

AMERICAN HOSPITAL RESOURCES INC  
Form 10QSB  
May 12, 2004

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2004

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

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

Commission file number: 0-32195

**American Hospital Resources, Inc.**

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

Utah

87-0319410

(State or other jurisdiction of

(IRS Employer Identification No.)

incorporation or organization)

**5231-A Kuaiwi Place**

**Honolulu, Hawaii 96821**

(Address of principal executive offices)

**808-595-8847**

(Issuer's telephone number)

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:  
12,409,327 common stock, no par value

Transitional Small Business Disclosure Format (Check one):

Yes  No

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FORM 10-QSB

AMERICAN HOSPITAL RESOURCES, INC.

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(Inapplicable items have been omitted)

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**PART I.**

**Financial Information**

**Item 1. Unaudited Condensed Consolidated Financial Statements**

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

#

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED BALANCE SHEETS**

**ASSETS**

March 31,

December 31,

2004

2003

\_\_\_\_\_

\_\_\_\_\_

**CURRENT ASSETS:**

Cash

\$

6,279

\$

5

Prepaid expense

15,000

-

\_\_\_\_\_

\_\_\_\_\_

Total Current Assets

21,279

5

\_\_\_\_\_

\_\_\_\_\_

**OTHER ASSETS:**

Deferred loan costs

12,226

10,503

Deferred stock offering costs

1,069,609

1,069,609

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Total Other Assets

1,081,835

1,080,112

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\$

1,103,114

\$

1,080,117

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[Continued]

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**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED BALANCE SHEETS**

*[Continued]*

**LIABILITIES AND STOCKHOLDERS' EQUITY**

March 31,

December 31,

2004

2003

\_\_\_\_\_

\_\_\_\_\_

**CURRENT LIABILITIES:**

Accounts payable

\$

36,308

\$



91,570

Liability incurred to repurchase common stock

85,250

85,250

Dividends payable

96,526

68,840

Accrued interest

7,875

3,755

Convertible notes payable, net of discounts totaling

\$117,339 and \$100,800, respectively

86,506

43,045

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Total Current Liabilities

312,465

292,460

**COMMITMENTS AND CONTINGENCIES** [See Note 15]

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Total Liabilities

312,465

292,460

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**STOCKHOLDERS' EQUITY:**

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

authorized:

Class A convertible preferred stock, 2,600,000

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

shares issued and outstanding, respectively

3,441,285

3,160,659

Class B convertible preferred stock, 5,000,000

shares designated, no shares issued and

outstanding

-

-

Class C convertible preferred stock, 1,200,000

shares designated, 28,867 and 28,867 shares

issued and outstanding, respectively

143,496

143,496

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

authorized, 12,409,327 and 11,289,327 shares

issued and outstanding, respectively

6,641,297

6,134,297

Additional paid-in capital

1,163,341

1,103,341

Retained earnings (deficit)

(10,598,770)

(9,754,136)

---

---

Total Stockholders' Equity

790,649

787,657

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\$

1,103,114

\$

1,080,117

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

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

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF OPERATIONS**

For the Three Months

Ended March 31,

\_\_\_\_\_

2004

2003

\_\_\_\_\_

\_\_\_\_\_

**REVENUES**

\$

-

\$

-

**EXPENSES:**

General and administrative

743,202

45,448

\_\_\_\_\_

\_\_\_\_\_

**LOSS BEFORE OTHER EXPENSE**

(743,202)

(45,448)

**OTHER EXPENSE:**

Interest expense

(52,110)

-

---

---

**LOSS BEFORE INCOME TAXES**

(795,312)

(45,448)

**CURRENT TAX EXPENSE**

-

-

**DEFERRED TAX EXPENSE**

-

-

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**LOSS FROM CONTINUING OPERATIONS**

(795,312)

(45,448)

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**DISCONTINUED OPERATIONS:**

Loss from operations of discontinued hospital management

consulting business (including gain on disposal of \$0 and

\$0, respectively)

-

(41,390)

Income tax benefit

-

-

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---

**LOSS FROM DISCONTINUED OPERATIONS**

-

(41,390)

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**NET LOSS**

\$

(795,312)

\$

(86,838)

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**BENEFICIAL CONVERSION FEATURE OF PREFERRED**

**STOCK EQUIVALENT TO A DIVIDEND**

(14,189)

-

**DIVIDEND REQUIREMENTS OF PREFERRED STOCK**

(35,133)

-

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**NET LOSS AVAILABLE TO COMMON SHAREHOLDERS**

\$

(844,634)

\$

(86,838)

---

---

**LOSS PER COMMON SHARE:**

Continuing operations

\$

(.07)

\$

(.01)

Discontinued operations

-

(.00)

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---

Net Loss Per Common Share

\$

(.07)

\$

(.01)

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

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**

For the Three Months

Ended March 31,

---

2004

2003

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**Cash Flows from Operating Activities:**

Net loss

\$



(795,312)

\$

(86,838)

Adjustments to reconcile net loss to net cash used by

operating activities:

Amortization of deferred loan costs

4,529

-

Amortization of discounts on notes payable

43,461

-

Depreciation

-

98

Non-cash services for stock

729,618

-

Changes in assets and liabilities:

(Increase) decrease in prepaid expense

(15,000)

30,008

(Decrease) in accounts payable

(25,880)

(6,455)

Increase in accrued expenses

-

2,901

Increase in accrued interest

4,120

-

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---

Net Cash (Used) by Operating Activities

(54,464)

(60,286)

---

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**Cash Flows from Investing Activities:**

Proceeds received on advance to NIPSI

-

15,000

---

---

Net Cash (Used) by Investing Activities

-

15,000

---

---

**Cash Flows from Financing Activities:**

Proceeds from bank overdraft

-

4,794

Proceeds from deposit from NIPSI

-

24,298

Payments for deferred loan costs

(6,252)

-

Proceeds allocated to beneficial conversion feature of  
notes payable

60,000

-

Payments of stock offering costs

(1,563)

(585)

Proceeds from sale of Class A preferred stock

15,000

-

Proceeds from sale of common stock

1,000

10,000

Payments of dividends

(7,447)

-

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Net Cash Provided by Financing Activities

60,738

38,507

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**Net Increase (Decrease) in Cash**

6,274

(6,779)

**Cash at Beginning of the Period**

5

6,779

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---

**Cash at End of the Period**

\$

6,279

\$

-

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**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the period for:

Interest

\$

-

\$

-

Income taxes

\$

-

\$

-

*[Continued]*

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**

*[Continued]*

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

For the three months ended March 31, 2004:

The Company amortized \$43,461 of discounts on notes payable and \$4,529 of deferred loan costs as interest expense.

The Company recorded dividends payable of \$35,133 for the dividend requirements of its preferred stock.

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

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

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

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

For the three months ended March 31, 2003:

None

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

#

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

**Condensed Financial Statements** - The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at March 31, 2004 and 2003 and for the periods then ended have been made.

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

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

#

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

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

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

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

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



receivable to be past due or delinquent based on contractual terms.

**Property and Equipment** - Property and equipment are stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five to ten years. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company periodically reviews its property and equipment for impairment. Depreciation expense for the three months ended March 31, 2004 and 2003 was \$0 and \$98, respectively.

**Website Costs** - The Company has adopted the provisions of Emerging Issues Task Force 00-2, *Accounting for Web Site Development Costs*. Costs incurred in the planning stage of a website are expensed as research and development while costs incurred in the development stage are capitalized and amortized over the life of the asset, estimated to be five years. The Company had capitalized a total of \$2,955 of website costs which were written off in the disposal of AHR Subsidiary. The Company did not incur any planning costs and did not record any research and development costs for the three months ended March 31, 2004 and 2003.

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

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**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

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

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

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

For the Three Months

Ended March 31,

\_\_\_\_\_

2004

2003

\_\_\_\_\_

\_\_\_\_\_

Net loss, as reported

\$

(795,312)

\$

(86,838)

Add: Stock-based employee compensation expense

included in reported net loss

-

-

Deduct: Total stock-based employee compensation

expense determined under fair value based method

-

-

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Pro forma net loss

\$

(795,312)

\$

(86,838)

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Loss per common share, as reported

\$

(.07)

\$

(.01)

Loss per common share, pro forma

\$

(.07)

\$

(.01)

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

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

#

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

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

**Accounting Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial

statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated by management.

**Recently Enacted Accounting Standards** - Statement of Financial Accounting Standards ( SFAS ) No. 146, Accounting for Costs Associated with Exit or Disposal Activities , SFAS No. 147, Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9 , SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123 , SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities , and SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , were recently issued. SFAS No. 146, 147 and 149 have no current applicability to the Company or their effect on the financial statements would not have been significant. The Company has adopted SFAS No. 148 and 150 and has applied them to the financial statements for the three months ended March 31, 2004 and 2003.

**Reclassification** - The financial statements for periods prior to March 31, 2004 have been reclassified to conform to the headings and classifications used in the March 31, 2004 financial statements.

## **NOTE 2 - ACQUISITION AND CANCELLATION OF ACQUISITION OF RX SOLUTIONS, INC.**

On May 8, 2003, the Company signed a Stock Purchase Agreement with RX Solutions, Inc. ( RXS ). The agreement provided for the Company to issue 720,000 shares of Class B Preferred Stock and to sign \$900,000 of notes payable to the shareholders of RXS for 100% of the outstanding shares of RXS 's common stock. As part of the agreement, the Company entered into a three-year Employment Agreement with the shareholders of RXS. In July 2003, the Company defaulted on the notes payable and employment agreement underlying the acquisition. In August 2003, the Company entered into an agreement to extend the maturity of a \$300,000 90-day non-interest-bearing note payable to September 29, 2003. The extension required the Company to pay \$40,000 in August and September 2003 in lieu of the interest and salary payments required by the Stock Purchase Agreement. In September 2003, the Company renegotiated the notes payable underlying the acquisition so that the Company would pay \$25,000 by October 31, 2003 against the \$300,000 90-day non-interest-bearing note payable and pay \$200,000 by November 29, 2003 as payment in full of a \$294,000 five-year 7% note payable, a \$306,000 five-year 7% note payable and related accrued interest. In November 2003, the Company defaulted on the notes payable underlying the acquisition and the owners of RXS called for the acquisition to be cancelled. The financial statements reflect the acquisition as having never closed and any expenses associated with the cancelled acquisition have been classified as a cost of the unsuccessful RXS acquisition.

#

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

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

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

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

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

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

officers and directors were appointed. The acquisition closed June 17, 2002 and has been accounted for as a purchase of AHR Subsidiary. The Company recorded goodwill of \$60,321 as a result of the acquisition.

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

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## **AMERICAN HOSPITAL RESOURCES, INC.**

### **NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

#### **NOTE 5 - DISCONTINUED OPERATIONS**

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

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

For the Three Months

Ended March 31,

\_\_\_\_\_

2004

2003

\_\_\_\_\_

\_\_\_\_\_

Revenue

\$

-

\$

-

General and administrative

-

(41,390)

\_\_\_\_\_

\_\_\_\_\_

Net loss

\$

-

\$

(41,390)

\_\_\_\_\_

\_\_\_\_\_



**NOTE 6 - GOODWILL**

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

For the Three Months

Ended March 31,

\_\_\_\_\_

2004

2003

\_\_\_\_\_

\_\_\_\_\_

Goodwill at beginning of period

\$

-

\$

60,321

\_\_\_\_\_

\_\_\_\_\_

Goodwill at end of period

\$

-

\$

60,321

\_\_\_\_\_

\_\_\_\_\_

**NOTE 7 - CONVERTIBLE NOTES PAYABLE**

The Company has sold convertible notes payable totaling \$203,845 and recorded discounts totaling \$203,845 due to the beneficial conversion feature of the notes. The discounts are being amortized over the term of the respective note. For the three months ended March 31, 2004 and 2003, respectively, the Company amortized \$43,461 and \$0 of the discounts on notes payable as interest expense.

The Company has paid a total of \$21,240 to consultants for negotiating the notes payable. These costs have been deferred and are being amortized over the term of the respective note. For the three months ended March 31, 2004 and 2003, respectively, the Company amortized \$4,529 and \$0 of the deferred loan costs as interest expense.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

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

For the three months ended March 31, 2004 and 2003, respectively, interest expense on notes payable amounted to \$52,110 and \$0.

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

March 31,

December 31,

2004

2003

\_\_\_\_\_

\_\_\_\_\_

\$10,000 note payable maturing in August 2004 convertible into common stock at \$.29 per share secured by 100,000 shares of the Company's common stock, net of discounts of \$3,333 and \$5,832, respectively

\$

6,667

\$

4,168

\$20,000 note payable maturing in September 2004 convertible into common stock at \$.265 per share secured by 200,000 shares of the Company's common stock, net of discounts of \$8,333 and \$13,333, respectively

11,667

6,667

\$10,000 note payable maturing in September 2004 convertible into common stock at \$.38 per share secured by 100,000 shares of the Company's common stock, net of discounts of \$4,167 and \$6,667, respectively

5,833

3,333

\$24,000 note payable maturing in September 2004 convertible into common stock at \$.36 per share secured by 250,000 shares of the Company's common stock, net

of discounts of \$10,000 and \$16,000, respectively

14,000

8,000

\$10,000 note payable maturing in September 2004

convertible into common stock at \$.37 per share secured