for our common stock, we anticipate that such market will be subject to wide fluctuations in response to several factors, including, but not limited to:

- (1) actual or anticipated variations in our results of operations;
- (2) our ability or inability to generate new revenues;
- (3) the number of shares in our public float;
- (4) increased competition; and
- (5) conditions and trends in the travel services, vacation, and/or real estate and construction markets.

Furthermore, because our Common Stock is traded on the NASD over the counter bulletin board, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock. Further, due to the limited volume of our shares which trade and our limited public float, we believe that our stock prices (bid, asked and closing prices) are entirely arbitrary, are not related to the actual value of the Company, and do not reflect the actual value of our common stock (and in fact reflect a value that is much higher than the actual value of our Common Stock). Shareholders and potential investors in our Common Stock should exercise caution before making an investment in the Company,

and should not rely on the publicly quoted or traded stock prices in determining our Common Stock value, but should instead determine value of our Common Stock based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies.

ITEM 3. CONTROLS AND PROCEDURES

- (a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the "Evaluation Date"), has concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

However, because we have not fully integrated our administrative operations, we face increased pressure related to recording, processing, summarizing and reporting consolidated financial information required to be disclosed by us in the reports that we file or submit under the Exchange Act in a timely manner as well as accumulating and communicating such information to our management, including our Chief Executive Officer and

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We believe that until we have fully integrated our administrative operations, we will continue to face such pressure regarding the timeliness of our filings as specified in the Commission's rules and forms which could lead to a future determination that our disclosure controls and procedures are not effective as of a future evaluation date.

- (b) Changes in internal control over financial reporting. There were no significant changes in the Company's internal control over financial reporting during the fiscal quarter covered by this report that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Our subsidiary American Leisure, Inc. and our Chief Executive Officer and Chairman, Malcolm J. Wright are parties to an action that was filed in Orange County, Florida and styled as Rock Investment Trust, P.L.C. and RIT, L.L.C. vs. Malcolm J. Wright, American Vacation Resorts, Inc., American Leisure, Inc.,

Inversora Tetuan, S.A., Sunstone Golf Resort, Inc., and Sun Gate Resort Villas, Inc., Case No. CIO-01-4874, Ninth Judicial Circuit, Orange County, Florida. In June, 2001, after almost 2 years from receiving notice from Malcolm J. Wright that one Mr. Roger Smee, doing business under the names Rock Investment Trust, PLC (a British limited company) and RIT, LLC (a Florida limited liability company) (collectively, the "Smee Entities") had defaulted under various agreements to loan or to joint venture or to fund investment into various real estate enterprises founded by Mr. Wright, the Smee Entities brought the lawsuit against Mr. Wright, American Leisure, Inc. and several other entities. The gravamen of the initial complaint is that the Smee Entities made financial advances to Wright with some expectation of participation in a Wright real estate enterprise. In general, the suit requests either a return of the Smee Entities' alleged advances of \$500,000 or an undefined ownership interest in one or more of the defendant entities. Mr. Wright, American Leisure, Inc., and Inversora Tetuan, S.A., have filed a counterclaim and cross complaint against the Smee Entities and Mr. Smee denying the claims and such damages in the amount of \$10 million. If the court rules that Mr. Wright is liable under his guarantee of an American Leisure, Inc. obligation to Smee, it is believed that such a ruling would not directly affect American Leisure Holdings, Inc. The litigation is in the discovery phase and is not currently set for trial. We have been advised by our attorneys in this matter that Mr. Wright's position on the facts and the law is stronger than the positions asserted by the Smee Entities.

In March 2004, Manuel Sanchez and Luis Vanegas as plaintiffs filed a lawsuit, Case No. 04-4549 CA 09, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami Dade County, Florida which includes American Leisure Holdings, Inc., Hickory Travel Systems, Inc., Malcolm J. Wright and L. William Chiles as defendants. They are claiming securities fraud, violation of Florida Securities and Investor Protection Act, breach of their employment contracts, and claims for fraudulent inducement. We and the other defendants have denied all claims and have a counterclaim against Manuel Sanchez and Luis Vanegas for damages. The litigation will shortly enter the discovery phase and is not currently set for trial. We believe that Manuel Sanchez' and Luis Vanegas' claims are without merit and the claims are not material to us. We intend to vigorously defend the lawsuit.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

In early May 2004, Around The World Travel, Inc., of which we subsequently purchased substantially all of the assets, filed a lawsuit in the Miami-Dade Florida Circuit Court against Seamless Technologies, Inc. and e-TravelLeaders, Inc. alleging breach of contract and seeking relief that includes monetary damages and termination of the contracts. We were granted leave to intervene as plaintiffs in the original lawsuits against Seamless and e-TravelLeaders. On June 28, 2004, the above named defendants brought suit against Around The World Travel and American Leisure Holdings, Inc. in an action styled Seamless Technologies, Inc. et al. v. Keith St. Clair et al. This suit alleges that Around The World Travel has breached the contracts and also that American Leisure Holdings, Inc. and Around The World Travel's Chief Executive Officer were complicit with certain officers and directors of Around The World Travel in securing ownership of certain assets for American Leisure Holdings, Inc. that were alleged to have been a business opportunity for Around The World Travel.

This lawsuit involves allegations of fraud against Malcolm J. Wright. The lawsuit filed by Seamless has been abated and consolidated with the original lawsuit filed by Around The World Travel. In a related matter, Seamless' attorneys brought another action entitled Peter Hairston v. Keith St. Clair et al. This suit mimics the misappropriation of business opportunity claim, but it is framed within a shareholder derivative action. The relief sought against American Leisure Holdings, Inc. includes monetary damages and litigation costs. We intend to vigorously support the original litigation filed against Seamless and defend the counterclaim and allegations against us. In June of 2005, the court dismissed certain claims of tortious interference against the Company and Malcolm J. Wright and provided Seamless with leave to amend all of their other claims with specificity. In addition, the court dismissed a claim of conspiracy and a demand for judgment. As of January 18, 2006, the Defendants filed their amended answer and amended counterclaim. The Company's attorneys have filed a comprehensive reply seeking to dismiss the counterclaim against the Company and Mr. Wright.

On May 4, 2005, Simon Hassine, along with members of his family, filed a lawsuit against us and Around The World Travel in the Circuit Court of Dade County, Florida, Civil Division, Case Number 05-09137CA. The plaintiffs are the former majority shareholders of Around The World Travel. The plaintiffs allege that that they have not been paid for i) a subordinated promissory note owed by AWT in the principal amount of \$3,550,000 plus interest on such note which they allege was issued to them by Around The World Travel in connection with their sale of 88% of the common stock in Around The World Travel to Around The World Holdings, LLC; and ii) subordinated undistributed retained earnings and accrued bonuses in an aggregate amount of \$1,108,806 which they allege were due to them as part of the sale to Around The World Holdings, LLC. The plaintiffs allege that the note was issued to them net of \$450,000 of preferred stock of Around The World Travel that they further allege they never received. Despite the absence of any executed agreements, the plaintiffs also allege that in December 2004 they entered into a settlement agreement with the Company regarding some of these matters. The plaintiffs are pursuing a claim of breach of the alleged settlement agreement with damages in excess of \$1,000,000, interest and costs as well as performance under the alleged settlement agreement. The Plaintiffs also seek a declaratory judgment that they are not bound by a provision in the underlying documents on which they rely that their action is barred by said provision. In the alternative, the Plaintiffs seek a ruling that the promissory note, undistributed retained earnings and accrued bonuses are not subordinated to the Galileo Debt. The suit seeks full payment of the promissory note, undistributed retained earnings and accrued bonuses plus prejudgment interest, stated interest on the note, costs and reasonable attorney's fees. Despite the absence of any executed agreements, the plaintiffs are also pursuing a claim for breach of contract regarding the preferred stock of Around The World Travel and seeking \$450,000 plus interest, costs and reasonable attorney's fees. The

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

plaintiffs are also pursuing claims of fraudulent transfer regarding our acquisition of interests in the debt and equity of Around The World Travel and seeking unspecified amounts. We intend to vigorously defend the lawsuit. We filed various motions including a motion to dismiss the complaint in its entirety as against us and Malcolm J. Wright due to the failure by the plaintiffs to comply with a provision in the underlying documents that grants exclusive jurisdiction to the courts located in Cook County, Illinois; a motion to disqualify, based upon an alleged conflict of interest by the plaintiff's

attorneys. A hearing on the case has been postponed to a to be determined date later in 2006 due to a declared conflict of interest held by the sitting judge who has recused herself as a result of the potential for a conflict of interest.

In the ordinary course of our business, we may from time to time become subject to routine litigation or administrative proceedings, which are incidental to our business.

We are not aware of any proceeding to which any of our directors, officers, affiliates or security holders are a party adverse to us or have a material interest adverse to us.

ITEM 2. CHANGES IN SECURITIES

In January 2006, in connection with the SIBL Reedy Creek Loan, the Company granted SIBL warrants to purchase 154,000 shares of the Company's common stock at an exercise price of \$5.00 per share and warrants to purchase 77,000 shares of the Company's common stock at an exercise price of \$0.001 per share, which warrants expire five years from their grant date. We claim an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuance did not involve a public offering, the recipient took the warrants for investment and not resale and we took appropriate measures to restrict transfer.

In January 2006, in connection with the SIBL Reedy Creek Loan, the Company granted warrants to four separate affiliates of SIBL entitling them to purchase an aggregate of 154,000 shares of the Company's common stock at an exercise price of \$5.00 per share and 77,000 shares at an exercise price of \$.001 per share. The warrants have a term of five years and are immediately exercisable. The warrants have an exercise price of \$1.02 per share. We claim an exemption from registration afforded by Section 4(2) of the Act since the foregoing grant did not involve a public offering, the recipient took the warrants for investment and not resale and we took appropriate measures to restrict transfer.

In January 2006, in connection with Mr. Wright's guarantee of the Amended Note, the Company agreed to grant Mr. Wright warrants to purchase 240,000 shares of the Company's common stock at an exercise price of \$1.02 per share. The warrants are being granted pursuant to an existing agreement between the Company and Mr. Wright and expire 5 years from the expiration date of the guarantees. In addition, the Company has agreed to register the shares underlying the warrants granted to Mr. Wright on its next registration statement. The Warrants have an exercise price of \$1.02 per share. We claim an exemption from registration afforded by Section 4(2) of the Act since the foregoing grant did not involve a public offering, the recipient took the warrants for investment and not resale and we took appropriate measures to restrict transfer.

In connection with Mr. Crosbie's Employment Agreement, described above, pursuant to which he agreed to serve as our Executive Vice President, General Counsel and Secretary, which we entered into in May 2006, with an effective date of March 15, 2006, we agreed to grant him 50,000 warrants which vested as of the effective date of the Employment Agreement; and 25,000 warrants vesting each year, on the anniversary of the effective date of his employment, that Mr.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Crosbie is employed by the Company pursuant to the Employment Agreement. The

warrants have an exercise price of \$1.02 per share. We claim an exemption from registration afforded by Section 4(2) of the Act since the foregoing grant did not involve a public offering, the recipient took the warrants for investment and not resale and we took appropriate measures to restrict transfer.

In March 2006, we appointed Jeffrey Scott as President of Hickory. In connection with Mr. Scott's appointment and continued employment, we agreed to grant him warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of \$5.00 per share. One half, or 50,000 of Mr. Scott's warrants vested on March 2, 2006, with the remaining 50,000 warrants vesting as follows, 25,000 warrants on March 2, 2007 and the remaining 25,000 warrants on March 2, 2008, assuming Mr. Scott is still employed by the Company on those dates. The Company will rely on the exemption from registration set forth in Section 4(2) of the Act in issuing these warrants as the issuance of these securities will not involve a public offering, the recipient acquired the warrants for investment purposes and the Company will take appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts were paid by the Company.

On March 23, 2006, and effective as of December 30, 2005, we purchased the minority interest of our now wholly owned subsidiary, Tierra Del Sol, Inc. (the "Minority Interest") from Harborage Leasing Corporation ("Harborage"). The purchase price of the Minority Interest from Harborage was a promissory note for \$1,411,705 ("Harborage Note"); the right to receive, without payment, two (2) three-bedroom condominium units to be constructed in Phase 2 of the Tierra Del Sol Resort, or in the event title to both such units is not delivered by December 31, 2007, then, in lieu thereof, payment of \$500,000.00 for each such unit that is not transferred by such date; 197,000 shares of the Company's common stock; and warrants to acquire 300,000 additional shares of the Company's common stock at a price of \$5.00 per share. The warrants expire if unexercised five (5) years from their date of grant. Pursuant to the Stock Purchase Agreement, Harborage has the right to require the Company to purchase all or a portion of the Harborage 197,000 shares at \$5.00 per share, for sixty (60) days, beginning January 1, 2007 (the "Put Option"). The Put Option will no longer be in effect provided that both of the following events occur: (i) Harborage is able to sell the Harborage Shares pursuant to an effective Registration Statement under the Securities Act of 1933 (the "Act"), or pursuant to Rule 144 of the Act; and after the fulfillment of (i) above, the average closing price of the Company on the Over-The-Counter Bulletin Board or principal exchange on which the Company's common stock then trades, exceeds \$5.00 per share for a period of thirty (30) consecutive days. The Harborage Note and shares are guaranteed by Malcolm J. Wright, the Company's Chief Executive Officer and Chairman, for which he received a guaranty fee equal to three percent (3%) of the amount guaranteed. The Company paid this fee through the grant of 102,351 warrants to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration date of the guaranty.

In May 2006, Daniel Bogar exercised 19,250 of his outstanding stock options, which options had an exercise price of \$0.001 per share, in consideration for an aggregate of \$19.25, and was issued 19,250 shares of our restricted common stock in consideration for such issuance. The Company relied on the exemption from registration set forth in Section 4(2) of the Act in

issuing the shares as the issuance of the securities did not involve a public offering, the recipient acquired the shares for investment purposes and the

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts were paid by the Company.

In May 2006, Osvaldo Pi exercised 19,250 of his outstanding stock options, which options had an exercise price of \$0.001 per share, in consideration for an aggregate of \$19.25, and was issued 19,250 shares of our restricted common stock in consideration for such issuance. The Company relied on the exemption from registration set forth in Section 4(2) of the Act in issuing the shares as the issuance of the securities did not involve a public offering, the recipient acquired the shares for investment purposes and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts were paid by the Company.

In May 2006, SIBL exercised 231,000 of its outstanding stock options, which options had an exercise price of \$0.001 per share, in consideration for an aggregate of \$231, and was issued 231,000 shares of our restricted common stock in consideration for such issuance. The Company relied on the exemption from registration set forth in Section 4(2) of the Act in issuing the shares as the issuance of the securities did not involve a public offering, the recipient acquired the shares for investment purposes and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts were paid by the Company.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

Exhibit No.	Description
-----	-----
10.01(1)	Commitment Letter with KeyBank National Association for \$96,000,000 for Phase I
10.02(1)	Commitment Letter with KeyBank National Association for \$14,850,000 for Phase II
10.03(2)	Re-Stated Promissory Note for \$6,356,740 issued in favor of Around The World Travel, Inc. dated June 30, 2005.
10.04(3)	Commitment Letter with KeyBank National Association for \$96,000,000 for Phase I
10.05(4)	Commitment Letter with KeyBank National Association for \$14,850,000 for Phase II
10.06(4)	Commitment Letter with KeyBank National Association for up To 72,550,000, with a maximum principal balance of \$40,000,000 for Phase 1 dated December 1, 2005
10.07(4)	Commitment Letter with KeyBank National Association for up to \$14,850,000 for Phase 2 dated December 1, 2005

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

- 10.08(5) Construction Loan Agreement with KeyBank National Association for \$40,000,000 for Phase 1 dated December 29, 2005
- 10.09(5) Promissory Note with KeyBank National Association for \$40,000,000
- 10.10(5) Loan Agreement with KeyBank National Association for 14,850,000 for Phase 2 dated December 29, 2005
- 10.11(5) Promissory Note with KeyBank National Association for \$14,850,000
- 10.12(5) Promissory Note for \$4,000,000 issued by TDS Management, LLC in favor of PCL Construction Enterprises, Inc.
- 10.13(5) Guaranty by the Registrant of the \$4,000,000 Promissory Note to PCL Construction Enterprises, Inc.
- 10.14(5) Guaranty of Malcolm J. Wright guaranteeing the \$4,000,000 Promissory Note to PCL Construction Enterprises, Inc.
- 10.15(5) Addendum to Construction Loan Agreement Condominium and Townhouse Project Development
- 10.16(5) Payment Guaranty Phase 1
- 10.17(5) Payment Guaranty Phase 2
- 10.18(5) Amended Debt Guarantor Agreement
- 10.19(5) Guaranty of Tierra Del Sol (Phase 1), Ltd. guaranteeing the \$4,000,000 Promissory Note to PCL Construction Enterprises, Inc.
- 10.20(5) Performance and Completion Guaranty
- 10.21(5) Pledge and Security Agreement
- 10.22(6) Option Exercise Agreement with Stanford Financial Group Company
- 10.23(6) Assignment of Interest in Reedy Creek Acquisition Company, LLC
- 10.24(7) Registration Rights Agreement with SIBL dated January 4, 2006
- 10.25(7) Credit Agreement with SIBL
- 10.26(6) \$7,000,000 Promissory Note with Bankers Credit Corporation
- 10.27(6) Modification and Reaffirmation of Guaranty and Environmental Indemnity Agreement
- 10.28(6) Renewed, Amended and Increased Promissory Note
- 10.29(7) Stanford International Bank, Ltd. Warrant for 77,000 shares at \$0.001 per share

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

- 10.30(7) Stanford International Bank, Ltd. Warrant for 154,000 shares at \$5.00 per share
- 10.31(6) Irrevocable and Unconditional Guaranty
- 10.32(7) Registration Rights Agreement with SIBL dated December 28, 2005
- 10.33(6) SIBL \$2.1 million note
- 10.34(7) Partnership Interest Pledge and Security Agreement and Collateral Assignment (Phase 1)
- 10.35(7) Partnership Interest Pledge and Security Agreement and Collateral Assignment (Phase 2)
- 10.36(7) SIBL Warrant Agreement for 2% Phase 1 interest
- 10.37(7) SIBL Warrant Agreement for 2% Phase 2 interest
- 10.38(6) Stanford International Bank, Ltd. Warrant for 154,000 at \$0.001 per share
- 10.39(6) Stanford International Bank, Ltd. Warrant for 308,000 at \$5.00 per share
- 10.40(8) Original Purchase Agreement
- 10.41(9) First Amendment to Asset Purchase Agreement
- 10.42(10) Settlement Agreement effective as of December 31, 2005 by and among American Leisure Holdings, Inc., American Leisure Equities Corporation and Around The World Travel, Inc.
- 10.43(11) Stock Purchase Agreement between Harborage Leasing Corporation and the Company
- 10.44(11) \$1,411,705 Promissory Note payable to Harborage Leasing Corporation
- 10.45(11) Malcolm J. Wright Guaranty Agreement regarding \$1,411,705 Promissory Note with Harborage Leasing Corporation
- 10.46(11) Harborage Leasing Corporation warrant to purchase 300,000 shares of common stock at \$5.00 per share
- 10.47(12) Third Party Debt Guarantor Agreement
- 10.48(12) Note Modification Agreement with SIBL
- 10.49* Michael D. Crosbie Employment Agreement
- 31.1* Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 10 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed Herein.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

- (1) Filed as Exhibit 10.1 and 10.2, respectively to the Registrant's Form 8-K on August 18, 2005, and incorporated herein by reference.
- (2) Filed as Exhibit 10.5 to the Registrant's Form 8-K on August 19, 2005, and incorporated herein by reference.
- (3) Filed as Exhibits to our Report on Form 8-K filed with the Commission on August 18, 2005, and incorporated herein by reference.
- (4) Filed as Exhibits to our Report on Form 8-K filed with the Commission on December 15, 2005 and incorporated herein by reference.
- (5) Filed as Exhibits to the Registrant's report on form 8-K on January 12, 2006 and incorporated by reference herein.
- (6) Filed as Exhibits to the Registrant's report on Form 8-K filed on January 19, 2006 and incorporated herein by reference.
- (7) Filed as Exhibits to the Company's report on Form 8-K, which was filed with the SEC on March 28, 2006.
- (8) Filed as Exhibit 10.1 to the Company's report on Form 8-K, which was filed with the SEC on January 6, 2005, and is incorporated herein by reference.
- (9) Filed as Exhibit 10.44 to the Company's report on Form 10-QSB for the quarter ended March 31, 2005, which was filed with the SEC on May 23, 2005, and is incorporated herein by reference.
- (10) Filed as Exhibit 10.3 to the Company's report on Form 8-K, which was filed with the SEC on March 2, 2006, and is incorporated herein by reference.
- (11) Filed as Exhibits to the Company's Report on Form 8-K, which was filed with the SEC on March 29, 2006, and is incorporated herein by reference.
- (12) Filed an Exhibit to the Company's Report on Form 10-KSB, which was filed with the SEC on March 31, 2006, and is incorporated herein by reference.

b) REPORTS ON FORM 8-K

The Company filed the following reports on Form 8-K during the fiscal period covered by this report:

- o An amended Report on Form 8-K on January 12, 2006, to report the entry into the Construction Loan and Land Loan with KeyBank regarding the financing of the construction of the Sonesta Resort; our entry into the Amended Debt Guarantor Agreement; and the appointment of Fred Pauzar as our Secretary.
- o A Report on Form 8-K on January 19, 2006, to report certain transactions affected by our subsidiary, Reedy Creek Acquisition Company and certain other transactions affected by us in connection with the Keybank loan facilities.
- o A Report on Form 8-K on March 2, 2006, to report the entry into a settlement agreement between American Leisure Equities Corporation and Around the World Travel, Inc.

Edgar Filing: AMERICAN LEISURE HOLDINGS, INC. - Form 10QSB

- o An amended Report on Form 8-K on March 7, 2006, to clarify the terms of the settlement agreement between American Leisure Equities Corporation and Around the World Travel as originally disclosed in our Form 8-K filing on March 2, 2006.
- o A Report on Form 8-K on March 22, 2006, to report the granting of certain warrants to purchase shares of our common stock to Michael Crosbie, our General Counsel and Executive Vice President and Jeff Scott, the president of Hickory, as well as the appointment of Mr. Crosbie and Mr. Scott to their respective positions with the Company.
- o An amended Report on Form 8-K on March 28, 2006, to include the electronic signature to several documents originally filed with the SEC on January 19, 2006, in connection with the Keybank financing.
- o A Report on Form 8-K on March 29, 2006, to report our entry into a stock purchase agreement and other related agreements with Harborage Leasing Corporation, whereby we purchased the minority interest in Tierra del Sol Resort, Inc.

SIGNATURES

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

AMERICAN LEISURE HOLDINGS, INC.

DATED: May 22, 2006

By: /s/ Malcolm J. Wright

Malcolm J. Wright
Chief Executive Officer