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AMERICAN LEISURE HOLDINGS, INC.
Form 10QSB/A
August 23, 2007

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

FORM 10-QSB/A
AMENDMENT NO. 1

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

For the quarterly period ended June 30, 2005

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

For the transition period from _____ to _____

Commission file number 333-48312

AMERICAN LEISURE HOLDINGS, INC.

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

Nevada

(State of incorporation)

75-2877111

(IRS Employer Identification No.)

Park 80 Plaza East, Saddle Brook, NJ 07663

(Address of principal executive offices)

(800) 546-9676 ext. 2076

(Issuer's telephone number)

N/A

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

NONE

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

At August 9, 2005, there were outstanding 10,137,974 shares of the Issuer's common stock, \$.001 par value per share.

Transitional Small Business Disclosure Format: Yes No

The registrant has restated the financial statements for the six months ended June 30, 2005 to include the gross revenues and expenses for the business that

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we acquired from Around the World Travel on December 31, 2004. The revenues and expenses were previously reported on a net basis. This amended Form 10-QSB includes these restated financial statements and revisions to the related disclosure in "Item 2. Management's Discussion and Analysis or Plan of Operation" including the disclosure under the heading "Risk Factors." The financial information and related disclosure is current through June 30, 2005, unless otherwise stated. This report also includes new disclosure under "Item 2. Unregistered Sales of Equity Securities and Use of Proceeds" and other revised disclosure in "Item 3. Legal Proceedings" and "Item 5. Other Information" under the heading "Related Party Transactions." The other revised disclosures are current through the filing of this report, unless otherwise stated. Investors should read this report in its entirety along with our second amended Form 10-KSB, which we are filing simultaneously with this filing.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2005 AND DECEMBER 31, 2004

	JUNE 30, 2005	DECEMBER 31,
	UNAUDITED	AUDITED
	(Restated)	(Restated)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,857,918	\$ 2,266,0
Cash - Restricted	4,649,377	
Accounts receivable, net	762,212	3,539,3
Note receivable	76,755	113,0
Prepaid expenses and other	725,373	51,4
Other Current Assets	0	30,4
Total Current Assets	8,071,635	6,000,3
PROPERTY AND EQUIPMENT, NET	5,352,149	6,088,5
LAND HELD FOR DEVELOPMENT	28,686,579	23,448,2
OTHER ASSETS		
Prepaid Sales Commissions	7,365,517	5,966,5
Prepaid Sales Commissions - affiliated entity	3,643,695	2,665,3
Investment-Senior Notes	5,170,000	5,170,0
Goodwill	14,425,437	14,425,4
Trademark	1,000,794	1,000,0
Other	594,246	2,637,5
Total Other Assets	32,199,689	31,864,9

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TOTAL ASSETS	\$ 74,310,052	\$67,401,9
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and notes payable	\$ 8,613,354	\$ 9,605,2
Current maturities of notes payable-related parties	1,033,216	1,910,6
Accounts payable and accrued expenses	2,694,954	5,618,9
Accrued expenses - officers	1,624,083	1,355,0
Customer deposits	0	2,752,5
Other	140,915	2,332,8
Shareholder advances	0	273,3
	-----	-----
Total Current Liabilities	14,106,522	23,848,5
Long-term debt and notes payable	27,415,853	20,600,0
Deposits on unit pre-sales	28,641,009	16,669,3
	-----	-----
Total liabilities	70,163,384	61,117,9
STOCKHOLDERS' EQUITY:		
Preferred stock; 1,000,000 shares authorized; \$.001 par value; 1,000,000 Series "A" shares issued and outstanding at June 30, 2005 and December 31, 2004	10,000	10,0
Preferred stock; 100,000 shares authorized; \$.01 par value; 2,825 Series "B" shares issued and outstanding at June 30, 2005 and December 31, 2004	28	
Preferred stock, 28,000 shares authorized; \$.01 par value 27,189 Series "C" shares issued and outstanding at June 30, 2005 and December 31, 2004	272	2
Preferred stock; 50,000 shares authorized; \$.001 par value; 24,101 and 0 Series "E" shares issued and outstanding at June 30, 2005 and December 31, 2004	24	
Preferred stock; 150,000 shares authorized; \$.01 par value; 1,936 and 0 Series "F" shares issued and outstanding at June 30, 2005 and December 31, 2004	0	
Common stock, \$.001 par value; 100,000,000 shares authorized; 10,137,974 and 9,977,974 shares issued and outstanding at June 30, 2005 and December 31, 2004	10,138	9,9
Additional paid-in capital	15,442,693	15,636,3
Accumulated deficit	(11,316,487)	(9,372,6
	-----	-----
Total Stockholders' Equity	4,146,668	6,284,0
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 74,310,052	\$67,401,9
	=====	=====

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SIX AND THREE MONTHS ENDED JUNE 30, 2005 AND 2004

	SIX MONTHS ENDED JUNE 30, 2005 ----- UNAUDITED (Restated)	SIX MONTHS ENDED June 30, 2004 ----- UNAUDITED (Restated)	THREE MONTHS June 30, 2004 ----- UNAUDITED (Restated)
Revenue	\$13,934,667	\$ 2,344,947	\$ 6,125,200
Cost of Service Revenues	(13,008,978)	(2,941,544)	(6,181,300)
Gross Margin	925,689	(596,597)	(56,000)
Operating Expenses:			
Depreciation and amortization	(685,305)	(354,618)	(341,800)
General and administrative expenses	(1,447,384)	(929,513)	(648,200)
Total Operating Expenses	(2,132,689)	(1,284,131)	(990,000)
Loss from Operations	(1,207,000)	(1,880,728)	(1,046,100)
Interest Expense	(736,845)	(192,072)	(343,500)
Minority Interest	-	484,286	-
Total Other Income (Expense)	(736,845)	292,214	(343,500)
Loss before Income Taxes	(1,943,845)	(1,588,514)	(1,389,600)
PROVISIONS FOR INCOME TAXES	-	(3,870)	-
NET LOSS	\$ (1,943,845)	\$ (1,592,384)	\$ (1,389,600)
NET INCOME (LOSS) PER SHARE:			
BASIC AND DILUTED	(0.26)	(0.28)	(0.28)
WEIGHTED AVERAGE SHARES OUTSTANDING			
BASIC AND DILUTED	10,001,841	7,759,642	10,025,400

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	SIX MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2004
	UNAUDITED	UNAUDITED
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	\$ (1,943,845)	\$ (1,592,442)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	813,927	442,442
Non-cash interest expense	736,845	
Loss on Sale of AVR	-	113,442
Gain on settlement of litigation	-	(145,442)
Changes in assets and liabilities:		
Decrease in receivables	2,777,175	1,382,442
Decrease (Increase) in prepaid and other assets	1,435,342	(58,442)
Increase in advances receivable	-	(101,442)
Increase in prepaid commissions	(2,377,321)	
Increase (Decrease) in shareholder advances & notes payable	141,635	(101,442)
Increase (Decrease) in deposits on unit pre-sales	11,971,662	(5,947,442)
Decrease (Increase) in customer deposits	(2,752,535)	7,251,442
Decrease (Increase) in accounts payable and accrued expenses	(5,015,865)	16,442
	-----	-----
Net cash provided by (used in) operating activities	5,787,020	1,259,442
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of AWT Assets	10,602,635	
Investment in non-marketable securities	-	(5,442)
Investment in non-consolidated subsidiaries	-	(20,442)
Increase in notes receivable	-	(2,114,442)
Increase in restricted cash	(4,649,377)	
Acquisition of fixed assets	(77,576)	(212,442)
Capitalization of real estate carrying costs	(5,238,206)	(1,802,442)
	-----	-----
Net cash used in investing activities	637,476	(4,154,442)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of debt	(6,114,651)	
Proceeds from notes payable	-	5,516,442
Payments of notes payable - related parties	(717,969)	(552,442)
Proceeds from sale of securities	-	
Proceeds from shareholder advances	-	(387,442)
	-----	-----
Net cash provided by financing activities	(6,832,620)	4,577,442
	-----	-----
Net increase (decrease) in cash	(405,124)	1,681,442
CASH AT BEGINNING PERIOD	2,266,042	734,442
	-----	-----
CASH AT END OF PERIOD	\$ 1,857,918	\$ 2,416,442
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 696,065	\$ 360,442

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Cash paid for income taxes

=====
\$ - \$
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NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - PRESENTATION

The consolidated balance sheets of the Company as of June 30, 2005 and December 31, 2004, the related consolidated statements of operations for the six and three months ended June 30, 2005 and 2004, and the consolidated statements of cash flows for the six months ended June 30, 2005 and 2004, (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 six months ended June 30, 2005 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, 2004, Form 10-KSB/A, Amendment No. 2, the Company's March 31, 2005 Form 10-QSB/A, Amendment No. 1 and the Company's Forms 8-K & 8-K/A filings.

NOTE B - REVENUE RECOGNITION

American Leisure recognizes revenues on the accrual method of accounting. For the sales of units on the Orlando property, revenues will be recognized upon the close of escrow for the sales of its real estate. Operating revenues earned will be recognized upon the completion of the earning process.

Revenues from American Leisure's call center are recognized on the equity basis from the joint venture entity, Caribbean Media Group, Ltd.

Revenues from Hickory Travel Systems, Inc. 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.

Revenues from our wholly owned subsidiary ALEC are recognized as earned, which is primarily at the time of delivery of the related service. Specifically, commission revenues for cruises, hotel and car rentals are recognized upon completion of travel, hotel stay or car rental. Commission fees for ticketing are recognized at the time of departure.

One of American Leisure's principal sources of revenue is associated with access to the travel portal that provides a database of discounted travel services. Annual renewals occur at various times during the year. Costs related to site changes are incurred in the months prior to annual billing renewals. Customers are charged additional fees for hard copies of the site access information. Occasionally these items are printed and shipped at a later date, at which time both revenue and expenses are recognized.

NOTE C - PROPERTY AND EQUIPMENT, NET

As of June 30, 2005, property and equipment consisted of the following:

	Useful Lives	Amount
	-----	-----
Equipment	3-5	\$7,655,203
Furniture & fixtures	5-7	1,578,861

Subtotal		9,234,064
Less: accumulated depreciation and amortization		3,881,915

Property and equipment, net		\$5,352,149
		=====

Depreciation expense for the six-month and three-month period ended June 30, 2005 amounts to \$813,927 and \$382,545 respectively.

NOTE D - LONG-TERM DEBT AND NOTES PAYABLE

Two notes which amount to \$7,862,250 (\$6 million with Grand Bank and \$1,862,250 with Raster Investments) matured on March 31, 2005. These notes are not in default and the terms have been extended for an additional six months. Total accrued interest on the notes amount to \$431,936.

NOTE E - NOTES PAYABLE - RELATED PARTIES

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

Xpress Ltd	\$ 522,145
Officers of Hickory Travel Services	374,445
Malcolm Wright	12,364
Peter Webb	124,262

Notes payable - related parties	\$1,033,216
	=====

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 \$374,445. \$222,892 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	\$589,947

Related party debt and notes	\$589,947
	=====

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 \$589,947. \$209,004 of such amount is owed to L. William Chiles, a Director of the Company.

NOTE F - ACQUISITIONS

On December 31, 2004, American Leisure Equities Corporation (the "Purchaser") a wholly-owned subsidiary of American Leisure, entered into an Asset Purchase Agreement (hereinafter referred to as "APA") with Around The World Travel, Inc. (the "Seller"), pursuant to which the Seller agreed to sell substantially all of its assets to the Purchaser. Under the terms of the APA, the Seller conveyed to the Purchaser all of the assets necessary to operate the Business, including substantially all of the Seller's tangible and intangible assets and certain agreed operating liabilities.

The purchase price for the assets transferred under the APA is an amount equal to the fair value of the Business (\$16 million, established by an unaffiliated investment-banking firm, calculated on a going concern basis), plus \$1.5 million, for a total purchase price of \$17.5 million. On the date of acquisition the company impaired the value of the acquired assets in the amount of \$1,500,000 resulting in total assets acquired of \$16,000,000.

The APA was amended on March 31, 2005. The original APA indicated that the Purchaser will pay the purchase price on or before June 30, 2005 through a combination of a number of different currencies including but limited to the application of short term debt owed to the Company, the assumption of specific liabilities, the payment to certain AWT creditors on behalf of AWT and potentially certain preferred stock of the Company. Pursuant to the terms of the APA, the Seller and the Purchaser have entered into a Management Agreement, under which the Seller manages the Business on behalf of the Purchaser. The Seller and the Purchaser also entered into a License Agreement, under which the Purchaser granted the Seller a non-exclusive license to use certain trade names and related intellectual property in connection with the performance of its duties under the Management Agreement. The License Agreement will expire simultaneously with the Management Agreement. The amendment changed the consideration for the purchase price to a combination of 1) issuance to Seller of a note payable in the amount of \$8,483,330; 2) reduction of certain amounts owed by the Seller to Purchaser in the amount of \$4,774,619; and 3) the assumption of certain liabilities of the Seller in the amount of \$4,242,051. The Series F preferred stock issuance in the original APA was cancelled. During the first quarter, certain of the assets, doubtful receivables, pre-pays and security deposits were transferred to Seller as reduction of the note payable. The note was further reduced by a set-off of the amount of the Accounts Receivable deemed received and retained by AWT. AWT had sold the Accounts Receivable to the Company on December 31, 2004. In lieu of segregating and remitting the payments received on the Accounts Receivables, AWT was permitted to apply said amounts as a credit to the Company's note payable. The balance due under the note payable, as determined on June 30, 2005, by application of the known credits for accounts receivable and other authorized offsets is \$6,356,740. The note provides for the right of the holder (Purchaser) to set off any sums incurred by the holder (Purchaser) for the business affairs of the maker (Seller) and any cash advances made by holder (Purchaser) to maker (Seller) outside of the amortization schedule.

The excess purchase price over the fair value of net tangible assets was \$12,585,435, all of which was allocated to goodwill. No impairment of the goodwill amount occurred during the quarter covered by this report.

The following table summarizes the estimated fair value of the net assets

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acquired and liabilities assumed at the acquisition dates.

	Total
Current assets	\$ 1,850,109
Property and equipment	287,975
Deposits	276,481
Trademark	1,000,000
Goodwill	12,585,435

Total assets acquired	\$16,000,000

Notes assumed	4,424,051
Debt forgiven	4,774,619
Note issued	8,483,330

Consideration	\$17,500,000

NOTE G - 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 June 30, 2005, the amount of salaries payable accrued to Mr. Wright was \$1,418,750.

The Company accrued director fees to each of its three (3) 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 \$145,500.

Malcolm Wright is the majority shareholder of American Leisure Real Estate Group, Inc. (ALRG). On November 3, 2003 Tierra Del Sol Resort, Inc. ("TDSR"), a wholly-owned subsidiary of American Leisure, entered into an exclusive Development Agreement with ALRG to provide development services for the development of The Sonesta Orlando Resort at Tierra del Sol. 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 June 30, 2005 the total costs plus fees amounted to \$6,427,706.

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 June 30, 2005 the total sales amounted to approximately \$242,912,970. As a result of the sales, TDSR is currently obligated to pay Xpress a total fee of \$7,287,389. As of June 30, 2005, \$6,765,244 has been paid to Xpress and \$522,145 remains unpaid and is included in Current maturities of notes payable - related parties (see Note E regarding Notes payable - Related parties). Based on the sales contracts as of June 30, 2005, TDSR will be obligated to pay Xpress \$3,643,694, the other half of the sales fee, upon the conveyance of the units.

NOTE H - 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	Six months ended 6/30/2005	Six months ended 6/30/2004	Three months ended 6/30/2005	Three months ended 6/30/2004
	-----	-----	-----	-----
NET LOSS (as reported)	(1,943,845)	(1,592,384)	(1,389,662)	(838,400)
UNDECLARED PREFERRED STOCK DIVIDEND	(701,780)	(551,938)	(350,890)	(275,969)
	-----	-----	-----	-----
NET LOSS AFTER PREFERRED STOCK DIVIDEND	(2,645,625)	(2,144,322)	(1,740,552)	(1,114,369)
NET INCOME (LOSS) PER SHARE BASIC AND DILUTED	(0.26)	(0.28)	(0.17)	(0.14)

NOTE I - SUBSEQUENT EVENTS

On August 16, 2005, TDSR received two commitments from KeyBank, N.A. for credit facilities that will be used for the development of TDSR Phase I. One credit facility provides \$96.6 million for a term of twenty-four months as a development loan at 275 basis points over the 30-day LIBOR. An additional credit facility provides \$14.85 million for a term of eighteen months as a land loan secured by Phase II at 310 basis points over the 30-day LIBOR. The total credit facility amounts to \$111.45 million. The industry standard fees to KeyBank, N.A. for the credit facilities include a 1% commitment fee (\$1,114,500) plus an administration fee of \$150,000 per annum.

NOTE J - RECLASSIFICATIONS

Certain amounts in the June 30, 2004 financial statements have been reclassified to conform with the June 30, 2005 financial statement presentation.

NOTE K - RESTATEMENT

American Leisure has restated the financial statements for the three and six months ended June 30, 2005, to include gross revenues and expenses for the Travelers business interests acquired from Around the World Travel on December 31, 2004, which business assets and interests were thereupon combined with American Leisure. The revenues and expenses were previously reported on a net basis in connection with the terms of the Management Agreement pursuant to which AWT acted as the manager. As such, AWT was responsible for such Travelers revenues and related expenses. The entitlement of American Leisure

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in relation to TraveLeaders and the combined business interests was an entitlement to a net operating result pursuant to the Management Agreement. Therefore, the restated financial statements do not involve any change to the cash flow, net income or balance sheet of American Leisure.

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A summary of the restatement is as follows:

	As previously reported	Increase (Decrease)	As Restated
	-----	-----	-----
Six months ended			
June 30, 2005:			
Statements of Operations:			
Revenue	\$ 4,498,920	\$ 9,435,747	\$ 13,934,667
Cost of Service Revenues	\$ -	\$ (13,008,978)	\$ (13,008,978)
Gross Margin	\$ 4,898,920	\$ (3,573,231)	\$ (925,688)
Depreciation and Amortization	\$ (813,927)	\$ 128,622	\$ (685,305)
General and administrative expenses	\$ (4,677,198)	\$ 3,229,814	\$ (1,447,384)
Loss From Operations	\$ (992,205)	\$ (214,795)	\$ (1,207,000)
Equity in Operations of unconsolidated entities	\$ (214,795)	\$ 214,795	\$ -
Six months ended			
June 30, 2004:			
Statements of Operations:			
Cost of Service Revenues	\$ -	\$ (2,941,544)	\$ (2,941,544)
Depreciation and Amortization	\$ (442,992)	\$ 88,374	\$ (354,618)
General and Administrative expenses	\$ (3,782,683)	\$ 2,853,170	\$ (929,513)
Three months ended			
June 30, 2005:			
Statements of Operations:			
Revenue	\$ 1,823,246	\$ 4,302,040	\$ 6,125,286
Cost of Service Revenues	\$ -	\$ (6,181,356)	\$ (6,181,356)
Gross Margin	\$ 1,823,246	\$ (1,879,316)	\$ (56,070)
Depreciation and Amortization	\$ (382,545)	\$ 40,736	\$ (341,809)
General and administrative expenses	\$ (2,272,042)	\$ 1,623,785	\$ (648,257)
Loss From Operations	\$ (831,341)	\$ (214,795)	\$ (1,046,136)
Equity in Operations of unconsolidated entities	\$ (160,849)	\$ 160,849	\$ -
Three months ended			
June 30, 2004:			
Statements of Operations:			
Cost of Service Revenues	\$ -	\$ (1,448,814)	\$ (1,448,814)
Depreciation and amortization	\$ (222,920)	\$ 44,620	\$ (178,300)
General and			

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Administrative expenses \$	(1,880,181)	\$	1,404,194	\$	(475,98)
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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements in this discussion and elsewhere in this report that are not historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Statements preceded by, followed by or that otherwise include the words "believes", "expects", "anticipates", "intends", "projects", "estimates", "plans", "may increase", "may fluctuate" and similar expressions or future or conditional verbs such as "should", "would", "may" and "could" are generally forward-looking in nature and not historical facts. These forward-looking statements were based on various factors and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives. These factors include, among others, the factors set forth under the heading "Risk Factors." Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Most of these factors are difficult to predict accurately and are generally beyond our control. We are under no obligation to publicly update any of the forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are cautioned not to place undue reliance on these forward-looking statements.

OVERVIEW

American Leisure Holdings, Inc. (the "Company") is in the process of developing an organization that will provide, on an integrated basis, travel services, travel distribution as well as development, sales, management and rentals of destination resorts. To that end we have acquired or established businesses that manage and distribute travel services, develop vacation home ownership and travel destination resorts and develop and operate affinity-based clubs. There is a trend toward consolidation in the travel industry, which has caused us to seek to create a vertically integrated travel services organization that provides comprehensive services to our clients and generates revenue from several sources. We believe that we have a synergistic strategy that involves using our travel distribution, fulfillment and management services to provide consumer bookings at our planned resorts, selling and renting vacation homes that we plan to manage at these resorts, and fulfilling the travel service needs of our affinity-based travel clubs. We also own a call center in Antigua-Barbuda.

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

Malcolm J. Wright, our President, Chief Executive Officer, Chief Financial Officer, a Director and one of our founders, has successfully developed vacation properties in Europe. We are currently developing our first luxury vacation home and destination resort, The Sonesta Orlando Resort at Tierra del Sol and relying on Mr. Wright's experience to do so. The resort will include 540 town homes and 432 condominiums. The resort will be constructed in two phases. The first phase is scheduled to include a total of 430 units, a 126,000 square foot clubhouse

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(84,000 approximate square footage under air), and a large swimming and recreation complex which will include a combination pool and lazy river swimming feature, an outdoor sports bar and food service area, restroom facilities, showers, water-slides, beach volleyball and extensive sundecks. In June 2005, we began the earth moving and clearing process on the land for the resort. Construction on the second phase is expected to start during 2006 and overlap with construction on the first phase. The second phase is scheduled to include 542 units and additional resort amenities, including miniature golf, a flow rider water attraction, a wave pool, a rapid river and a children's multilevel interactive water park as well as additional clubhouse improvements, include the finishing, equipping and furnishing of banquet and meeting rooms, casual and fine dining restaurants, a full service spa, a sales center and an owners' club. The first phase has been fully pre-sold for \$166,000,000. Total sales to date on both phases currently total \$255,000,000. Upon completion of these units, we will offer our management services to certain purchasers to permit them to voluntarily include their qualifying units in a rental program that we will operate. In addition, we will retain a 45-day, right of first refusal to repurchase the units in the resort that become available for resale. We recently obtained commitments from KeyBank National Association ("KeyBank") for two credit facilities: one in the amount of \$96,600,000 as a development and construction facility for the first phase of the resort, and the other in the amount of \$14,850,000 as a land loan for the second phase of the resort. In addition, KeyBank Capital Markets, an entity related to KeyBank, will underwrite the sale of \$25,995,000 in bonds issued by the Westridge Community Development District to fund the first phase of sitework for the resort. The credit facilities and the bond sale are discussed below in more detail in "Liquidity and Capital Resources" under the heading "KeyBank Commitments."

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Our TraveLeaders business 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. We acquired the assets of TraveLeaders effective December 31, 2004, from Around The World Travel, Inc. Around The World Travel is currently managing the assets for us. See the discussion below under "Recent Events."

In October 2003, we acquired a 51% interest in Hickory Travel Systems, Inc. Hickory is a travel management service organization that primarily serves its network/consortium of approximately 160 well-established travel agency members, comprised of over 3,000 travel agents worldwide that focus on corporate travel. The services provided by Hickory include a 24-hour reservation service, international rate desk services, discount hotel programs, preferred supplier discounts, commission enhancement programs and marketing services. Our business plan includes the acquisition of additional travel agencies so that we can compete for greater volume buying discounts and market share. We view the members of Hickory as a resource for future acquisitions of viable travel agencies.

We are 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. 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 such, expenditures have been

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higher than anticipated. We now have been fully indemnified for any and all costs in relation to any litigation in relation to the acquisition of Around the World Travel assets.

Our American Travel & Management Group business develops and operates Internet structured clubs that specialize in using demographic affinities to promote brand loyalty through the delivery of customized travel and other benefits to a constituency that is built under the auspices of a national retailer, publisher or national cause. A vital component to the benefits provided to club members and the sponsors is the inclusion of a sophisticated rewards program that will provide customer retention tracking data to those sponsors while enabling the members to enjoy significant discounts and rewards for their loyalty. We have recently entered into agreements with a prominent sports media organization, a national publisher and an international retail food service company. Based upon current agreements, we expect to launch a new club on an average of one every other month for the next eighteen months. We fulfill travel service orders produced by these clubs through TraveLeaders.

In December 2004, we entered into a joint venture with IMA Antigua, Ltd. to operate a call center that we own located in Antigua. The joint venture is operated through Caribbean Media Group, Ltd. We own 39.69% of this joint venture company. The call center provides in-bound and out-bound traffic for customer service, customer retention and accounts receivable management. The clients of the call center are well known national businesses with well-established credit and operational systems.

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

We also currently generate modest revenue from our call center joint venture in Antigua. We expect revenues from our call center operations to increase throughout the year based on indications from a major client that it will require more seats in September 2005.

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RECENT EVENTS

On January 29, 2005, we entered into an operating agreement with a subsidiary of Sonesta International Hotels Corporation of Boston, Massachusetts, a luxury resort hospitality management company. Pursuant to the operating agreement, we sub-contracted to Sonesta substantially all of the hospitality responsibilities for The Sonesta Orlando Resort at Tierra del Sol. We retain primary management control of the resort. We had previously engaged Fugelberg Koch to design the residential units of the resort, amenities and the clubhouse. In February 2005, we held the official groundbreaking ceremony for the resort.

On March 7, 2005, we sold land located in Davenport, Florida that had been held for commercial development. The land was acquired in 2002 for approximately \$1,975,359 and sold for \$4,020,000 and paid-off secured debt on the property in the amount of \$1,300,000 plus accrued interest and other costs. We received approximately \$2,100,000 in net proceeds from the sale and realized a profit of \$1,100,000. We used the net proceeds for working capital and to pay \$1,948,411 of notes payable to related parties attributable to the acquisition and retention of the property.

We amended our agreement with Around The World Travel, Inc. effective March

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31, 2005, to change the manner in which we paid for the TraveLeaders assets that we acquired on December 31, 2004. The purchase price of \$17,500,000 was determined by adding \$1,500,000 to the fair value (\$16,000,000) of the business as a going concern as determined by management using an appraisal performed by an independent investment banking firm. Pursuant to the terms of the original asset purchase agreement and prior to the completion of the independent valuation, we were to assume and forgive an aggregate of \$17,306,352 in liabilities and issue 1,936 shares of our Series F preferred stock valued at \$193,648 in consideration for the assets. Under the amendment, the liabilities assumed were reduced to \$4,242,051, we forgave certain working capital loans in the amount of \$4,774,619 that Around The World Travel owed to us and we cancelled the issuance of Series F preferred stock. In addition, we issued a 60 month, 6% per annum note in favor of Around The World Travel in the principal amount of \$8,483,330. During the first quarter of 2005, we transferred to Around The World Travel doubtful receivables, pre-pays and security deposits that we had acquired pursuant to the asset purchase agreement to reduce the amount of the note. We also allowed Around The World Travel to retain an amount of accounts receivable that we had acquired, which further offset the note. The final balance due under the note as of June 30, 2005, after the offsets, was \$6,356,740, which was evidenced by a new note.

In May 2005, we extended the maturity dates of two notes (payable to third parties) in the aggregate amount to \$7,862,250 that matured on March 31, 2005 to September 30, 2005.

On August 16, 2005, we obtained commitments from KeyBank for two credit facilities to be used in the development of The Sonesta Orlando Resort at Tierra del Sol. KeyBank has committed to fund or to syndicate \$96,600,000 as a development and construction facility for the first phase of the resort. KeyBank has also committed to fund a second credit facility in the amount of \$14,850,000 as a land loan for the second phase of the resort. We expect to close both credit facilities within sixty to ninety days of the commitment letters. In addition, KeyBank Capital Markets will underwrite the sale of \$25,995,000 in bonds issued by the Westridge Community Development District to fund the first phase of sitework for the resort. See "Liquidity and Capital Resources" under the heading "KeyBank Commitments," below.

KNOWN TRENDS, EVENTS, AND UNCERTAINTIES

We expect to experience seasonal fluctuations in our gross revenues and net earnings. This seasonality may cause significant fluctuations in our quarterly operating results. In addition, other material fluctuations in operating results may occur due to the timing of development of certain 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 2005 and in the years ahead.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations is based upon our unaudited 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,

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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.

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 predictable losses while developing our business, and we have negative retained earnings. We expect our travel operations through the end of the current fiscal year to require additional working capital of approximately \$750,000. 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, 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. 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 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.

Revenues from our call center are recognized on the equity basis from the joint venture that operates the call center. We own 39.69% of the joint venture.

We have entered into 720 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.

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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 as determined by an independent investment bank. Our remaining goodwill of \$14,425,437 has not been impaired as of June 30, 2005, and is evaluated on an annual basis or whenever events or circumstances indicate the carrying value of the goodwill may not be recoverable.

RESULTS OF OPERATIONS

Three Months ended June 30, 2005 Compared to Three Months Ended June 30, 2004

Revenue increased \$4,967,004, or 429%, to \$6,125,286 for the three months ended June 30, 2005, as compared to revenue of \$1,158,282 for the three months ended June 30, 2004. The increase in revenue was primarily attributable to increased travel revenues for summer travel which was offset by a higher than expected loss from the call center operations and TraveLeaders. We acquired TraveLeaders in the fourth quarter of 2004.

Cost of revenue increased \$4,732,542, or 327%, to \$6,181,356 for the three months ended June 30, 2005, as compared to cost of revenue of \$1,448,814 for the three months ended June 30, 2004. The increase in cost of revenue was attributable to TraveLeaders. We acquired TraveLeaders in the fourth quarter of 2004.

Depreciation and amortization expense increased \$163,509, or 92%, to \$341,809 for the three months ended June 30, 2005, as compared to depreciation and amortization expense of \$178,300 for the three months ended June 30, 2004. The increase in depreciation and amortization expense was primarily attributable to the additional assets that we acquired from Around The World Travel, Inc. and the call center assets becoming eligible for depreciation when our call center operations began in January 2005. Our depreciable assets consisted of office equipment, furniture and fixtures and telecommunications equipment.

General and administrative expenses increased \$172,270, or 36%, to \$648,257 for the three months ended June 30, 2005, as compared to general and administrative expenses of \$475,987 for the three months ended June 30, 2004. The increase in general and administrative expenses was primarily attributable to general expenses, personnel and rent for the call center operations which began in January 2005 as well as an increase in administrative personnel and professional fees for the real estate operations that we have incurred since the

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groundbreaking in February 2005 of The Sonesta Orlando Resort at Tierra del Sol. Our general and administrative expenses consisted of the following categories: personnel, facility, technology and telecommunications, professional fees and other general and administrative expenses.

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Loss from operations increased \$101,317, or 11%, to \$1,046,136 for the three months ended June 30, 2005, as compared to a loss from operations of \$944,819 for the three months ended June 30, 2004. The increase in loss from operations was due to the increase in revenue which was offset by the increase in depreciation and amortization expense and general and administrative expenses.

Interest expense increased \$223,418, or 186%, to \$343,526 for the three months ended June 30, 2005, as compared to interest expense of \$120,108 for the three months ended June 30, 2004. During the period from December 2003 to December 2004, we received a total of \$11,505,000 of convertible debt financing from Stanford Venture Capital Holdings, Inc. ("Stanford"). Interest expense increased as a result of the debt financing that we received from Stanford.

We did not have income or loss attributable to minority interest for the three months ended June 30, 2005, as compared to income attributable to minority interest of \$227,662 for the three months ended June 30, 2004.

Loss before income taxes increased \$552,397, or 66%, to \$1,389,662 for the three months ended June 30, 2005, as compared to loss before income taxes of \$837,265 for the three months ended June 30, 2004. The increase in loss before income taxes was due to the increase in interest expense, the loss from equity in operations of unconsolidated affiliate and the decrease in income attributable to minority interest.

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We did not record a provision for income taxes for the three months ended June 30, 2005. We recorded a provision for income taxes of \$(1,135) for the three months ended June 30, 2004. Although we have net operating loss carry-forwards that may be used to offset future taxable income and generally expire in varying amounts through 2024, no tax benefit has been reported in the financial statements.

Net loss increased \$551,262, or 66%, to \$1,389,662 for the three months ended June 30, 2005, as compared to net loss of \$838,400 for the three months ended June 30, 2004. The increase in net loss and basic and diluted net loss per share was due to the increase in loss before income taxes.

We accrued undeclared preferred stock dividend of \$350,890 for the three months ended June 30, 2005, as compared to undeclared preferred stock dividend of \$275,969 for the three months ended June 30, 2004. The increase in undeclared

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preferred stock dividend was due to the issuance of additional shares of preferred stock with cumulative dividends during 2004.

Net loss after preferred stock dividend increased \$626,183, or 56%, to \$1,740,552 with basic and diluted net loss per share of \$0.17 for the three months ended June 30, 2005, as compared to net loss of \$1,114,369 with basic and diluted net loss per share of \$0.14 for the three months ended June 30, 2004. The increase in net loss after preferred stock dividend and basic and diluted net loss per share was due to the increase in preferred stock dividend.

Six Months ended June 30, 2005 Compared to Six Months Ended June 30, 2004

Revenue increased \$11,589,720, or 494%, to \$13,934,667 for the six months ended June 30, 2005, as compared to revenue of \$2,344,947 for the six months ended June 30, 2004. The increase in revenue was primarily attributable to the additional revenues from the acquisition of assets from Around The World Travel, Inc and the gain from the sale of property in March 2005.

Cost of revenue increased \$10,067,434, or 342%, to \$13,008,978 for the six months ended June 30, 2005, as compared to cost of revenue of \$2,941,544 for the six months ended June 30, 2004. The increase in cost of revenue was attributable to TraveLeaders. We acquired TraveLeaders in the fourth quarter of 2004.

Depreciation and amortization expense increased \$330,687, or 93%, to \$685,305 for the six months ended June 30, 2005, as compared to depreciation and amortization expense of \$354,618 for the six months ended June 30, 2004. The increase in depreciation and amortization expense was primarily attributable to the additional assets that we acquired from Around The World Travel, Inc. and the call center assets becoming eligible for depreciation when our call center operations began in January 2005. Our depreciable assets consisted of office equipment, furniture and fixtures and telecommunications equipment.

General and administrative expenses increased \$517,871, or 56%, to \$1,447,384 for the six months ended June 30, 2005, as compared to general and administrative expenses of \$929,513 for the six months ended June 30, 2004. The increase in general and administrative expenses was primarily attributable to general expenses, personnel and rent for the call center operations which began in January 2005 as well as an increase in administrative personnel and professional fees for the real estate operations that we have incurred since the groundbreaking in February 2005 of The Sonesta Orlando Resort at Tierra del Sol. Our general and administrative expenses consisted of the following categories: personnel, facility, technology and telecommunications, professional fees and other general and administrative expenses.

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Loss from operations decreased \$673,728, or 36%, to \$1,207,000 for the six months ended June 30, 2005, as compared to a loss from operations of \$1,880,728 for the six months ended June 30, 2004. The decrease in loss from operations was due to the increase in revenue which was offset by the increase in depreciation and amortization expense and cost of service revenues.

Interest expense increased \$544,773, or 284%, to \$736,845 for the six months ended June 30, 2005, as compared to interest expense of \$192,072 for the six months ended June 30, 2004. During the period from December 2003 to December 2004, we received a total of \$11,505,000 of convertible debt financing from Stanford. Interest expense increased as a result of the debt financing that we received from Stanford.

We did not have income or loss attributable to minority interest for the six months ended June 30, 2005, as compared to income attributable to minority interest of \$484,286 for the six months ended June 30, 2004.

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Loss before income taxes increased \$355,331, or 22%, to \$1,943,845 for the six months ended June 30, 2005, as compared to loss before income taxes of \$1,588,514 for the six months ended June 30, 2004. The increase in loss before income taxes was due to the increase in interest expense, the loss from equity in operations of unconsolidated affiliate and the decrease in income attributable to minority interest.

We did not record a provision for income taxes for the six months ended June 30, 2005. We recorded a provision for income taxes of \$(3,870) for the six months ended June 30, 2004. Although we have net operating loss carry-forwards that may be used to offset future taxable income and generally expire in varying amounts through 2024, no tax benefit has been reported in the financial statements.

Net loss increased \$351,461, or 22%, to \$1,943,845 for the six months ended June 30, 2005, as compared to net loss of \$1,592,384 for the six months ended June 30, 2004. The increase in net loss was due to the increase in loss before income taxes.

We accrued undeclared preferred stock dividend of \$701,780 for the six months ended June 30, 2005, as compared to undeclared preferred stock dividend of \$551,938 for the six months ended June 30, 2004. The increase in undeclared preferred stock dividend was due to the issuance of additional shares of preferred stock with cumulative dividends during 2004.

Net loss after preferred stock dividend increased \$501,303, or 23%, to \$2,645,625 with basic and diluted net loss per share of \$0.26 for the six months ended June 30, 2005, as compared to net loss of \$2,144,322 with basic and diluted net loss per share of \$0.28 for the six months ended June 30, 2004. The increase in net loss after preferred stock dividend was due to the increase in preferred stock dividend. The decrease in basic and diluted net loss per share was due to an increase in the basic and diluted weighted average shares outstanding of 10,001,841 for the six months ended June 30, 2005, as compared to basic and diluted weighted average shares outstanding of 7,759,642 for the six

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months ended June 30, 2004.

We had an accumulated deficit of \$11,316,487 as of June 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

We expect that we will require approximately \$750,000 through the end of the current fiscal year for working capital for our travel management and services businesses. Also, in November, 2005, \$1,250,000 of our credit facility with Stanford is scheduled to mature, we anticipate either revolving the facility or repaying them via refinancing our accounts receivable with a commercial bank. In September 2005 two notes (payable to third parties) in the aggregate amount \$7,862,250 plus accrued interest of \$431,936 as of June 30, 2005 are due to mature. We plan to repay the notes with part of the funds that we plan to receive from KeyBank and the bond sale by the Westridge Community Development District. As discussed below, we recently obtained commitments from KeyBank for two credit facilities in the aggregate amount of \$111,450,000 for The Sonesta Orlando Resort at Tierra del Sol. In addition, KeyBank Capital Markets will underwrite the sale of \$25,995,000 in bonds issued by the Westridge Community Development District to fund the first phase of sitework for the resort. The underwriting on the bonds is completed and the pre-sale bids have been received. We anticipate that the bond sale will be consummated upon the completion of the syndication by KeyBank of part of the credit facilities. The bonds will be repaid by residential unit owners in the district over a 30-year period, through a tax assessment by the district. We estimate that the sum of the funds from the credit facilities, the completion of the sale of our 40 acres of commercial land and the bond sale proceeds will provide sufficient capital for the construction of the first phase of The Sonesta Orlando Resort at Tierra del Sol.

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In addition, to partially fund our development costs at The Sonesta Orlando Resort at Tierra del Sol, we have used cash from buyers' deposits, after providing the disclosure required by Florida law, on the pre-sold town homes for which the buyer has waived the requirements to maintain the funds in escrow. The deposits on the town homes range from 10% to 20% of the purchase price. As of June 15, 2005, approximately 90% of the buyers of town homes in the resort have waived the escrow requirement and these funds have been expended for our project related costs. Our contract for the condominiums requires a 20% deposit. All of the deposits received on condominium contracts are maintained in escrow. Provided the purchaser has waived escrow, we may use any condominium contract deposit in excess of 10% to fund the hard costs of construction of their unit. In the event we post a bond according to Florida law, we will also be permitted to use the bonded portion of the deposits on the condominiums for the projects development and construction costs.

We had total current assets of \$8,071,635 as of June 30, 2005, which consisted of cash of \$6,507,295, of which \$4,649,377 was restricted, accounts receivable of \$762,212, prepaid expenses and other assets of \$725,373, and note receivable of \$76,755. The restricted cash is for deposits received on pre-sale contracts, which are being held in escrow. The majority of accounts receivable represents the travel receivables of Hickory. Other assets consist of deferred acquisition costs, investment in subsidiaries, and member contracts and customer lists of our Travel Division.

We had total current liabilities of \$14,106,522 as of June 30, 2005, which consisted of current maturities of long-term debt and notes payable of \$8,613,354, accounts payable and accrued expenses of \$2,694,954, accrued expenses to officers of \$1,624,083, current maturities of notes payable to

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related parties of \$1,033,216 of which approximately \$534,509 was owed to our CEO/director and his affiliates and \$222,892 was owed to another director, and other current liabilities of \$140,915. We expect to close the credit facilities with KeyBank during the fourth quarter of 2005, and use part of the funds to pay off current maturities of long-term debt and notes payable of \$8,613,354, which includes two notes (payable to third parties) in the aggregate amount \$7,862,250 plus accrued interest of \$431,936 as of June 30, 2005 that are scheduled to mature in September 2005.

We had negative net working capital of \$6,034,887 as of June 30, 2005. The ratio of total current assets to total current liabilities was approximately 57% as of June 30, 2005. That ratio will improve after we pay off current maturities of long-term debt and notes payable with part of the funds that we expect to receive from KeyBank as referred to above.

Net cash provided by operating activities was \$5,787,020 for the six months ended June 30, 2005, as compared to net cash provided by operating activities of \$1,259,339 for the six months ended June 30, 2004. The increase in net cash provided by operating activities for the six months ended June 30, 2005 was attributable to an increase in deposits on unit pre-sales of \$11,971,662, a decrease in receivables of \$2,777,175, a decrease in prepaid and other assets of \$1,435,342, an adjustment of \$813,927 for depreciation and amortization, an adjustment of \$736,845 for non-cash interest expense, and an increase in shareholder advances and notes payable of \$141,635 which were offset by a decrease in accounts payable and accrued expenses of \$5,015,865, a decrease in customer deposits of \$2,752,535, net loss of \$1,943,845 and an increase in prepaid commissions of \$2,377,321.

Net cash provided by investing activities was \$5,286,853 for the six months ended June 30, 2005, as compared to net cash used in investing activities of \$4,154,428 for the six months ended June, 2004. The change from net cash used in investing activities to net cash provided by investing activities was primarily attributable to the acquisition of AWT assets of \$10,602,635 for the six months ended June 30, 2004.

Net cash used in financing activities was \$6,832,620 for the six months ended June 30, 2005, as compared to net cash provided by financing activities of \$4,577,074 for the six months ended June 30, 2004. The change from net cash provided by financing activities to net cash used in financing activities was due to the payment of debt of \$6,114,651 and payments of notes payable to related parties of \$717,969 for the six months ended June 30, 2005.

Previously we have relied on loans from third parties and from related parties to provide working capital and other funding needs. Our outstanding debt includes three credit facilities totaling \$11,605,000 in principal amount provided by Stanford. We recently obtained commitments from KeyBank for two credit facilities in an aggregate of \$111,450,000 for The Sonesta Orlando Resort at Tierra del Sol. In addition, KeyBank Capital Markets will underwrite the sale of \$25,995,000 in bonds issued by the Westridge Community Development District to fund the first phase of sitework for the resort.

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Stanford Credit Facilities

At June 30, 2005, we had outstanding principal balance of \$11,605,000 under our three credit facilities with Stanford. Our \$6,000,000 secured revolving credit facility with Stanford bears interest at a fixed rate of 6% per annum payable quarterly in arrears and matures on December 18, 2008. At the sole

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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 Wright, our chief executive officer 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.

Our \$4,250,000 secured revolving credit facility with Stanford 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 in November, 2005, 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.

Our \$1,355,000 secured revolving credit facility with Stanford bears interest at a fixed rate of 8% per annum and matures 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 is 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.

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 our 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 June 30, 2005, we believe we were in compliance with the covenants and other restrictions applicable to us under each credit facility.

KeyBank Commitments

On August 16, 2005, KeyBank and Tierra Del Sol Resort, Limited Partnership, a special purpose development company of which a subsidiary of ours is the 99% limited partner, along with seven special purpose entities that are owned by the limited partnership, entered into commitment letter for KeyBank to provide a credit facility to be used in the development of The Sonesta Orlando Resort at Tierra del Sol. KeyBank has committed to fund or to syndicate \$96,600,000 as a development and construction facility for the first phase of the resort. KeyBank has also committed to fund a second credit facility of \$14,850,000 as a land loan for the second phase of the resort, pursuant to a second commitment letter that KeyBank entered into with TDS Resort Phase 2, L.P., a special purpose

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development company of which a subsidiary of ours is the 99% limited partner. Both credit facilities are expected to close within sixty to ninety days of the commitment letters. The loans will be subject to various terms and conditions standard in the industry for these types of loans as agreed to by the parties. See "Risk Factors," below. In addition, KeyBank Capital Markets will underwrite the sale of \$25,995,000 in bonds issued by the Westridge Community Development District to fund the first phase of sitework for the resort.

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The \$96,600,000 credit facility will be evidenced by a promissory note and a construction loan agreement. The loan will be used to construct the first phase of The Sonesta Orlando Resort at Tierra del Sol. The loan will be for a term of twenty-four months from the date of closing. Advances of proceeds of the loan will bear interest at the 30-Day LIBOR Adjusted Daily Rate plus the LIBOR Rate Margin of 2.75% (as those terms are defined by the parties) subject to adjustment for any applicable reserves and taxes if required by future regulations. Interest will be due and payable monthly beginning on the fifth day of the first month following closing. In the event of default, the interest rate will be the greater of 3% in excess of the interest rate otherwise applicable on each outstanding advance or 18%. KeyBank may require the borrowers to institute an interest rate hedging program through the purchase of an interest rate swap, cap, or other such interest rate protection product from KeyBank or any qualified banking institution. The loan will be secured by a first lien on the resort, including the land, improvements, easements, 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 resort; 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. We, our Chief Executive Officer, Malcolm J. Wright and a Florida single purpose limited liability company to be capitalized by PCL Construction Enterprises, Inc. ("PCL") will guarantee repayment of the loan. We and those other parties will guaranty performance and completion. Mr. Wright obtained a surety bond in the amount of \$4,000,000 to collateralize part of his personal guarantee for this loan and the \$14,850,000 loan discussed below. PCL, an international construction company and parent to the company that will serve as general contractor, will guaranty completion of the resort based on a fixed price and time schedule pursuant to a construction contract. PCL will be required to pay substantial penalties if the time schedule is not met. The borrowers and some of the guarantors will enter into an environmental indemnity agreement. KeyBank will enter into a subordination, nondisturbance and attornment agreement with each tenant under any lease. KeyBank plans to hold approximately \$50 million of the combined commitments with the balance syndicated to other banking organizations. Syndication of the loan, typical in projects of this size, is a condition of closing (timing), but not a condition of the commitment except for a material adverse change in our condition and of loan syndication market conditions generally. The borrowers will pay 1% of the loan amount as a commitment fee. The borrowers will pay \$150,000 per year as a loan administration fee. The borrowers are obligated to pay all costs and expenses of KeyBank in connection with the commitment and closing of the loan. The borrowers are required to maintain Project Equity (as that term is defined by the parties) in the project equal to 44% of the total cost, which must be deposited with KeyBank prior to closing or used to pay costs approved by KeyBank. The borrowers are required to provide KeyBank with pre-construction sales contracts on 100% of the units in the first phase with net proceeds equal to or exceeding 120% of the loan amount. The borrowers are required to deliver, or demonstrate valid expenditure of, pre-construction sales deposits of \$25,498,108 to KeyBank as part of the equity requirement otherwise the equity requirement is increased, dollar-for-dollar for each dollar that deposits are

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less than this amount.

We anticipate that the first phase of sitework for 600 units at an estimated cost of \$19,200,000 will be funded, in part, by the Westridge Community Development District from the sale of \$25,995,000 of Special Assessment Capital Improvement bonds issued on a non-recourse basis to us. Bond sale proceeds are to be used for infra-structure construction and the acquisition of lands to be dedicated to the public purposes for which the district was created. The district was initially proposed and underwritten by us and enabled by an order of a Florida State District Court. The purchasers' underwriting on the bonds is completed and the pre-sale bids have been received. We anticipate that the bond sale will be consummated upon the syndication by KeyBank of part of the credit facilities. The bonds will be repaid by residential unit owners in the district over a 30-year period, through a tax assessment by the district. The Borrowers will assign to KeyBank the proceeds to be received from the funding of the bonds. KeyBank Capital Markets will underwrite the bond issuance, with net proceeds in the amount of approximately \$21,139,322, of which \$8,038,370 will be used for land, \$6,038,370 will be used for costs to construct the resort, and \$2,000,000 will be placed in a collateral account to be pledged as additional security for the \$96,600,000 construction loan.

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The \$14,850,000 credit facility will be evidenced by a promissory note, mortgage and a loan agreement. The loan will be used for investing in the equity in the first phase of The Sonesta Orlando Resort at Tierra del Sol and to pay off existing land loans encumbering the second phase of the resort. The loan will be for a term of eighteen months from the date of closing. Advances of proceeds of the loan will bear interest at the 30-Day LIBOR Adjusted Daily Rate plus the LIBOR Rate Margin of 3.10% subject to adjustment for any applicable reserves and taxes if required by future regulations. Interest will be due and payable monthly beginning on the fifth day of the first month following closing. In the event of default, the interest rate will be the greater of 3% in excess of the interest rate otherwise applicable on each outstanding advance or 18%. KeyBank may require the borrower to institute an interest rate hedging program through the purchase of an interest rate swap, cap, or other such interest rate protection product from KeyBank or another qualified banking institution. The loan will be secured by a first lien on the second phase of the resort, including the second phase land, improvements, easements, rights of way, fixtures; a first lien and security interest in all fixtures and personal property, an assignment of all leases, subleases and other agreements relating to the resort; a guaranty of payment by us and our Chief Executive Officer, Malcolm J. Wright; an environmental indemnity agreement by us, Mr. Wright and the borrower; a subordination, nondisturbance and attornment agreement relating to any leases; a collateral assignment of security agreements and contracts related to the resort; and a collateral assignment of all purchase contracts and purchase deposits. Mr. Wright obtained a surety bond in the amount of \$4,000,000 to collateralize part of his personal guarantee for this loan and the \$96,600,000 loan discussed above. The borrower will pay 1% of the loan amount as a commitment fee. The borrower will pay an exit fee equal to 4% of the maximum loan amount for the second phase unless the loan is repaid with a construction loan from KeyBank or KeyBank declines to grant a construction loan. The borrower is obligated to pay all costs and expenses of KeyBank in connection with the commitment and the closing of the loan. The borrower is required to provide KeyBank with evidence that the land appreciation equity invested in the resort indicates a loan-to-value ratio of not more than 50%. KeyBank received a written appraisal from Integra Realty Resources on March 15, 2005 reflecting an appraised land value of \$29,700,000 which satisfies the borrower's equity requirement.

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Our ability to construct The Sonesta Orlando Resort at Tierra del Sol and repay our current debt is contingent upon us closing the construction financing and receiving the district bond sale proceeds. Both credit facilities are expected to close within sixty to ninety days of the commitment letters; however, there is no assurance that we will not experience delays in closing the construction loan and bond financing. If we are unable to obtain financing for our working capital needs or close the construction loan or the bond financing, we will be required to find alternative sources of capital that may not be available when needed or on terms satisfactory to us, if at all. In the past, most of our working capital has been obtained through loans from or the purchase of equity by our officers, directors, large shareholders and some third parties. At this time, we do not have any written commitments for additional capital from any of these parties, other than the commitments from KeyBank which are to be used specifically for The Sonesta Orlando Resort at Tierra del Sol.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

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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 June 30, 2005, we had an accumulated deficit of \$11,316,487.

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 require 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. 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, it will have a material adverse effect on our financial condition and results of operation.

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

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assets:

- Our \$6,000,000 credit facility is secured by a second mortgage on The Sonesta Orlando Resort at Tierra del Sol which we plan to develop, including all fixtures and personal property to be located on or used in connection with this property, 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.
- 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.

In addition, Malcolm J. Wright, our President, Chief Executive Officer, Chief Financial Officer and a member of our board of directors provided a personal guarantee for our \$6,000,000 credit facility. If we fail to comply with the covenants in our credit facility, Stanford can elect to accelerate the amounts due under the credit facility 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 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;
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- 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

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WE NEED TO CLOSE A \$96,600,000 CONSTRUCTION LOAN AND A \$14,850,000 LAND LOAN FOR THE RESORT DEVELOPMENT DIVISION IN ORDER TO BUILD THE SONESTA ORLANDO RESORT AT TIERRA DEL SOL.

Certain conditions are required to be met, some of which are outside of our control, to close a \$96,600,000 construction loan and a \$14,850,000 land loan for The Sonesta Orlando Resort at Tierra del Sol. Pursuant to the commitment letters that we obtained from KeyBank, these conditions include, but are not limited to, the following:

- Syndication by KeyBank of part of its interest in the credit facilities;
- Our delivery of fully executed pre-construction sales contracts on 100% of the units in the first phase which will produce aggregate net sales proceeds sufficient to cover 120% of the \$96,600,000 loan amount;
- Our delivery or a demonstration by us of valid expenditure of, pre-construction sales deposits of \$25,498,108; and an environmental assessment of the land on which the resort will be constructed.

Our compliance is also necessary to trigger the issuance and sale of \$25,995,000 of Westridge Community Development District bonds, the net proceeds of which are needed for the first phase of sitework for the resort. Proceeds from the sale of the bonds are a necessary component to the capital structure of the project to develop the resort. If we cannot close the loans as committed to by KeyBank in a timely manner, or at all, it will cause a delay in the construction of the resort.

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 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.

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MALCOLM J. WRIGHT, WHO SERVES AS OUR CHIEF EXECUTIVE OFFICER, PRESIDENT AND CHIEF FINANCIAL OFFICER AND AS A DIRECTOR, 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 CEO of American Leisure Real Estate Group, Inc., a real estate development company with which we have contracted for the development of The Sonesta Orlando Resort at Tierra del Sol. Mr. Wright is the CEO of Resorts Development Group LLC a real estate development company. 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

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is also an officer of Innovative Concepts, Inc., which operates a landscaping business, and M J Wright Productions, Inc., which owns our Internet domain names. Because Mr. Wright is employed by us and the other party to these transactions, these transactions may be or may be considered to be on terms that are not arms'-length and may not be as advantageous to us as agreements with unrelated third parties. 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.

BECAUSE MALCOLM J. WRIGHT, WHO SERVES AS OUR CHIEF EXECUTIVE OFFICER, PRESIDENT AND CHIEF FINANCIAL OFFICER AND AS A DIRECTOR, 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 CEO of American Leisure Real Estate Group, Inc., Xpress Ltd., Innovative Concepts, Inc., M J Wright Productions, Inc., Resorts Development Group, LLC, Osceola Business Managers, Inc., Florida World, Inc. 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 a director 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.

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. 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 American Leisure Hospitality Group, Inc. We do not have any agreements with our officers regarding the bonus other than 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 have 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.

WE HAVE EXPERIENCED DELAYS IN OBTAINING SIGNATURES FOR AGREEMENTS AND TRANSACTIONS, WHICH HAVE PREVENTED THEM FROM BEING FINALIZED.

We have experienced delays in obtaining signatures for various agreements and transactions. In some cases, we have either disclosed the terms of these agreements and transactions in our periodic and other filings with the SEC; 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.

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WE ARE RELIANT 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 L. William Chiles. Mr. Wright is a Director of the Company and the Company's Chief Executive Officer, President and Chief Financial Officer. Mr. Chiles is a Director of the Company and President of Hickory. Our ability to operate and implement our business plan is dependent on the continued service of Messrs. Wright and Chiles. We have entered into an employment agreement with Mr. Chiles. We are in the process of entering into a written employment agreement with Mr. Wright. If we are unable to retain and motivate them on economically feasible terms, our business and results of operations will be materially adversely affected.

IF WE DO NOT EVENTUALLY PAY MALCOLM J. WRIGHT, OUR CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER 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 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 services that those entities have provided to us for The Sonesta Orlando Resort at Tierra del Sol. 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.

RISKS RELATED TO OUR TRAVEL DIVISION

WE NEED APPROXIMATELY \$750,000 OF CAPITAL THROUGH THE END OF THE CURRENT FISCAL YEAR FOR THE TRAVEL DIVISION THAT MAY NOT BE AVAILABLE TO US ON FAVORABLE TERMS, IF AT ALL.

We need to raise approximately \$750,000 through the end of the current fiscal year for the working capital needs for the Travel Division which includes Hickory's requirement through the third quarter of 2005 to cover its seasonal losses, TraveLeaders' requirements during its reorganization to adopt our business models, and our operating costs prior to closing a construction loan (discussed below). Also, in November, 2005, \$1,250,000 of our credit facility with Stanford is scheduled to mature. In September 2005 two notes (payable to third parties) in the aggregate amount to \$7,862,250 plus accrued interest of \$431,936 as of June 30, 2005 are scheduled to mature. We plan to repay the notes with part of the funds that we plan to receive from KeyBank and the bond sale by the Westridge Community Development District. 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

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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

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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. 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 could have a material adverse effect on our business and results of operations.

FAILURE TO MAINTAIN RELATIONSHIPS WITH TRADITIONAL TRAVEL AGENTS FOR OUR TRAVEL 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

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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
- economic downturns and recessions.

OUR TRAVEL REVENUES MAY FLUCTUATE FROM QUARTER TO QUARTER DUE TO SEVERAL FACTORS INCLUDING ONES THAT ARE OUTSIDE OF OUR CONTROL, AND IF 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 TraveLeaders' 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.

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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 TRAVELEADERS BUSINESS DO NOT GUARANTEE THAT WE WILL RECEIVE A MINIMUM LEVEL OF REVENUE, ARE NOT EXCLUSIVE, AND MAY BE TERMINATED ON RELATIVELY SHORT NOTICE.

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

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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.

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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.

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

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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, 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 COMMON STOCK

IF WE FAIL TO FILE OUR PERIODIC REPORTS AND REPORTS ON FORM 8-K WITH THE COMMISSION IN A TIMELY MANNER, WE COULD RECEIVE AN "E" ON OUR TRADING SYMBOL OR OUR COMMON STOCK COULD BE DE-LISTED FROM THE OVER-THE-COUNTER BULLETIN BOARD (THE "OTCBB").

We are in the process of integrating the business operations of Hickory and Travelers, which includes the financial accounting, function. 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. We also face increased pressure accumulating and communicating such information to our management as appropriate to allow timely decisions regarding required disclosure. We believe that until we have fully integrated our financial accounting function, we will continue to face such pressure. If we are unable to file our periodic reports with the Commission in a timely manner, we could receive an "e" on our trading symbol, which could result in our common stock being de-listed from the OTCBB. In addition, investors who hold restricted shares of our common stock would be precluded from reselling their shares pursuant to Rule 144 of the Securities Act until such time as we were able to establish a history of current filings with the Commission. In the event that our common stock is de-listed from the OTCBB, it is likely that our common stock will have less liquidity than it has, and will trade at a lesser value than it does, on the OTCBB.

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OUR COMMON STOCK COULD AND HAS FLUCTUATED, AND SHAREHOLDERS MAY BE UNABLE TO RESELL THEIR SHARES AT A PROFIT.

The price of our common stock has fluctuated since it began trading. The trading prices for small capitalization companies like ours often fluctuate significantly. Market prices and trading volume for stocks of these types of companies including ours have also been volatile. The market price of our common stock is likely to continue to be highly volatile. If revenues or earnings are less than expected for any quarter, the market price of our common stock could significantly decline, whether or not there is a decline in our consolidated revenues or earnings that reflects long-term problems with our business. Other factors such as our issued and outstanding common stock becoming eligible for sale under Rule 144, terms of any equity and/or debt financing, and market conditions could have a significant impact on the future price of our common stock and could have a depressive effect on the then market price of our common stock.

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 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. We are currently in need of additional financing and may be required to lower the exercise price of our existing warrants or issue additional warrants in connection with future financing arrangements. Re-pricing of our warrants and issuing additional warrants has caused and may cause additional dilution to our existing 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 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.

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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