AMERICAN FINANCIAL HOLDING INC /DE
Form 10KSB
March 14, 2001

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

# FORM 10-KSB

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

For the fiscal year ended December 31, 2000

Commission file number: 0-12666

AMERICAN FINANCIAL HOLDING, INC.
(Name of small business issuer in its charter)

| | |
|---|---|
| Delaware | 87-0458888 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 914 Rio Virgin Drive, St. George, Utah | 84790 |
| (Address of principal executive offices) | (Zip Code) |

Issuer's telephone number, including area code: (435) 674-1181
Telecopy: (435) 674-1183

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of each exchange on which registered |
|---|---|
| None | None |

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $0.01
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year: None.

State the aggregate market value of the voting and nonvoting common equity held by nonaffiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. The aggregate market value of the voting and nonvoting common equity held by nonaffiliates computed by reference to the average bid and asked price of such common equity, as of March 7, 2001, was $442,735.

State the number of shares outstanding as of each of the issuer's classes of common equity, as of the latest practicable date: As of March 7, 2001, issuer had outstanding 19,279,449 shares of its common stock, par value $0.01. On a pro forma basis, after giving effect to a 21.4-to-one reverse stock split, the issuer would have 900,909 outstanding common shares.

Documents Incorporated by Reference. If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 31, 1990): None.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

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PREFACE

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Special Note on Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). When used in this report, the words "believe," "may," "will," "should," "expect," "anticipate," "continue," "estimate," "project," "intend" and similar words and expressions are generally intended to identify forward-looking statements. Statements that describe the future strategic plans, goals or objectives of American Financial Holding, Inc. are also forward-looking statements.

Readers of this report are cautioned that any forward-looking statements, including those regarding American Financial Holding, Inc. or its management's intent, belief or current expectations, are not guarantees of future performance or results or events and involve risks and uncertainties, such as the ability of American Financial Holding, Inc. to obtain funds to enable it to pay ongoing general and administrative expenses, professional fees for meeting regulatory requirements, representing American Financial Holding, Inc. in pending and possible litigation and documenting business and creditor agreements, and the ability of American Financial Holding, Inc. to retain directors and officers to pursue its business notwithstanding its precarious financial condition.

Additionally, actual results and events may differ materially from those in the forward-looking statements as a result of various factors.

The forward-looking information is based on present circumstances and on American Financial Holding, Inc.'s predictions respecting events that have not occurred, which may not occur or which may occur with different consequences from those now assumed or anticipated. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors, including the risk factors detailed in this report. The forward-looking statements included in this report are made only as of the date of this report. The cautionary statements made in this report are intended to be applicable to all related forward-looking statements wherever they appear in this report. American Financial Holding, Inc. assumes no obligation to update such forward-looking statements or to update reasons that actual results could differ materially from those anticipated in such forward-looking statements.

# PART I

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## ITEM 1. DESCRIPTION OF BUSINESS

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Current Status

American Financial Holding, Inc. ("AFH") currently has no active operations or majority owned subsidiaries. Its assets consist of approximately 4.9 million shares of common stock of Tambora Financial Corporation ("Tambora") that AFH intends to distribute to its stockholders and others, subject to satisfying applicable regulatory requirements.

Subsequent to December 31, 2000, AFH sold for $300,000 a total of 15.0 million shares of common stock (700,935 shares on a pro forma basis giving effect to the 21.4-to-one reverse stock split) for an aggregate of $150,000, and $150,000 in principal amount of promissory notes, automatically convertible into an aggregate of 49.2 million shares of common stock (2,299,065 shares on a pro forma basis giving effect to the 21.4-to-one reverse split). The persons making the $300,000 investment have agreed to execute a majority written consent approving the proposed reverse stock split, the appointment of their designees to the board of directors and the authorization of a class of preferred stock. On the effectiveness of the reverse stock split and related matters, AFH will issue 400,000 shares of post reverse-split common stock to a third party for services. The securities sold by AFH and the consideration therefor are being held pending AFH's completion of an information statement to be distributed to AFH's stockholders relating to the matters to be approved by the majority written consent of its stockholders and certain other conditions. After giving effect to the foregoing, AFH will have an aggregate of 3.6 million shares of post-split common stock issued and outstanding.

Proceeds from the sale of the above securities will be applied to satisfy certain accrued obligations. Therefore, AFH will require additional funds to meet future requirements, including any requirements for any new activities.

Introduction and History

Until late 1997, the operations of AFH consisted primarily of marketing annuity and life insurance products through its wholly-owned subsidiary, Income Builders, Inc., while it continued to seek funding for acquiring and operating an insurance company to reinsure and coinsure a portion of the products marketed by Income Builders. In late 1997, AFH agreed to transfer all of the stock of Income Builders, which markets life insurance and annuity products underwritten by other insurance providers, to Tambora in exchange for $500,000 in cash and approximately 4.9 million shares of Tambora common stock. The exchange was completed on October 24, 2000. Since its inception in September 1997, Tambora has been funded through the sale of common stock, including shares sold to officers and directors of AFH. As of December 31, 2000, AFH owned approximately 30.9% of the issued and outstanding Tambora stock on a temporary basis.

Because of the common controlling stockholders of AFH and Tambora, the transactions between them have not been and are not the result of arm's-length negotiations and are subject to substantial conflicts of interest. See "Item 12. Certain Relationships and Related Transactions."

Upon entering into the 1997 agreement to transfer Income Builders to Tambora, the operations of Income Builders were considered discontinued as to AFH. AFH plans to distribute its Tambora stock to the AFH stockholders and others, therefore, since October 24, 2000, the investment in Tambora is considered temporary and AFH has not recognized any of its share of the losses from Tambora, has carried the investment in Tambora at cost of zero, and has not recognized any participation in Income Builders' business. Tambora, through Income Builders, acts as an independent field marketing organization for LifeUSA Holding, Inc. ("LifeUSA"). Income Builders has

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been a leading national producer for LifeUSA for combined annuity and life premium sales in recent years. Tambora seeks to become a financial services holding company with broad-based marketing of life insurance and annuities, including the products of other insurance companies and ultimately its own products. The implementation of this plan will require substantial amounts of additional capital.

In connection with AFH's acquisition of Income Builders as a wholly owned subsidiary in 1989, AFH agreed to use its best efforts to seek additional equity financing to fund the expansion of Income Builders. AFH now proposes to implement this goal through the plan outlined below in which Tambora, of which AFH currently and temporarily owns an approximately [30.9%] interest, will seek funding to purchase an insurance company and AFH will distribute its Tambora stock to the AFH stockholders and others.

When used in this report, AFH refers to AFH without its interest in Tambora, unless the context requires otherwise, and Tambora refers to Tambora and its wholly owned subsidiaries, Income Builders and Tambora Marketing, Inc.

AFH's Ability To Continue as a Going Concern--Shortage of Working Capital and Continuing Losses

As of December 31, 2000, AFH had a working capital deficit of $845,453, no credit lines and insufficient revenue to meet its operating requirements. For the years ended December 31, 2000 and 1999, AFH suffered net losses from continuing operations of $66,198 and $331,996, respectively, and as of December 31, 2000, had an accumulated deficit of $8,963,069. At December 31, 2000, AFH had a stockholders' deficit of $845,453. Since December 31, 2000, AFH has incurred continuing losses and increases in accumulated deficit. AFH expects that it will continue to incur operating losses and that its accumulated deficit will increase.

AFH depended solely upon cash provided from the sale of Income Builders and loans from Tambora for funding during the preceding two fiscal years. Tambora, in turn, relied on funds from loans from stockholders and the sale of restricted common stock. AFH does not expect that Tambora will advance additional funds to AFH. Since December 31, 2000, AFH has received $300,000 from the sale of securities, but all of such funds are committed to pay accrued past due liabilities. The foregoing raises substantial concerns respecting the ability of AFH to continue as a going concern in the absence of its ability to borrow capital from Tambora.

The consolidated financial statements do not include any adjustments relating to recoverability and classification of asset carrying amounts or the amount and classification of liabilities if AFH were unable to continue as a going concern. (See "Financial Statements: Note 1" and "Item 6: Management's Discussion and Analysis or Plan of Operation.")

Restructuring Plan

Overview

As noted above, in 1997, AFH agreed to sell its Income Builders marketing subsidiary to Tambora for $500,000 and the issuance of approximately 4.9 million shares of Tambora common stock. Such cash consideration has been paid and stock issued. AFH now proposes to complete this restructuring by distributing approximately 4.3 million shares of the Tambora stock received by AFH to its stockholders, except for stockholders holding 15,000,000 common shares issued on January 22, 2001, on an approximately one-to-one basis (one-to-21.4 pro forma post-split basis) and transferring the additional approximately 600,000 Tambora shares to two other groups.

There are substantial regulatory requirements that must be met before AFH can distribute the Tambora shares to AFH stockholders. AFH can provide no assurance that it can meet those regulatory requirements in a timely manner, if at all. Further, it is likely that AFH will incur substantial time and expense in its efforts to meet those regulatory requirements and distribute the Tambora shares to AFH stockholders.

The restructuring plan was and is not the result of arm's-length negotiations and was subject to substantial conflicts of interest because of AFH's and Tambora's common controlling stockholders, directors and executive officers. See "Item 12. Certain Relationships and Related Transactions."

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Following the distribution of the Tambora stock to AFH's stockholders, AFH's current stockholders, except for stockholders holding 15,000,000 shares issued on January 22, 2001, would have, in addition to their stock in AFH, shares of Tambora. Also, AFH then would have no operations or material assets and may be unable to continue. With the issuance on January 22, 2001, of 15,000,000 shares of AFH common stock, a change in control of AFH occurred. In addition to this change in control, AFH may seek to acquire other operations and assets, if available, in consideration of the issuance of a controlling block of common stock to the owners of assets or businesses that wish to become publicly held in a so-called "reverse acquisition."

Background

In view of the continuing inability to obtain the funding required to launch its coinsurance and reinsurance strategy within AFH, its management determined to form and fund initially a new entity separate from AFH in order to implement the restructuring plan described above. Tambora was incorporated as a Utah corporation in September 1997 by Kenton L. Stanger and funded initially by Messrs. Stanger, Raymond Punta, Tim Hansen, Ray Brown and Chelton Feeny, all of whom are directors of AFH. Tambora also received funding from the sale of common stock to others. Funds received by Tambora from the foregoing sources were used to pay Tambora's general and administrative expenses, purchase Income Builders, and advance cash to AFH.

The founders saw the organization of Tambora as a possible mechanism to begin to develop a base that could fund the purchase and capitalization of an insurance company and acquire Income Builders from AFH for cash that could be used for AFH's requirements and stock that could be distributed to AFH's stockholders. AFH and Tambora agreed to the terms of a sale of Income Builders to Tambora for $500,000, plus approximately 4.9 million shares of common stock, subject to certain adjustments, so that the Tambora stock could be distributed to the holders of AFH's outstanding stock, except for stockholders holding 15,000,000 shares issued on January 22, 2001, on a one-for-one basis, prior to giving effect to the 21.4-to-one reverse split of the issued and outstanding AFH common stock. The number of shares of Tambora common stock was increased to include the number of additional shares necessary to satisfy AFH's obligation to holders of Triad Financial Systems, Inc. preferred stock as well as 320,000 shares to permit AFH to satisfy its antidilution obligation to East Bay Trust. As a result of the sale of Income Builders, AFH received $500,000 in cash to meet ongoing general and administrative expenses, including payments to officers and directors, and reduce accounts payable that were long past due. The 4.9 million shares of Tambora stock to be distributed to the AFH stockholders have been placed in escrow for distribution as agreed on the satisfaction of applicable regulatory requirements.

By completing this transaction and the proposed distribution of Tambora stock to AFH's stockholders, AFH believes that its stockholders have an improved opportunity to participate, through their direct ownership of Tambora stock distributed to them, in the financial benefits resulting from consolidating an insurance and annuity marketing subsidiary with a coinsurance and reinsurance subsidiary. Tambora's financial statements do not reflect AFH's substantial accumulated deficit and stockholders' deficit, so it would not be as hampered as AFH in seeking required capital. AFH believes that the proposed distribution of the Tambora stock to AFH's stockholders, upon meeting applicable legal requirements and thereby making Tambora's stock eligible for public trading, would also improve Tambora's access to the capital markets.

AFH believes that Tambora is better positioned than AFH to obtain funding to purchase and capitalize an insurance company subsidiary that could coinsure or reinsure a portion of the insurance and annuity products sold by Tambora and its subsidiaries. Tambora is currently seeking to identify an insurance company that may be available for purchase and to arrange for approximately $12.0 to $15.0 million in private equity that it believes will be required. Tambora currently has not identified any specific acquisition target.

As of December 31, 2000, Tambora had approximately 15.1 million shares of common stock issued and outstanding, of which approximately 4,899,533 shares are held by AFH for distribution to its stockholders and creditors on the satisfaction of applicable legal requirements.

With the sale of Income Builders to Tambora and the abandonment of office equipment, furniture and fixtures, AFH's sole remaining asset is its stock ownership interest in Tambora, which AFH intends to distribute to its



stockholders. Accordingly, AFH is including the following description of Tambora's operations in order to fully disclose the status of AFH.

## Tambora's Business

### Product Lines

Tambora, through Income Builders, markets life insurance and annuity products underwritten by unrelated insurance companies. LifeUSA, however, presently underwrites most annuity products marketed by Tambora. LifeUSA currently underwrites life insurance and annuity products. Tambora primarily markets the LifeUSA Accumulator Series of annuities, the Indexed Annuity series and Universal Annuity Life products.

### Marketing

Tambora, through Income Builders, sells life insurance and annuity products underwritten by other insurance providers exclusively through agents under an independent contractor relationship. These individuals may be agents of other life insurance companies or independent insurance brokers. The contract with Income Builders can be terminated by either party on specified notice. Income Builders does not intend to have career agents who sell life insurance exclusively for it. Relying upon independent agents allows Income Builders to expand its sales force without significant expense, but it does require that Income Builders obtain the right to market competitive products, as the independent agents customarily handle product lines of several different insurance companies. Income Builders recruits and trains the independent agents in its specific marketing approach to selling life insurance and annuities.

As of December 2000, Income Builders had contracted over 5,500 independent contractor-agents, of which approximately 1,800 to 2,000 have repetitive annual business, with 1999 and 2000 annual premium production of approximately $31 million and $33 million, respectively.

It is customary for insurance companies that market products through independent agents to advance to certain agents, at the time the policy is issued, a substantial portion of the first year commission payable to the agent, even if the policyholder pays the first year insurance premium in monthly installments. Annualization of the first year commissions and, in effect, prepayment of such commissions provides the agent with funds to meet current operating needs. The insurance providers that underwrite the products marketed by Income Builders typically advance up to an aggregate of 50% to 75% of the agent's first year commissions on submission of an insurance application and/or issuance of the policy. The commission advances are credited against the agent's account as policy premiums are received by the underwriter, and the agent earns the related commission. If an application for insurance is rejected or the policyholder discontinues the policy prior to the thirteenth month, an appropriate amount is charged back against the agent's account. As a consequence, Income Builders assumes certain credit risks because the selling agent could cease further sales of products marketed by Income Builders or policies could lapse before earned premiums are sufficient to pay the agent's indebtedness. Income Builders is required to repay commission advances only if the agent cannot. Historically, Income Builders has not been required to reimburse any material amount of unearned commissions.

Regulation

Marketing life insurance and annuity products is subject to regulation and supervision by the states in which business is transacted. The laws of the various states establish supervisory agencies with broad administrative and supervisory powers related to granting and revoking licenses to transact business, regulating trade practices, licensing agents, approving policy forms, filing premium rates on certain business, setting reserve requirements, determining the form and content of required financial statements, determining the reasonableness and adequacy of capital and surplus and prescribing the maximum concentration of certain classes of investment held by insurance companies.

Most states have also enacted legislation that regulates insurance holding company systems, including acquisitions, extraordinary and intercorporate dividends, the terms of surplus debentures, the terms of affiliated



transactions and other related matters. Recently, increased scrutiny has been placed on the insurance regulatory framework, and a number of state legislatures have considered or enacted legislative proposals that alter, and in many cases increase, state authority to regulate insurance companies and holding company systems. Insurance departments in the various states require insurance companies to make annual and quarterly filings. These statutory filings require classifications of investments and the establishment of mandatory reserves.

Competition

The insurance industry is highly competitive. Tambora is subject to intense competition in its current operations and is expected to have similar competition in the areas of its future planned expansion. There are many insurance companies offering a variety of insurance products, and in order to obtain competitive product lines, Tambora must continue to perform at a high level. Tambora is dependent on its ability to attract and retain productive, independent agents to sell its products. Tambora pays customary and competitive commissions, but competition among insurance companies is intense for independent agents with demonstrated ability. There can be no assurance that Tambora will be able to continue to attract and retain productive, independent agents.

Personnel

During 2000, AFH had no employees. AFH currently has no employees. During 2000, Tambora had two part-time employees, both of whom are executive officers and directors. Currently, Tambora has three full-time employees, all of whom are officers and directors. Income Builders has two full-time employees, both of whom are officers and directors of Income Builders. In addition to its employees, Income Builders contracts with regional independent agencies and insurance salesmen on an independent contractor basis as discussed above.

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## ITEM 2. DESCRIPTION OF PROPERTY

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During 2000, AFH's principal executive offices at 914 Rio Virgin Drive, St. George, Utah 84790, and additional offices at 2076 Ridgewood Way, Bountiful, Utah 84010, were provided without cost to AFH by Kenton L. Stanger and Raymond L. Punta, respectively, executive officers and directors. Since January 1, 2000, Tambora has rented the same offices from such persons at $2,000 per month

Tambora also rents office and clerical facilities from an unrelated party at 7272 Wisconsin Avenue, Suite 300, Bethesda, Maryland 20814, for approximately $2,000 per month.

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## ITEM 3. LEGAL PROCEEDINGS

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AFH is not a party to any material legal proceedings except as noted below, and no such proceedings have been threatened by or, to the best of its knowledge, against it.

On October 9, 1996, AFH was advised by the Enforcement Division of the Securities and Exchange Commission (the "SEC") that it was considering recommending that the SEC bring an enforcement action, which could include a civil penalty, against AFH in the U.S. District Court for failing to file timely periodic reports in violation of Section 13(a) of the Exchange Act and the rules promulgated thereunder.

In October 1996, AFH also received a request for the voluntary production of information to the Enforcement Division of the SEC related to the resignation of Coopers & Lybrand LLP, the termination of Arthur Andersen LLP, the appointment of Jones, Jensen & Company as AFH's independent public accountants and the reasons therefore. In addition, AFH was requested to provide certain information respecting its previous sales of securities. AFH cooperated in providing information in response to these inquiries in early 1997. AFH has not been advised of the outcome of the foregoing.

On December 20, 1999, Robert M. Bridge filed suit against AFH in the Third District Court in Salt Lake County, Utah, styled Bridge v. American Financial Holding, Inc., Triad Financial Systems, Inc., Raymond L. Punta and Kenton L. Stanger (Civil No. 990912544). Mr. Bridge's complaint alleges that he is entitled to the return of a $100,000 investment made in 1993, in which he purchased AFH's stock in anticipation of the acquisition of an insurance company, plus interest, costs and attorney's fees. The complaint alleges claims for breach of contract, fraud and misrepresentation, and claims for a "guarantee" against Messrs. Punta and Stanger. AFH has answered the complaint, denying its material allegations and raising several affirmative defenses, including the applicable statutes of limitation. AFH intends to vigorously defend this matter, asserting, among other defenses, that at times the plaintiff could have sold his stock at a multiple of his purchase price. Discovery is continuing.

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

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AFH did not hold a meeting of its stockholders during the year ending December 31, 2000, nor were any matters submitted to a vote of AFH's stockholders.



# PART II

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## ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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There has been little established, consistent trading market for AFH's common stock during significant portions of the preceding two years.

The common stock of AFH was listed on the Electronic Bulletin Board of the National Association of Securities Dealers, Inc. system ("EBB") until August 3, 1999, and has been quoted on the Pink Sheets under the symbol "ANFH" thereafter. Quotations have been published only intermittently. The trading volume of the common stock of AFH is limited, creating significant changes in the trading price of the common stock as a result of relatively minor changes in the supply and demand. Consequently, the price of the common stock in the trading market fluctuates dramatically over short periods as a result of factors unrelated to the business activities of AFH.

The following table sets forth the high and low closing bid quotations for AFH's common stock as reported on the EBB or the Pink Sheets, as the case may be, for the periods indicated, based on interdealer bid quotations, without markup, markdown, commissions or adjustments (which may not reflect actual transactions):

| | High | Low |
|---|---|---|
| 2000 | | |
| First quarter | $0.51 | $0.06 |
| Second quarter | 0.70 | 0.15 |

| | | |
|---|---|---|
| Third quarter | 0.46 | 0.12 |
| Fourth quarter | 0.42 | 0.12 |
| 1999 | | |
| First quarter | 0.45 | 0.32 |
| Second quarter | 0.70 | 0.10 |
| Third quarter | 0.10 | 0.01 |
| Fourth quarter | 0.22 | 0.01 |

Because of the lack of specific transaction information and AFH's belief that quotations are particularly sensitive to actual or anticipated volume of supply and demand, AFH does not believe that quotations are reliable indicators of a viable trading market for AFH's common stock. In this limited market, brokers typically publish no fixed quotations to purchase a minimum number of shares at a published price, but express a willingness to buy or sell the stock and from time to time complete transactions in the securities at negotiated prices. As of December 31, 2000, AFH's common stock was quoted, subject to the foregoing limitations and qualifications, at $0.14 bid, $0.40 asked. The foregoing quotation does not reflect dealer mark-ups, markdowns, brokerage commissions or other charges and does not reflect actual transactions.

As of March 2001, there were 19,279,449 shares of common stock issued and outstanding (900,909 shares on a pro forma basis after giving effect to the 21.4-to-one reverse split) held by approximately 660 stockholders.

AFH has not paid dividends on its common stock and does not anticipate that it will pay dividends in the foreseeable future.

The SEC has promulgated rules governing over-the-counter trading in penny stocks, defined generally as securities trading below $5 per share that are not quoted on a securities exchange or Nasdaq or that do not meet other substantive criteria. Under these rules, our common stock is currently classified as a penny stock. As a penny stock,



our common stock is currently subject to rules promulgated by the SEC that impose additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and institutional accredited investors. For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written consent to the transaction prior to sale. Further, if the price of the stock is below $5 per share and the issuer does not have $2,000,000 or more net tangible assets or is not listed on a registered national securities exchange or Nasdaq, sales of such stock in the secondary trading market are subject to certain additional rules promulgated by the SEC. These rules generally require, among other things, that brokers engaged in secondary trading of penny stocks provide customers with written disclosure documents, monthly statements of the market value of penny stocks, disclosure of the bid and asked prices and disclosure of the compensation to the broker-dealer and the salesperson working for the broker-dealer in connection with the transaction. These rules and regulations may affect the ability of broker-dealers to sell our common stock, thereby effectively limiting the liquidity of our common stock. These rules may also adversely affect the ability of persons who acquire our common stock to resell their securities in any trading market that may exist at the time of such intended sale.

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## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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AFH's Ability To Continue as a Going Concern--Shortage of Working Capital and Continuing Losses

As of December 31, 2000, AFH had a working capital deficit of $845,453, no credit lines and insufficient revenue to meet its operating requirements. For the years ended December 31, 2000 and 1999, AFH suffered net losses from continuing operations of $66,198 and $331,996, respectively, and as of December 31, 2000, had an accumulated deficit of $8,963,069. At December 31, 2000, AFH had a stockholders' deficit of $845,453. Since December 31, 2000, AFH has incurred continuing losses and increases in accumulated deficit. AFH expects that it will continue to incur operating losses and that its accumulated deficit will increase.

AFH depended solely upon cash provided from the sale of Income Builders and loans from Tambora for funding during the preceding two fiscal years. Tambora, in turn, relied on funds from loans from stockholders and the sale of restricted common stock. AFH does not expect that Tambora will advance additional funds to AFH. .Since December 31, 2000, AFH has received $300,000 from the sale of securities, but all of such funds are committed to pay accrued past due liabilities. The foregoing raises substantial concerns respecting the ability of AFH to continue as a going concern in the absence of its ability to borrow capital from Tambora.

The consolidated financial statements do not include any adjustments relating to recoverability and classification of asset carrying amounts or the amount and classification of liabilities if AFH were unable to continue as a going concern. (See "Financial Statements: Note 1.")

Liquidity and Capital

AFH's cash requirements for 2000 and 1999 were provided by $17,291 and $271,235, respectively, in loans from Tambora and AFH officers. For the year ended December 31, 2000, AFH experienced negative cash flow from operating activities of $17,534, compared with negative cash flow from operating activities of $270,866 in 1999.

With the sale of Income Builders to Tambora and the related termination of AFH's principal activities, AFH's capital requirements have been reduced to those required to pay past due liabilities and general and administrative fees associated with maintaining its corporate good standing, completing periodic reports filed with regulatory authorities under federal securities laws and furnished to stockholders, defending pending litigation and responding to any resulting settlement or award and seeking, reviewing, documenting and completing a possible transaction with another company in order to reactivate AFH.



As noted above, since December 31, 2000, AFH has received $300,000 from the sale of securities, but all of such funds are committed to pay accrued past due liabilities.

In addition to funds required to satisfy past due accounts payable, AFH will require at least $50,000 to $100,000 during the next twelve months to complete required accounting and auditing work, complete reports to regulatory authorities and stockholders, defend pending litigation and related matters to maintain its corporate good standing. Additional amounts would be required if the pending litigation results in an award or settlement in favor of the plaintiff. AFH has no funds with which to pay these amounts, but will depend primarily on the sale of additional securities for such funding. AFH has received no commitment for any such required funding from its principal stockholders or any other person or group. AFH cannot assure it will be able to obtain required funding or that it will be able to continue. AFH does not believe that its principal, nonliquid asset, its stock in Tambora to be distributed to AFH stockholders and others, is readily convertible to cash to satisfy claims of creditors.

Results of Discontinued Operations

On September 23, 1997, AFH entered into an agreement with Tambora Financial Corporation, a corporation under common control with it, to transfer Income Builders to Tambora in exchange for $500,000 and 4,899,533 shares of Tambora common stock. From 1997 through October 24, 2000, Tambora and one of its officer's paid or advanced $694,671 to or in behalf of AFH. On October 24, 2000, AFH transferred all issued and outstanding shares of Income Builders, Inc. to Tambora in exchange for a $500,000 reduction in the payable to Tambora and in exchange for 4,899,533 shares of Tambora common stock. Due to the transfer being with an entity under common control, the net liabilities of Income Builders on October 24, 2000, of $143,496, plus the $500,000 reduction in the payable to Tambora, were accounted for as capital contributions to AFH.

The operations of Income Builders were recognized as discontinued operations through the date of the transfer to Tambora. Income Builders' commission revenue for 2000 through October 24, 2000, decreased $476,364, or 15.8%, to $2,545,060 from $3,021,424 during the year ended December 31, 1999. The 2000 decrease is due to a reduction in business sold, a different product mix between 2000 and 1999, and the shortened reporting period for 2000. Commission expense decreased $439,661, or 17.4%, to $2,095,951 in 2000, as compared to $2,535,612 in 1999. This fluctuation reflects the effects of the decrease in commission revenue and ordinary variations in the commission schedule of various products, the age and other demographics of policy purchasers, the size of individual annuity and insurance policies sold, the commission schedules of the individual insurance agents selling particular policies and similar factors, which will likely continue to fluctuate in the future.

Gross profit of $449,109 in 2000, or 17.6% of commission revenue, is a decrease from the $485,812 in gross profit in 1999, equivalent to 16.1% of commission revenue. This decrease in gross profit in 2000 is due to the foregoing factors and may not be indicative of the gross profit that may be expected in future periods.

General and administrative expenses decreased $483,761, or 53.5%, to $419,703 in 2000, as compared to $903,464 a year earlier. Total other income (expense) decreased $616,787, or 105.6%, in 2000 to $(32,932), as compared to $583,855 in 1999. Total other income during 1999 resulted primarily from gains on sales of investment in securities, which gains did not continue during 2000.

As a result of the foregoing, Income Builders' income decreased from income of $166,203 in 1999 to a loss of $3,526 in 2000. In addition to the $3,526 loss from Income Builders, AFH recognized losses in 2000 of $12,552 relating to Income Builders' minimum pension liability adjustment and $1,656 relating to Income Builders' unrealized losses on investment in securities. Accordingly, the loss from discontinued operations totaled $17,734 during 2000.

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ITEM 7. FINANCIAL STATEMENTS

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The financial statements of AFH, including the required independent auditors' report, are included following a table of contents beginning immediately following the signature page to this report.

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously reported in AFH's annual report on Form 10-KSB for the year ended December 31, 1999, on April 27, 2000, the board of directors of AFH approved the engagement of Robison Hill & Company ("Robison Hill"), Salt Lake City, Utah, as independent accountants and auditors to report on AFH's financial statements for the years ended December 31, 1999 and 1998, to succeed Jones Jensen & Co., Salt Lake City, Utah, as AFH's principal accountant.

No consultations occurred between AFH and Robison Hill during the two fiscal years and any subsequent interim period prior to Robison Hill's appointment regarding either (a) the application of accounting principles to a specific completed or contemplated transaction, the type of audit opinion that might be rendered on AFH's financial statements or other information provided that was considered by AFH in reaching a decision as to an accounting, auditing or financial reporting issue, or (b) any matter that was the subject of disagreement or a reportable event requiring disclosure under Item 304(a)(1)(iv) of Regulation S-B.

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# PART III

## ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Current Directors and Executive Officers

The directors and executive officers of AFH are as follows:

| Name | Age | Office |
|---|---|---|
| Kenton L. Stanger | 67 | Chief Executive Officer, President, Director |
| Raymond L. Punta | 51 | Executive Vice President, Director |
| Chelton S. Feeny | 77 | Director |
| Ray P. Brown | 56 | Executive Vice President-Marketing, Director |
| Tim L. Hansen | 51 | Executive Vice President-Marketing, Director |

Directors are elected at the annual stockholders' meeting of AFH to serve for a period of one year and until their successors are elected and qualified. Officers serve at the pleasure of the board of directors.

Kenton L. Stanger has served as Chairman of the Board, President and Chief Executive Officer of AFH since 1988 and Chairman of the Board and Chief Executive Officer of Tambora since 1997. From 1986 to 1988, he was President of American Financial Marketing, Inc., which was acquired by AFH in 1988. From 1969 to 1986, Mr. Stanger was Chairman, President and Chief Executive Officer of Balanced Security Corporation, a financial services holding company that owned its own life insurance and annuity marketing company, and an insurance-related audio/visual production company. During 1985, he also served as a director for Service Life Insurance Company. From 1965 to 1969, he was President and Chief Executive Officer of Sentinel's Southern Agency Corporation. Mr. Stanger was the District Sales Manager for Country Mutual Life and Farm Bureau Insurance Companies from 1958 to 1965. Mr. Stanger is the father-in-law of Raymond L. Punta.

Raymond L. Punta has served as Executive Vice President and a director of AFH from 1989 through the present and President and a director of Tambora since 1997. From 1988 through 1989, Mr. Punta was a co-owner of American Safety Products, an entity that marketed Halon fire extinguishers, door entry systems and other commercial and residential safety products. Mr. Punta was a national sales trainer for Novar Corporation, Barberton, Ohio, from 1984 to 1988. From 1973 to 1984, Mr. Punta served as a law enforcement officer with the San Joaquin County Sheriff's Department and the Lodi Police Department, both in California. Mr. Punta is the son-in-law of Mr. Stanger.

Chelton S. Feeny has served as a director of AFH from 1988 through the present and a director of Tambora since 1997. Dr. Feeny was engaged in the practice of medicine between 1959 and 1988 in Ogden, Utah. From 1989 until 1995, he was employed by the Veterans Administration Regional Office in Anchorage, Alaska. He retired in 1995 and currently serves as a member of the Finance Committee of the Ogden Surgical Society.

Ray P. Brown has served as Executive Vice President-Marketing and a director of AFH since 1989 and a director and Executive Vice President of Tambora since 1997. In 1987, Mr. Brown, in conjunction with Mr. Hansen, formed Income Builders, Inc., a field marketing organization to sell life insurance and annuity products offered by LifeUSA. In 1989, Messrs. Brown and Hansen exchanged their shares of Income Builders for shares of AFH, and Income Builders became a wholly-owned subsidiary of AFH. Mr. Brown has been active in the insurance industry since 1972.

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Tim L. Hansen has served as Executive Vice President-Marketing and a director of AFH since 1989 and a director and Executive Vice President of Tambora since 1997. In 1987, Mr. Hansen, in conjunction with Mr. Brown, formed Income Builders, Inc., a field marketing organization to sell life insurance and annuity products offered by LifeUSA. In 1989, Messrs. Hansen and Brown exchanged their shares of Income Builders for shares of AFH, and Income Builders became a wholly-owned subsidiary of AFH. Mr. Hansen has been active in the insurance industry since 1973.

Board Meetings and Committees

Members of the board of directors discussed various business matters informally on numerous occasions throughout the year. No formal actions were taken by vote in board meetings that occurred throughout the year or by unanimous consent during 2000. Directors who are employees of AFH received no compensation for services as directors.

The board of directors has no standing audit or compensation committees.

Compliance with Section 16(a) of the Exchange Act

Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to AFH during or respecting its last fiscal year ended December 31, 2000, and any written representation referred to in paragraph (b)(2)(i) of Item 405 of Regulation S-B, no person who, at any time during the most recent fiscal year, was a director, officer, beneficial owner of more than 10% of any class of equity securities of AFH or any other person known to be subject to Section 16 of the Exchange Act failed to file, on a timely basis, reports required by Section 16(a) of the Exchange Act during the most recently-completed, full fiscal year or prior fiscal year, except as noted in previous reports on Form 10-KSB.

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## ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth, for each of the last three fiscal years in the period ending December 31, 2000, cash compensation received from AFH by any person serving as chief executive officer of AFH during the last preceding fiscal year and any of the three remaining most highly-compensated, other executive officers whose salary and bonus for all services in all capacities exceeded $100,000 for the most recent fiscal year:

Summary Compensation Table

| | | Annual Compensation | | | Long Term Compensation Awards | | Pay |
|---|---|---|---|---|---|---|---|
| (a) Name and Principal Position | (b) Year | (c) Salary ($) | (d) Bonus ($) | (e) Other Annual Compen-sation ($)(1) | (f) Restricted Stock Award(s) ($) | (g) Securities Underlying Options/ SARs (#)(2) | |
| Kenton L. Stanger | 2000 | -- | -- | $ 89,684 | -- | -- | |
| CEO, President, | 1999 | -- | -- | 82,675 | -- | -- | |
| Director | 1998 | -- | -- | 67,398 | -- | -- | |

(1) Consists of interest accrued during the year on the unpaid balance of amounts previously outstanding on personal loans to such officer. Such amount is treated as compensation for purposes of this table, but is considered an obligation payable by such persons. Effective December 31, 2000, all amounts payable by such officer to AFH were assigned to East Bay Trust. See "Item. 12. Certain Relationships and Related Transactions."
(2) Consists of personal use of automobile and related insurance and other expense.

No options and SARs were granted or exercised during the last completed fiscal year by any executive officer named in the Summary Compensation Table above.

Employee Agreements and Benefits

During 2000, Kenton L. Stanger did not receive compensation from AFH, but received compensation from Tambora that is not reflected in the above table.

AFH reimburses its directors for costs of attending meetings of the board of directors but does not otherwise compensate its directors.

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## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

AND MANAGEMENT

The table below sets forth information as to each person who owned of record or was known by AFH to own beneficially more than 5% of the 19,279,449 shares (900,909 shares on a pro forma basis giving effect to a 21.4-to-one reverse stock split) of issued and outstanding common stock of AFH as of December 31, 2000, and information as to the ownership of AFH's common stock by each of its directors and by its officers and directors as a group. Except as otherwise indicated, all shares are owned directly, and the persons named in the table have sole voting and investment power with respect to shares shown as beneficially owned by them:

| Beneficial Owners | Nature of Ownership | Number of Shares Owned |
|---|---|---|
| Principal Stockholders: | | |
| Alvya Macaluso............................. | Direct | 5,000,000 |
| 1221 Danberry | Indirect(1) | 16,400,000 |
| Houston, TX 77055 | | ---------- |
| | | 21,400,000 |
| Laura Avignon.............................. | Direct | 5,000,000 |
| 2500 Wilcrest, Suite 540 | Indirect(1) | 16,400,000 |
| Houston, TX 77042 | | ---------- |
| | | 21,400,000 |
| Lighthouse Capital Insurance Co............. | Direct | 5,000,000 |
| c/o MeesPierson (Cayman) Ltd. | Indirect(1) | 16,400,000 |
| P.O. Box 2003 GT | | ---------- |
| Grand Pavillon Comm. Centre | | 21,400,000 |
| Bougainvillea Way | | |
| 802 West Bay Road | | |
| Grand Cayman, BVI | | |
| Directors: | | |
| Kenton L. Stanger | Indirect(2) | 242,118 |
| Tim L. Hansen......................... | Direct | 191,826 |
| | Indirect(3) | 50,272 |
| | | -------- |
| | Total | 242,098 |
| Ray P. Brown.......................... | Direct | 174,824 |
| | Indirect(3) | 67,002 |
| | | -------- |
| | Total | 241,826 |
| Raymond L. Punta...................... | Direct | 125,000 |
| | Indirect(4) | 59,994 |
| | | -------- |
| | Total | 184,994 |
| Chelton S. Feeny...................... | Direct | 98,500 |
| | Indirect(5) | 107,522 |
| | | ------- |
| | Total | 206,022 |
| All Directors and Executive Officers, as a Group (5 Persons):...................... | Direct | 590,150 |
| | Indirect | 526,908 |

| | | |
|---|---|---|
| | Total | 16,117,058 |

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(1) Shares issuable on the automatic conversion of convertible debenture to common stock on the effectiveness of the 21.4-to-one reverse stock split.
(2) Mr. Stanger is deemed to share voting and dispositive power over 175,000 shares owned by San Joaquin Trust, 25,000 shares owned by Debt Reduction Trust and 42,118 shares owned by his wife. The 25,000 shares held by Debt Reduction Trust have been pledged to secure AFH's loans made to certain officers and directors. (See "Item 12. Certain Relationships and Related Transactions.")
(3) Represents shares held by self-directed retirement account.
(4) Consists of 59,994 shares owned by Mr. Punta's wife.
(5) Represents shares held by his trust.

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## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain Officer Loans

In January 2001, AFH assigned all of the amounts receivable with aggregate principal and accrued interest of $1,586,777 from Kenton L. Stanger, $1,354,227 from Raymond L. Punta, and $104,883 from others, for an aggregate of $3,042,887, subject to $168,000 in offsets, to Debt Reduction Trust in consideration of such trust's assumption of any and all liabilities for withholding taxes or other payroll burdens due federal or state authorities relating to the characterization of any of the amounts paid to the obligors as compensation and such trust's agreement to indemnify AFH and hold it harmless from and against any related loss. Debt Reduction Trust is an irrevocable trust created by Kenton L. Stanger. The sole trustee of Debt Reduction Trust is currently Chelton Feeny, a director, and the beneficiaries are Mr. Stanger's wife or estate. Other than the obligations assigned to Debt Reduction Trust as noted above, the trust's only assets are 25,000 shares of AFH common stock.

Tambora

Payments of Stock Subscriptions

During 2000, officers and directors of AFH paid an aggregate of $23,000 on previous subscriptions for the purchase of Tambora common stock at an average price of $0.05 per share. Shares were issued as the subscriptions were paid.

Sale of Income Builders to Tambora

Following the organization of Tambora in September 1997, AFH agreed to sell Income Builders to Tambora in consideration of $500,000 in cash and the issuance to AFH of an aggregate of 4,899,533 shares of Tambora common stock as follows:

(a) 4,279,449 shares to be distributed to AFH's stockholders at the rate of one share of Tambora stock for each share of AFH stock held;

(b) 320,000 shares to satisfy AFH's antidilution obligation to East Bay Trust in connection with funding provided by it prior to December 31, 1997; and

(c) 300,084 shares in order for AFH to offer shares in Tambora to certain unaffiliated persons who had invested $300,084 in preferred stock of Triad Financial Systems, Inc., a previous subsidiary of AFH. Triad Financial Systems, Inc. was unsuccessful in obtaining the capital required to implement its business plan and has been dissolved. Such 300,084 shares will be distributed to such former investors in Triad Financial Systems, Inc. in satisfaction of their right to convert Triad Financial Systems, Inc. preferred stock into AFH common stock.

Subject to satisfying applicable regulatory requirements, AFH intends to distribute all of the shares of Tambora stock to the above groups in the amounts indicated. AFH proposes to file a registration statement under the Securities Act covering the foregoing transactions.

Sale of Common Stock

During 2000, Tambora received subscriptions for 615,648 shares for an aggregate of $638,722, for an average price of $1.03. Tambora also issued shares for services between inception and December 31, 2000. Tambora is currently seeking additional private equity through the sale of common stock. Tambora stock was issued to subscribers as their subscriptions were paid.



The following table shows the stock ownership of the officers and directors of AFH in AFH and Tambora as of December 31, 2000, and the anticipated ownership of the officers and directors of AFH in Tambora after giving effect to the proposed distribution of Tambora stock to AFH stockholders. The table does not include 15,000,000 common shares owned by Alvya Macaluso, Laura Avignon and Lighthouse Capital Insurance Company, who, upon completion of the stock purchase agreement, have the right to appoint themselves or their designees as officers and directors of AFH.

| | AFH | | Tambora | | di |
|---|---|---|---|---|---|
| Name | Number | Percentage | Number | Percentage | Num |
| Kenton L. Stanger................. | 242,098 | 5.7% | 1,100,000 | 7.3% | 1, |
| Raymond L. Punta.................. | 184,994 | 4.3 | 619,833 | 4.1 | |
| Tim L. Hansen..................... | 242,098 | 5.7 | 845,000 | 5.6 | 1, |
| Ray P. Brown...................... | 241,826 | 5.7 | 845,000 | 5.6 | 1, |
| Chelton S. Feeny.................. | 206,022 | 4.8 | 1,253,938 | 8.3 | 1, |
| Officers and Directors, as a Group..................... | 1,117,038 | 26.1% | 4,663,771 | 30.9 | 5, |
| Total Outstanding............. | 4,279,449 | | 15,104,285 | | 15, |

(1) Includes shares to be distributed, subject to satisfying certain regulatory requirements.
(2) Does not reflect the extent to which the "other stockholders" may own stock of both AFH and Tambora.

Director Loan

AFH owes Kenton L. Stanger, an officer and director, $18,865 for a cash loan to AFH during 1999.

Tambora Advances to AFH

In addition to Tambora's payment of $500,000 to AFH as partial consideration of the purchase of Income Builders, as of December 31, 2000, Tambora had outstanding advances of principal and accrued interest of $210,635 to AFH for payment of general and administrative expenses, including amounts paid to executive officers and directors. Such amount is repayable by AFH to Tambora under the terms of a promissory note bearing interest at 18% and due and payable out of the first net proceeds received by AFH from the sale of common stock, but in any event on or before December 31, 2002.

Income Builders Officers and Directors

Income Builders owed Tim L. Hansen and Ray P. Brown, officers of Income Builders, $340,204 at December 31, 1999, payable on demand. Of the $340,204 payable, $240,194 bears an interest rate of 50% and $100,010 is a bonus payable. Management of Income Builders intends to accrue interest on the $240,194 payable at 50% and offset this accrued interest against the $1,074,219 stockholders' receivable, until the receivable is reduced to $240,194, at which time this payable will be used to offset the receivable from the officers of Income Builders. These loans were included in the assets and liabilities of Income Builders when it was sold to Tambora.

Sale of $300,000 in Securities

Subsequent to December 31, 2000, AFH sold for $300,000 a total of 15.0 million shares of common stock (700,935 shares of common stock giving effect to the 21.4-to-one reverse stock split) for an aggregate of $150,000, and $150,000 in principal amount of promissory notes, automatically convertible into an aggregate of 49.2 million shares of common stock (2,299,000 shares giving effect to the 21.4-to-one reverse split). The persons making the $300,000 investment have agreed to execute a majority written consent approving the proposed reverse stock split, the appointment of their designees to the board of directors and the authorization of a class of preferred stock. On



the effectiveness of the reverse stock split and related matters, AFH will issue 400,000 shares of post reverse-split common stock to a third party for services. The securities sold by AFH and the consideration therefor are being held pending AFH's completion of an information statement to be distributed to AFH's stockholders relating to the matters to be approved by the majority written consent of its stockholders and certain other conditions. After giving effect to the foregoing, AFH will have an aggregate of 3.6 million shares of common stock issued and outstanding.

Conflicts of Interest

AFH and Tambora have been and will continue to be subject to significant conflicts of interest as a result of their common controlling stockholders, executive officers and directors. Notwithstanding these conflicts of interest, such persons, acting both for themselves and as executive officers, directors and stockholders of AFH or Tambora, have determined:

- the terms of their compensation from AFH, including the amount and manner of payment;
- whether or not AFH would pay amounts due officers and directors notwithstanding the failure of such officers and directors to pay amounts due AFH;

- the terms on which such persons purchased stock from Tambora upon its organization;
- the terms on which Tambora sold stock to other investors;
- the terms on which AFH sold Income Builders to Tambora; and
- the terms on which AFH is required to repay loans to Tambora.

There can be no assurance that any conflict of interest will be resolved in favor of AFH or its stockholders. AFH has not adopted any policies respecting the resolution of conflicts of interest that may arise.

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## PART IV

## ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

The following exhibits are included as part of this report at the location indicated:

| Exhibit Number | SEC Reference Number | Title of Document |
|---|---|---|
| Item 2 | | Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession |
| 2.01 | 2 | Deal Memorandum dated as of September 25, 1997, relating to the sale of Income Builders, Inc. to Tambora Financial Corporation |
| Item 3 | | Articles of Incorporation and Bylaws |
| 3.01 | 3 | Certificate of Incorporation |
| 3.02 | 3 | Bylaws |
| Item 10 | | Material Contracts |
| 10.01 | 10 | Agent Agreement between LifeUSA Insurance Company and Income Builders, Inc.; also constitutes form of agreement used for each independent agent |
| 10.02 | 10 | Form of Secured Promissory Note of certain directors of American Financial Holding, Inc. and related schedule, dated as of December 31, 1995* |
| 10.03 | 10 | Promissory Note in the amount of $177,380 effective as of December 31, 1999, payable by American Financial Holding, Inc. to Tambora Financial Corporation |
| 10.04 | 10 | Assignment Agreement effective as of December 31, 2000, relating to the assignment of certain obligations by |

| | | |
|---|---|---|
| | | American Financial Holding, Inc. to Debt Reduction Trust |
| 10.05 | 10 | Forms of indemnification agreements with directors, with related schedule |
| 10.06 | 10 | Purchase Agreement between American Financial Holding, Inc. and Alvya Macaluso, Laura Avignon, and Lighthouse Capital Insurance Co. dated January 22, 2001 |

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| Item 16 | | Letter on Change in Certifying Accountant |
|---|---|---|
| 16.01 | 16 | Letter from Jones, Jensen & Co., L.L.C. dated May 15, 2000 |

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(1) Previously filed as exhibits to AFH's Form 10-K for the fiscal year ended December 31, 1991, and incorporated herein by reference.
(2) Previously filed as an exhibit to AFH's current report on Form 8-K/A dated May 18, 2000.
(3) Previously filed as exhibit to AFH's Form 10-KSB for the fiscal year ended December 31, 1995, and incorporated herein by reference.
(4) Previously filed as exhibit to AFH's Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference.
* Identifies management contract or compensatory plan or arrangement required to be filed as an exhibit.

(b) Reports on Form 8-K:

AFH did not file a report on Form 8-K during the year ending December 31, 2000.

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## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, AFH caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

AMERICAN FINANCIAL HOLDING, INC.

Date: March 9, 2001

By /s/ Kenton L. Stanger
Kenton L. Stanger, President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of AFH and in the capacities and on the dates indicated.

Date: March 9, 2001

/s/ Kenton L. Stanger
Kenton L. Stanger, Director
(Principal Executive, Principal Financial and Principal Accounting Officer)

| | |
|---|---|
| Date: March 9, 2001 | /s/ Raymond L. Punta |
| | Raymond L. Punta, Director |
| Date: March 9, 2001 | /s/ Ray P. Brown |
| | Ray P. Brown, Director |
| Date: March 9, 2001 | /s/ Chelton S. Feeny |
| | Chelton S. Feeny, Director |
| Date March 9, 2001 | /s/ Tim L. Hansen |
| | Tim L. Hansen, Director |

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AMERICAN FINANCIAL HOLDING, INC.

INDEX TO FINANCIAL STATEMENTS



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Shareholders
American Financial Holding, Inc.

We have audited the accompanying balance sheets of American Financial Holding, Inc. as of December 31, 2000 and 1999, and the related statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Financial Holding, Inc. as of December 31, 2000 and 1999 and the results of its operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered losses from operations for the years ended December 31, 2000 and 1999, and has a stockholders' deficit of $845,453 as of December 31, 2000 that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

Respectfully submitted,

ROBISON, HILL & CO.
Certified Public Accountants

Salt Lake City, Utah
February 26, 2001



AMERICAN FINANCIAL HOLDING, INC.
BALANCE SHEETS

| | Decemb |
|---|---|
| | 2000 |
| **ASSETS** | |
| Current Assets | |
| Cash | $ 960 |
| Total Current Assets | 960 |
| Property and Equipment | |
| Equipment | - |
| Furniture and fixtures | - |

| | | |
|---|---|---|
| | | - |
| Less accumulated depreciation | | - |
| Net Property and Equipment | | - |
| Total Assets | $ | 960 |

LIABILITIES AND STOCKHOLDERS' DEFICIT

| | | |
|---|---|---|
| Current Liabilities | | |
| Accounts payable | $ | 252,937 |
| Accrued rent payable to officers | | - |
| Payable to Tambora Financial Corporation | | 194,671 |
| Interest payable to Tambora Financial Corporation | | 15,964 |
| Payable to Triad Financial Systems, Inc. owners | | 240,014 |
| Interest payable to Triad Financial Systems, Inc. owners | | 123,962 |
| Payable to officers | | 18,865 |
| Net liabilities of discontinued operations | | - |
| Total Current Liabilities | | 846,413 |
| Stockholders' Deficit | | |
| Common stock - $0.01 par value; 20,000,000 shares authorized; 199,974 shares issued and outstanding | | 2,000 |
| Additional paid-in capital | | 8,115,616 |
| Notes receivable from stockholders, net of bad debt reserve of none and $2,701,917, respectively | | - |
| Accumulated deficit | | (8,963,069) |
| Total Stockholders' Deficit | | (845,453) |
| Total Liabilities and Stockholders' Deficit | $ | 960 |

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

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AMERICAN FINANCIAL HOLDING, INC.
STATEMENTS OF OPERATIONS

| | | For the Year December |
|---|---|---|
| | | 2000 |
| Interest income | $ | 172,970 |
| General and administrative expense | | (239,168) |
| Interest expense | | - |

| | | |
|---|---|---|
| Loss from continuing operations | | (66,198) |
| Income (loss) from discontinued Income Builders' operations | | (17,734) |
| Net Loss | $ | (83,932) |
| Basic and Diluted Income (Loss) Per Share | | |
| Continuing operations | $ | (0.02) |
| Discontinued operations | | - |
| Net Loss | $ | (0.02) |
| Weighted-average number of common shares outstanding | | 4,279,449 |

AMERICAN FINANCIAL HOLDING, INC.
STATEMENTS OF STOCKHOLDER'S DEFICIT

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Receivable From Stockholders' |
|---|---|---|---|---|
| Balance, December 31, 1998 | 199,974 | $ 2,000 | $ 7,472,120 | $ (120,000) |
| Addition to stockholders' receivable | -- | -- | -- | (48,000) |
| Net loss | -- | -- | -- | -- |
| Balance, December 31, 1999 | 199,974 | 2,000 | 7,472,120 | (168,000) |
| Capital contribution received upon transfer of Income Builders to Tambora | -- | -- | 643,496 | -- |
| Settlement of liability to officers by reduction of receivable from stockholders | -- | -- | -- | 168,000 |
| Net loss | -- | -- | -- | -- |
| Balance, December 31, 2000 | 199,974 | $ 2,000 | $ 8,115,616 | $ -- |

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

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AMERICAN FINANCIAL HOLDING, INC.
STATEMENTS OF CASH FLOWS

| | For the Yea[r] Ended Dece[mber] 2000 |
|---|---|
| Cash Flows From Operating Activities | |
| Net loss | $ (83,932) |
| Adjustments to reconcile net loss to net cash used in operating activities | |
| Depreciation | 211 |
| (Income) loss from discontinued operations | 17,734 |
| Changes in assets and liabilities | |
| Increase in accounts payable | 48,453 |
| Decrease in receivable from stockholders | -- |
| Increase in interest payable to related party | -- |
| Increase in accrued rent payable to officers | -- |
| Increase in interest payable to Triad Financial Systems, Inc. owners | -- |
| Net Cash Used in Operating Activities | (17,534) |
| Cash Flows From Financing Activities | |
| Increase in payable to Tambora Financial Corporation | 17,291 |
| Cash received from payable to officers | -- |
| Net Cash Provided by Financing Activities | 17,291 |
| Net Increase in Cash | (243) |
| Cash at Beginning of Period | 1,203 |
| Cash at End of Period | $ 960 |
| Supplemental Cash Flow Information | |
| Cash paid for interest | $ -- |

Supplemental Schedule of Noncash Investing and Financing Activities

During 2000, $168,000 of accrued rent payable to two officers was settled by a corresponding reduction in notes receivable from the officers. The remaining notes and accrued interest, in the amount of $1,994,123 and $880,764, respectively, were transferred to an unrelated trust in exchange for the assumption of any payroll taxes that may result from taxable compensation to the shareholders owing the notes.

During 2000, the common stock of Income Builders was transferred to Tambora Financial Corporation. The net liabilities of Income Builders of $143,496 were assumed by Tambora in exchange for a $500,000 reduction in the payable to Tambora and in exchange for 4,899,533 shares of Tambora common stock.

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

AMERICAN FINANCIAL HOLDING, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 -- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations -- American Financial Holding, Inc. (the "Company") is a Delaware corporation that had operations, through its wholly-owned subsidiary, Income Builders, Inc., in marketing life insurance and annuity products until September 23, 1997 when the Company adopted a formal plan to sell Income Builders, Inc. to Tambora Financial Corporation ("Tambora") for $500,000 and for 4,899,533 shares of Tambora common stock.

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

Basis of Presentation-- The accompanying financial statements include the accounts and transactions of American Financial Holding, Inc. The operations of Income Builders, Inc., a wholly-owned subsidiary until October 24, 2000, were presented as discontinued operations. All significant inter-company accounts and transactions have been eliminated.

Business Condition -- The Company has suffered losses from operations for the years ended December 31, 2000 and 1999, and has a stockholders' deficit of $845,453 as of December 31, 2000. The Company expects that it will continue to incur operating losses and that its accumulated deficit will increase. During 2000 and 1999, the Company has been dependent solely upon cash provided from the sale of Income Builders and loans from Tambora for funding. All of the foregoing raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

Property and Equipment -- Property and equipment were stated at cost. Depreciation expense for the years ended December 31, 2000 and 1999 was $211 and $496, respectively. During 2000, the Company abandoned its fully-depreciated equipment, furniture and equipment.

Basic and Diluted Income (Loss) Per Share-- The computations of income (loss) from continuing operations, discontinued operations and net loss per share are based on the weighted-average number of common shares outstanding during the period.

NOTE 2 - STOCK PURCHASE AGREEMENT

On January 22, 2001, the Company entered into a purchase agreement (the "Purchase Agreement") with three unrelated third parties (the "Purchasers") whereby the Company issued 15,000,000 shares of common stock (pre-split) and issued $150,000 of promissory notes to the Purchasers for $300,000 in cash. Under the terms of the Purchase Agreement, the cash proceeds are being held in an escrow account and will be released on the date of closing upon the Company meeting the conditions of the Purchase Agreement, which include:

- o Providing evidence, after the use of the funds received from the escrow, that all liabilities have been paid or compromised.
- o Being current in filing periodic reports with the Securities and Exchange Commission

AMERICAN FINANCIAL HOLDING, INC.
NOTES TO FINANCIAL STATEMENTS

- The resumption of quotation of the common stock of the Company on the over-the-counter electronic bulletin board maintained by the National Association of Securities Dealers, Inc.
- Completion of arrangements satisfactory to the Purchasers respecting certain contingent liabilities.
- Completion of a 21.4-to-1 reverse stock split.
- Delivery of resignations of the incumbent officers and directors.

The agreement may be terminated by either party if the release of the funds from escrow does not occur on or before March 15, 2001. Under the terms of the Purchase Agreement, the Company is obligated to obtain shareholder approval of the 21.4-to-1 reverse stock split by providing current shareholders an information statement at the Company's cost. The Purchasers have agreed to vote in favor of the reverse stock split. The reverse stock split will result in the 4,279,449 shares of common stock outstanding at December 31, 2000 being consolidated into 199,974 post-split common shares. Upon obtaining shareholder approval of the reverse stock split, the 15,000,000 pre-split shares of common stock issued to the Purchasers will be consolidated into 700,935 post split shares and the $150,000 promissory notes will be automatically converted into 2,299,065 post-split shares of common stock; thus bringing the total interest in the Company held by the Purchasers to 3,000,000 post-split shares of common stock. Accordingly, the Purchase Agreement will result in a change in control of the Company.

Upon completion of the reverse stock split, the Company has agreed to issue 400,000 post-split shares of common stock to an individual in consideration of his services in introducing the Purchasers to the Company.

In accordance with the terms of the Purchase Agreement, the number of shares of common stock and per share amounts presented in accompanying financial statements have been restated for the effects of the 21.4- to-1 reverse stock split for all periods presented.

Management has approached or will approach the creditors of the Company and intends to offer compromising payments to the creditors from the funds received from the escrow to all of the creditors except for the Triad Financial Systems, Inc. owners, which will receive Tambora common stock in satisfaction of the obligation to them, and except for contingent liabilities that may be due under legal proceedings. The creditors that have been approached have agreed to accept the compromising payments in full satisfaction of the amounts due. Accordingly, management intends to pay or compromise all liabilities of the Company at the date the Purchase Agreement is closed.

NOTE 3 - NOTES RECEIVABLE FROM STOCKHOLDERS

Over several years, the Company has made loans to its officers and certain stockholders (the "notes receivable from stockholders"). The loans were initially made as unsecured advances with no due dates specified. On March 31, 1992, all advances were converted to promissory notes which bore interest at eight percent and were due on demand. The promissory notes were amended for additional advances and accrued interest through December 31, 1999. Approximately 100,000 shares of common stock of the Company was pledged as partial collateral for all except one of the notes.

The Company leased office space from two officers during 1998 and 1999 which resulted in accrued rent payable to the officers of $168,000 at December 31,

1999. The liability to the officers was settled in December 2000 by offsetting the accrued rent payable against the notes receivable from the officers.

On December 31, 2000, the Company transferred and assigned the remaining balance of the notes receivable from stockholders and accrued interest of $1,994,123 and $880,764, respectively, to an unrelated buyer. The





buyer assumed and agreed to pay and discharge any and all liabilities or responsibility for any withholding, payroll or similar taxes or employer burdens that may be due and payable to any federal or state taxing or other authority relating to the assigned notes or any related characterization of the amounts due under the notes as compensation and agreed to indemnify the Company and hold it harmless from any loss, cost or damage incurred by the Company in connection therewith.

Management determined at various dates that the ultimate collectibility of the balance of the notes receivable from stockholders was uncertain. Accordingly, management recorded a bad debt reserve against the notes receivable from stockholders for financial reporting purposes for the amount of the notes except for the portion that would be offset by the accrued rent payable to the two officers. However, the officers and stockholders are obligated under the promissory notes to repay the entire stated principal and related accrued interest of the loans. As a result of management providing the reserve against the notes, the carrying value of the notes for financial reporting purposes was zero on December 31, 2000 when the notes were transferred to the trust. The following summarizes the changes to the principal and accrued interest under the notes receivable from stockholders and the related reserve:

| | Principal | Accrued Interest |
|---|---|---|
| Balance, December 31, 1998 | $ 1,938,927 | $ 555,292 |
| Additions (bad debt expense recognized) | 223,196 | 152,502 |
| Balance, December 31, 1999 | 2,162,123 | 707,794 |
| Additions (bad debt expense recognized) | - | 172,970 |
| Offset of accrued rent payable | (168,000) | - |
| Balance transfer to third party | $ 1,994,123 | $ 880,764 |

NOTE 4 - INCOME TAXES

As of December 31, 2000, the Company had a net operating loss carryforward for income tax reporting purposes of approximately $4,760,000 that may be offset against future taxable income. The net operating losses expire if unused from 2002 through 2020. Current tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount available to offset future taxable income may be limited. No tax benefit has been reported in the financial statements, because the Company believes there is a 50% or greater chance the carry forwards will expire unused. Accordingly, the potential tax benefits of the loss carry forwards are offset by a valuation allowance of the same amount.

NOTE 5 - DISPOSITION OF INCOME BUILDERS, INC.

On September 23, 1997, the Company entered into an agreement with Tambora Financial Corporation, a corporation under common control with American Financial Holding, Inc., to transfer Income Builders to Tambora in exchange for $500,000 and 4,899,533 shares of Tambora common stock. From 1997 through October 24, 2000, Tambora and one of its officer's paid or advanced $694,671 to or in behalf of the Company. On October 24, 2000, the Company transferred all issued and outstanding shares of Income Builders, Inc. to Tambora in exchange for a $500,000 reduction in the payable to Tambora and in exchange for 4,899,533 shares of Tambora common stock.

The remaining balance of the payable to Tambora of $194,671is evidenced in part by a promissory note in the amount of $177,380 which is due on demand. The note has a stated interest rate of 18%. Accrued interest





in the amount of $15,964 was recognized during 1999. As discussed in Note 2, Tambora has agreed to compromise the principal and accrued interest due on the note. Accordingly, no interest was accrued during 2000.

Due to the transfer being with an entity under common control, the net liabilities of Income Builders on October 24, 2000 of $143,496 plus the $500,000 reduction in the payable to Tambora were accounted for as capital contributions to the Company.

From September 27, 1997, the Company accounted the investment in Income Builders as discontinued operations. Commission revenue of Income Builders for 2000 through October 24, 2000 and for 1999 was $2,555,071 and $3,021,071, respectively. These amounts are not included in the accompanying statements of operations. The net liabilities of Income Builders consisted of the follows:

| | October 24, 2000 | |
|---|---|---|
| Cash | $ 32,926 | $ |
| Investment in securities available-for-sale | 10,127 | |
| Commissions receivable | 77,527 | |
| Notes receivable from officers, net of reserve of $1,032,409 and $1,074,219, respectively | 103,015 | |
| Note receivable | - | |
| Furniture and equipment, net | 2,383 | |
| Intangible pension asset | 364,505 | |
| Accounts payable and accrued liabilities | (177,505) | |
| Payable to officers | (317,720) | |
| Accrued pension benefit liability | (238,754) | |
| Net liabilities of discontinued of discontinued operations | $ (143,496) | $ |

NOTE 6 - PLANNED DISTRIBUTION OF TAMBORA COMMON STOCK

The Company has agreed to distribute the Tambora stock received in exchange for Income Builders, upon effectiveness of a Tambora registration statement, as follows:

- 4,279,449 shares to the Company's stockholders at a rate of 21.4 shares of Tambora for each share of the Company's common stock outstanding except for 3,000,000 common shares issued or to be issued under the Purchase Agreement as further discussed in Note 2. The distribution of these Tambora shares will have no financial statement effect upon the Company.

- 320,000 shares to satisfy the Company's anti-dilution obligation to East Bay Trust. The distribution of these Tambora shares will have no financial statement effect upon the Company.

- 300,084 shares to former investors in Triad Financial Corporation, a former subsidiary of Company, in satisfaction of their right to convert Triad preferred stock into the Company's common stock. The distribution of these Tambora shares will be accounted for as the conversion of the following liabilities into additional paid-in capital: $240,014 payable to Triad Financial Systems, Inc. owners and $123,962 interest payable to Triad Financial Systems, Inc. owners.





The investment in Tambora is temporary and is accounted for at the cost of Income Builders increased by the liabilities transferred to additional paid-in capital, which resulted in the investment in Tambora being zero.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

SEC Enforcement -- On October 9, 1996, the Company was advised by the Enforcement Division of the Securities and Exchange Commission (the "Commission") that it is considering recommending that the Commission bring an enforcement action, which could include a civil penalty, against the Company in U.S. District Court for failing to file timely periodic reports in violation of Section 13(a) of the Securities and Exchange Act of 1934 and the rules thereunder.

In October 1996, the Company also received a request for the voluntary production of information to the Enforcement Division of the Commission related to the resignation of Coopers & Lybrand LLP and the termination of Arthur Andersen LLP and the appointment of Jones, Jensen & Company as the Company's independent public accountants and the reasons therefore. In addition, the Company was requested to provide certain information respecting its previous sales of securities. The Company cooperated in providing information in response to these inquiries in early 1997. The Company has not been advised of the outcome of the foregoing.

Legal Proceedings -- On December 20, 1999, Robert M. Bridge filed suit against the Company in the Third District Court in Salt Lake County, Utah, styled Bridge v. American Financial Holding, Inc., Triad Financial Systems, Inc., Raymond L. Punta and Kenton L. Stanger (Civil No. 990912544). Mr. Bridge's complaint alleges that he is entitled to the return of a $100,000 investment made in 1993, in which he purchased the Company's stock in anticipation of the acquisition of an insurance company. The complaint alleges claims for breach of contract, fraud and misrepresentation, and claims for a "guarantee" against Messrs. Punta and Stanger. The Company has answered the complaint, denying its material allegations and raising several affirmative defenses, including the applicable statutes of limitation. The Company intends to vigorously defend this matter, asserting, among other defenses, that at times the plaintiff could have sold his stock at a multiple of his purchase price. Discovery has commenced but is in its early stages. No trial date has been set.

NOTE 8 - SUBSEQUENT EVENTS

As discussed in Note 2, the Company has entered into an agreement in January 2001 to issue a controlling interest in the Company's common stock and a note payable for $300,000.