

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

AMERICAN LEISURE HOLDINGS, INC.  
Form 10QSB  
August 21, 2006

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2006

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

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

Commission file number 333-48312

AMERICAN LEISURE HOLDINGS, INC.  
-----

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

Nevada  
-----

75-2877111  
-----

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

2460 Sand Lake Road, Orlando, FL 32809  
-----

(Address of principal executive offices)

(407)-251-2240  
-----

(Registrant's telephone number)

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

As of August 18, 2006, 10,642,974 shares of Common Stock of the issuer were outstanding ("Common Stock").

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

AS OF JUNE 30, 2006 AND DECEMBER 31, 2005

	JUNE 30, 2006	DECEMBER 2005
	----- UNAUDITED	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,641,725	\$ 225,
Cash - restricted	19,254,793	13,175,
Accounts receivable, net	822,827	2,043,
Other receivable	7,199,711	6,587,
Prepaid expenses and other	119,387	99,
	-----	-----
Total Current Assets	31,038,443	22,130,
	-----	-----
PROPERTY AND EQUIPMENT, NET	1,595,774	4,583,
	-----	-----
LAND HELD FOR DEVELOPMENT	50,480,540	34,695,
	-----	-----
OTHER ASSETS		
Prepaid sales commissions	8,776,125	7,770,
Prepaid sales commissions - affiliated entity	3,354,823	3,516,
Investment-senior notes	5,170,000	5,170,
Goodwill	5,925,437	5,925,
Trademark	962,500	975,
Other	3,131,422	5,156,
	-----	-----
Total Other Assets	27,320,307	28,513,
	-----	-----
TOTAL ASSETS	\$110,435,064	\$ 89,923,
	=====	=====

2

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current maturities of long-term debt and notes payable	\$ 16,870,617	\$ 1,790,
Current maturities of notes payable-related parties	4,455,159	1,268,
Accounts payable and accrued expenses	3,058,521	3,782,
Accrued expenses - officers	2,370,500	3,393,
Other	639,960	285,
	-----	-----
Total Current Liabilities	27,394,757	10,520,
	-----	-----
Long-term debt and notes payable	34,478,693	34,532,
Put liability	985,000	985,
Deposits on unit pre-sales	38,892,397	37,666,
	-----	-----
Total liabilities	101,750,847	83,704,
	-----	-----
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		

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

Preferred stock; 1,000,000 shares authorized; \$.001 par value; 1,000,000 Series "A" shares issued and outstanding at June 30, 2006 and December 31, 2005	10,000	10,
Preferred stock; 100,000 shares authorized; \$.01 par value; 2,825 Series "B" shares issued and outstanding at June 30, 2006 and December 31, 2005	28	
Preferred stock, 28,000 shares authorized; \$.01 par value 27,189 Series "C" shares issued and outstanding at June 30, 2006 and December 31, 2005	272	
Preferred stock; 50,000 shares authorized; \$.001 par value; 24,101 Series "E" shares issued and outstanding at June 30, 2006 and December 31, 2005	24	
Preferred stock; 150,000 shares authorized; \$.01 par value; 0 and 0 Series "F" shares issued and outstanding at June 30, 2006 and December 31, 2005	-	
Common stock, \$.001 par value; 100,000,000 shares authorized; 10,642,974 shares issued and outstanding at June 30, 2006 and 10,334,974 shares issued and outstanding at December 31, 2005	10,643	10,
Additional paid-in capital	20,173,900	19,697,
Accumulated deficit	(11,510,650)	(13,499,
Total Stockholders' Equity	8,684,217	6,218,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$110,435,064	\$ 89,923,

See accompanying notes to financial statements.

3

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	SIX MONTHS ENDED JUNE 30, 2006 ----- UNAUDITED	SIX MONTHS ENDED JUNE 30, 2005 ----- UNAUDITED	THREE MONTHS JUNE 30, 2006 ----- UNAUDITED
Revenue			
Operating Revenues	\$ 3,506,489	\$ 3,531,236	\$ 1,844,
Undeveloped Land Sales	13,129,246	4,352,672	
Total Revenue	16,635,735	7,883,908	1,844,
Cost of Undeveloped Land Sales	(9,796,634)	(3,384,988)	
Gross Margin	6,839,101	4,498,920	1,844,
Operating Expenses:			

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

Depreciation and amortization	(834,075)	(813,927)	(418,000)
General and administrative expenses	(4,613,536)	(4,677,198)	(2,353,000)
	-----	-----	-----
Income (Loss) from Operations	1,391,490	(992,205)	(928,000)
	-----	-----	-----
Interest Expense	(2,529,648)	(736,845)	(1,289,000)
Equity in operations of unconsolidated affiliate	140,244	(214,795)	75,000
Gain on sale of affiliate	2,988,082	-	2,988,000
Total Other Income (Expense)	598,678	(951,640)	1,774,000
	-----	-----	-----
Income (Loss) before Income Taxes	1,990,168	(1,943,845)	846,000
	-----	-----	-----
	4		
PROVISIONS FOR INCOME TAXES	(1,399)	-	-
	-----	-----	-----
NET INCOME (LOSS)	\$ 1,988,769	\$ (1,943,845)	\$ 846,000
	=====	=====	=====
NET INCOME (LOSS) PER SHARE:			
BASIC AND DILUTED	\$ 0.12	\$ (0.26)	\$ 0.00
	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING			
BASIC AND DILUTED	10,631,814	10,001,841	10,642,000
	=====	=====	=====

See accompanying notes to financial statements.

5

AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	SIX MONTHS ENDED JUNE 30, 2006	SIX MONTHS ENDED JUNE 30, 2005
	----- UNAUDITED	----- UNAUDITED
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 1,988,769	\$ (1,943,845)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	834,075	813,927
Non-cash interest expense	1,477,348	736,845
Non-cash warrant compensation	110,253	-
Gain on sale of subsidiary	(2,988,082)	-
Changes in assets and liabilities:		

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

Decrease in accounts receivable and other receivables	1,220,314	2
Decrease (increase) in prepaid expenses and other	(136,586)	1
Increase in prepaid sales commissions	(843,790)	(2)
Increase in shareholder advances and notes payable	-	
Increase in deposits on unit pre-sales	1,226,029	11
Decrease in customer deposits	-	(2)
(Decrease) increase in accounts payable and accrued expenses	920,392	(5)
	-----	-----
Net cash provided by operating activities	3,808,722	5
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(90,371)	
Acquisition of AWT assets	-	10
Increase in restricted cash	(6,079,439)	(2)
Proceeds from property sold	13,129,246	
Capitalization of real estate carrying costs	(13,914,505)	(5)
	-----	-----
Net cash provided by (used in) investing activities	(6,955,069)	5
	-----	-----
6		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of debt	(731,371)	(6)
Proceeds from notes payable	7,294,080	
Proceeds from exercise of warrants	308	
Payments of notes payable - related parties	-	
	-----	-----
Net cash provided (used) by financing activities	6,563,017	(6)
	-----	-----
Net increase in cash	3,416,670	4
CASH AT BEGINNING PERIOD	225,055	2
	-----	-----
CASH AT END OF PERIOD	\$ 3,641,725	\$ 6
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 451,453	\$
	=====	=====
Cash paid for income taxes	\$ -	\$
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON CASH TRANSACTION:		
Purchase of land held for development for notes payable	\$ 15,000,000	\$
	=====	=====

See accompanying notes to financial statements.

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

June 30, 2006  
(Unaudited)

### NOTE A - PRESENTATION

The balance sheets of the Company as of June 30, 2006 and December 31, 2005, the related consolidated statements of operations for the three and six months ended June 30, 2006 and 2005, and the consolidated statements of cash flows for the six months ended June 30, 2006 and 2005, (the financial statements), include all adjustments (consisting of normal, recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results of operations for the full year or any other interim period. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and restated Financial Statements and notes thereto included in the Company's December 31, 2005, Form 10-KSB, the Company's March 31, 2006 Form 10-QSB/A and the Company's Forms 8K and 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 and other property sales, revenues will be recognized upon the Orlando property and other property sales, upon the close of escrow for the sales of its real estate.

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

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

### NOTE C - PROPERTY AND EQUIPMENT, NET

As of June 30, 2006, property and equipment consisted of the following:

	Useful Lives	Amount
	-----	-----
Equipment	3-5	\$4,401,620
Furniture & fixtures	5-7	1,629,196
		-----
Subtotal		6,030,816
Less: accumulated depreciation and amortization		4,435,042
		-----
Property and equipment, net		\$1,595,774
		=====

8

Depreciation expense for the six-month and three-month period ended June 30, 2006 amounts to \$834,075 and \$418,703 respectively.

### NOTE D - NOTES PAYABLE - RELATED PARTIES

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

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

Tri-County Road Ventures LLC	\$3,721,997
Officers of Hickory Travel Services	408,900
Peter Webb	124,262
Shareholders of Hickory Travel Services	180,000
Others	20,000
	-----
Notes payable - related parties	\$4,455,159
	=====

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 \$408,900. \$117,945 of such amount is owed to L. William Chiles, a Director of the Company.

Included in long-term debt and notes payable are obligations to the following related parties:

Officers of Hickory Travel Services	\$372,803
	-----
Related party debt and notes	\$372,803
	=====

\$89,758 of this amount is owed to L. William Chiles, a Director of the Company.

### NOTE E - RELATED PARTY TRANSACTIONS

The Company accrues salaries payable to Malcolm Wright in the amount of \$800,000 per year (and \$550,000 per year in 2002 and 2003) with interest at 12%. In June 2006, Malcolm Wright was paid \$1,540,500 of the accrued salaries that consisted of accrued salaries of \$1,275,000 and accrued interest of \$265,500. As of June 30, 2006, the amount of salaries payable accrued to Mr. Wright amounts to \$1,825,000 plus accrued interest on those salaries of \$341,250.

The Company accrued director fees to each of its four (4) directors in an amount of \$18,000 per year for their services as directors of the Company. No payments of director fees were paid during the current quarter and the balance of accrued director fees as of the end of the quarter covered by this report amounts to \$224,500.

9

Malcolm Wright is the majority shareholder of American Leisure Real Estate Group, Inc. (ALRG). On November 3, 2003 Tierra Del Sol Resort ("TDSR") entered into an exclusive Development Agreement with ALRG to provide development services for the development of the Tierra Del Sol Resort. Pursuant to the Development Agreement ALRG is responsible for all development logistics and TDSR is obligated to reimburse ALRG for all of ALRG's costs and to pay ALRG a development fee in the amount of 4% of the total costs of the project paid by ALRG. During the period from inception through June 30, 2006 the total costs plus fees amounted to \$22,398,243.

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, 2006 the total

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

sales amounted to approximately \$223,654,843. As a result of the sales, TDSR was obligated to pay Xpress a fee of \$6,709,645, consisting of one-half of the sales fee and the full amount of the marketing fee. As of June 30, 2006, \$6,765,244 has been paid to Xpress. Based on the sales contracts as of June 30, 2006, TDSR will be obligated to pay Xpress \$3,354,823, the other half of the sales fee, upon the conveyance of the units.

Effective June 30, 2006, pursuant to Stock Purchase Agreement between the Company and Stanford International Bank Limited (a minority shareholder and creditor of the Company), the Call Center operations (Caribbean Leisure Marketing, Ltd.) was sold. Promissory notes in the amounts of \$1,250,000 and \$2,100,000 were forgiven along with \$2,313,175 of fees and accrued interest for a total consideration of \$5,663,175. This sale resulted in a gain of \$2,988,082 attributable to the recapture of depreciation and interest expenses of prior periods. The Stock Purchase Agreement also addressed the equity conversion feature that was to expire on April 30, 2007, of an outstanding loan with Stanford International Bank Limited. This feature was replaced with 355,000 warrants at an exercise price of \$10.00 expiring on April 30, 2008.

### NOTE F - NET INCOME (LOSS) PER SHARE

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

10

Description	Six months ended 6/30/2006 -----	Six months ended 6/30/2005 -----	Three months ended 6/30/2006 -----	Three months ended 6/30/2005 -----
NET INCOME (LOSS) (as reported)	1,988,769	(1,943,845)	846,242	(1,335,716)
UNDECLARED PREFERRED STOCK DIVIDEND	(713,955) -----	(713,616) -----	(358,950) -----	(358,779) -----
NET LOSS AFTER PREFERRED STOCK DIVIDEND	1,274,813	(2,657,461)	487,292	(1,694,495)
NET INCOME (LOSS) PER SHARE BASIC AND DILUTED	0.12	(0.26)	0.05	(0.17)

### NOTE G - SHARES FOR SERVICES

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



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

includes three transition methods: a prospective method, a modified prospective method and a retroactive method. The Company adopted SFAS 123R in the first quarter of the fiscal year ending December 31, 2006.

In accordance with SFAS No. 123R we have recorded approximately \$110,000 as stock based compensation under the fair value method for the six months ended June 30, 2006. There was no proforma stock based compensation under the fair value method for the six months ended June 30, 2005.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free rate of 3.5%; volatility of 120% for 2006 and 196% for 2005 with no assumed dividend yield; and expected lives of five years.

During the six months ended June 30, 2006 the Company issued 200,000 warrants to two executives of the Company (100,000 to Michael Crosbie as Corporate General Counsel, Executive Vice President and Secretary of the Company and 100,000 to Jeff Scott as President of Hickory Travel Services); for each executive, 50,000 were immediately vested and the other 50,000 will vest in equal amounts in the next two years. In addition, 450,000 warrants were issued to Malcolm Wright for debt guarantees related to the acquisition of land held for development during

11

the six months ended June 30, 2006. As noted in Note E above, in June 2006, 355,000 warrants were issued to Stanford International Bank Ltd. to replace the equity conversion feature that was to expire on April 30, 2007, of an outstanding loan with Stanford International Bank Limited. As of June 30, 2006, there are 4,942,246 warrants outstanding to officers and directors and 2,546,000 warrants outstanding to third parties for a total outstanding of 7,488,246. In January 2006, 308,000 warrants were exercised for the Company's common stock at \$.001 per share which increased the common stock outstanding to 10,642,974 share and \$10,643.

### NOTE H - OPERATING SEGMENTS

The Company has adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". At June 30, 2006, the Company's three business units have separate management teams and infrastructures that offer different products and services. The business units have been aggregated into three reportable segments.

Tierra Del Sol, Inc. represent the Company's Real Estate segment, and is planning to construct a 972-unit resort in Orlando, Florida on 122 acres of undeveloped land. Vertical development on the townhomes and amenities is scheduled to commence in the summer of 2006. Presales commenced in February 2004.

Through June 30, 2006, American Leisure operated a call center where revenues were recognized upon the completion of the earning process from the completion of the travel of the customer, the trip to the properties for the potential purchase, or the appropriate event based on the agreement with American Leisure's client as to the ability to be paid for the service. Travel Unit ("Travel") provides travel related services. For the six months ending June 30, 2006:

In (000's)	Real Estate	Call Center	Travel	Elim.	Consol.
	-----	-----	-----	-----	-----

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

Revenue	\$	14,269	\$	2	\$	3,265	\$	(900)	\$	16,636
Segment income (loss)	\$	2,444	\$	(47)	\$	493	\$	(900)	\$	1,990
Total Assets	\$	105,644	\$	0	\$	12,024	\$	(7,233)	\$	110,435
Capital expenditures	\$	-	\$	-	\$	90	\$	-	\$	90
Depreciation	\$	361	\$	325	\$	148	\$	-	\$	834

12

For the six months ending June 30, 2005:

In (000's)	Real Estate	Call Center	Travel	Elim.	Consol.
	-----	-----	-----	-----	-----
Revenue	\$ 5,486	\$ (215)	\$ 2,613	\$ -	\$ 7,884
Segment income (loss)	\$ (954)	\$ (264)	\$ (726)	\$ -	\$ (1,944)
Total Assets	\$ 83,159	\$ 3,044	\$ 15,584	\$ (11,864)	\$ 89,923
Capital expenditures	\$ 22	\$ -	\$ 56	\$ -	\$ 78
Depreciation	\$ 374	\$ 325	\$ 115	\$ -	\$ 814

NOTE I - SUBSEQUENT EVENT

On December 30, 2004, American Leisure Equities Corporation (ALEC) a wholly-owned subsidiary of American Leisure, entered into an Asset Purchase Agreement (hereinafter referred to as the "Original Purchase Agreement") with Around The World Travel, Inc. (AWT), pursuant to which AWT agreed to sell substantially all of its assets to ALEC. The parties agreed that the purchase price is equal to the fair value of the Business, plus \$1,500,000. Under the terms of the Original Purchase Agreement, AWT conveyed to ALEC all of the assets necessary to operate the Business, including substantially all of AWT's tangible and intangible assets and certain agreed liabilities. Pursuant to the terms of the Original Purchase Agreement, AWT and ALEC entered into a Management Agreement, under which AWT manages the Business on behalf of ALEC. AWT and ALEC also entered into a License Agreement, under which ALEC granted AWT 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.

On and effective as of August 1, 2006, the Management Agreement and the License Agreement was terminated. Included in Other receivables is the amount from AWT of \$5,222,903 which is composed of \$2,020,691 for cumulative earnings from January 1, 2005 and \$3,202,212 for working capital advances made from ALEC to AWT. These amounts are individually and unconditionally guaranteed by Jim Tolzien, the President of AWT, and Keith St. Clair, its controlling owner.

NOTE J - RECLASSIFICATIONS

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

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

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-QSB (THIS "FORM 10-QSB"), CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF AMERICAN LEISURE HOLDINGS, INC. ("AMLH", "AMERICAN LEISURE," "THE COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-QSB, UNLESS ANOTHER DATE IS STATED, ARE TO JUNE 30, 2006. ALL REFERENCES IN THIS REPORT ON FORM 10-QSB TO "THE COMPANY," "WE," "US," "OUR" OR WORDS OF SIMILAR MEANING INCLUDE THE OPERATIONS OF AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES.

## BUSINESS HISTORY

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

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

In addition to the Company's establishment and continuing operation of a Travel Division, we have established a Resort Properties Division and related leisure and travel support operations. Through our various subsidiaries, we: manage and distribute travel services; develop, sell and will manage travel destination resorts and vacation home properties; and develop and operate affinity-based travel clubs. Further, we owned and operated a call center in Antigua-Barbuda during the period covered by this report, which call center business was sold effective June 30, 2006, as described below. Our businesses are intended to complement each other and to enhance Company revenues by exploiting consumer cross-marketing opportunities. We intend to take advantage of the synergies between the distribution of travel services and the creation, marketing, sale

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

and management of vacation home ownership and travel destination resorts.

On October 1, 2003, we acquired a 50.83% majority interest in Hickory Travel Systems, Inc. ("Hickory" or HTS") as the key element of our Travel Division. Hickory is a travel management service organization that serves its network/consortium of approximately 160 well-established travel agency members, comprised of over 3,000 travel agents worldwide serving corporate and leisure travelers. We intend to complement other Company businesses through the use of Hickory's 24-hour reservation services, international rate desk services, discount hotel programs, preferred supplier discounts, commission enhancement programs, marketing services, professional services, technologies, and information exchange.

In December 2004, Caribbean Leisure Marketing, Ltd. ("Caribbean Leisure Marketing"), a wholly owned subsidiary of our company that is focused on telecommunications, entered into a joint venture with IMA Antigua, Ltd. to operate a call center in Antigua that Caribbean Leisure Marketing owns. The joint venture was operated through Caribbean Media Group, Ltd., an international business corporation formed under the laws of Barbados. On June 30, 2006, pursuant to a Stock Purchase Agreement (described in greater detail below), the call center operations and Caribbean Leisure Marketing were sold to Stanford.

15

On December 31, 2004, American Leisure Equities Corporation ("ALEC"), one of our wholly owned subsidiaries, acquired substantially all of the assets of Around The World Travel, Inc. ("Around The World Travel" or "AWT") which included all of the tangible and intangible assets necessary to operate the business including the business name "TraveLeaders". We engaged Around The World Travel to manage the assets and granted Around The World Travel a license to use the name "TraveLeaders" during the time that AWT enjoyed a management contract with ALEC. TraveLeaders is a fully-integrated travel agency and travel services distribution business that provides its clients with a comprehensive range of business and vacation travel services including corporate travel management, leisure sales, special event and incentive planning. TraveLeaders is based in Coral Gables, Florida. On and effective as of August 1, 2006, the Management Agreement and the License Agreement with AWT were terminated by ALEC which, effective on that date, began directly managing the travel business assets and operations of TraveLeaders.

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

### BUSINESS INTEGRATION

Our mission is to remain focused on the development, sale and management of vacation travel destination resorts. As such we have completed the planning and initial site development, and begun the horizontal improvements for "The Sonesta Orlando Resort at Tierra Del Sol" (the "Sonesta Resort"), a planned 972-unit vacation home resort located just 10 miles from Walt Disney World, in Orlando, Florida. Additionally, we are in the planning stages of developing our Reedy Creek Property, which is situated in the northwest section of Osceola County, Florida about one mile from the "Maingate" entrance to Walt Disney World, Orlando and approximately one-half mile from the south entrance to "Disney's Animal Kingdom" theme park. The Reedy Creek Property consists of three parcels totaling over 40 gross acres with approximately 29 acres of buildable land. The Reedy Creek Property is currently planned to consist of approximately 522 residential units consisting of mid-rise condominium buildings.

Through "Developments of Regional Impact" (DRIs) underway, we are seeking to

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

maximize property development and sales by obtaining governmental approval for more housing units than was initially planned at our Tierra del Sol and Reedy Creek properties. Although there is no assurance of the additional density that may be achieved through the DRI process we believe that both Tierra del Sol and Reedy Creek may gain approval to develop as many as 700 additional units.

Subject to the provision of sufficient capital and our determination of value to our shareholders, we intend to achieve growth through selected acquisitions of real property and business assets and interests. Although no agreements related to such future acquisitions have been concluded, we expect to negotiate and, subject to our final determination as to the merits of such acquisitions(s) and the availability of necessary capital, complete the acquisition of Florida destination resort property holdings proximate to our existing resort

16

developments at initial entry prices for the developable land that may be materially below current appraised values. These potential acquisitions would come from a portfolio of undeveloped real estate currently controlled by related third parties including the Company's Chairman, Mr. Malcolm Wright. Additional growth may be realized through our continued creation of destination resorts, and through the prospective acquisition of qualified, existing destination resorts, thereby creating an extensive resort and vacation ownership network further supported by the Company's travel services division. Our goal through such expansion would be to further become an integrated, "one-stop" leisure services company, seeking to seamlessly provide for the development, sales, and management of and the ongoing generation of revenue from destination resorts while offering vacation ownership and an extensive range of travel services to an expanding customer and client base.

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

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

During the six months ended June 30, 2006, we received the majority of our operating revenues from ALEC, which accounted for approximately 31% of our total revenues and through the operations of HTS which accounted for approximately 66% of our operating revenues for the six months ended June 30, 2006. Additionally, we had undeveloped land sales of \$13,129,246, during the six months ended June 30, 2006, which were generated by Tierra del Sol in connection with the sale of forty-two acres of land in the Sonesta Resort for \$9,090,130 to the Westridge Community Development District ("District") and an additional \$4,039,116, which was received from the District in connection with reimbursements for site improvements on the land purchased by the District.

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

### SONESTA RESORT FINANCING

On December 29, 2005, certain affiliates of the Company closed two (2) credit facilities with Key Bank, National Association ("KeyBank") related to the Sonesta Resort. The credit facilities consisted of a \$40,000,000 revolving

17

construction loan to be used to construct Phase 1 of the Sonesta Resort (the "Construction Loan") and a \$14,850,000 term loan on the Phase 2 land the proceeds of which were contributed to the Phase 1 partnership as equity and used to repay existing debt on the property and finance part of the site work of the property for the Resort and to pay certain related costs (the "Land Loan"). To facilitate the financing for the Sonesta Resort, the Company has formed two limited partnerships, each of which will develop Phase 1 and Phase 2 of the Resort (the "Development Partnerships"). Each Development Partnership has several subsidiaries, which have been formed to develop different portions of the Sonesta Resort.

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

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

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

On July 27, 2006, we, through one of our wholly owned subsidiary companies, formally notified KeyBank, that we elected not to open the \$40,000,000 revolving credit Construction Loan. We have however, established a relationship with GMAC Bank, through Millenium Capital Mortgage, to provide construction financing to the individual purchasers of the Sonesta Resort town homes, which funding we believe will enable all town homes and amenities at Tierra del Sol to be built through this program. Additionally, we are in the process of negotiating with several lenders for a construction loan on favorable terms for the condominiums and/or for the clubhouse. We anticipate that such loan will be evidenced by a firm commitment during the month of September 2006; however, we can provide no assurances that we will receive such a commitment.

### PCL CONSTRUCTION GUARANTEE AND LOAN.

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

18

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

PCL also provided a \$4,000,000 loan to TDS Development, LLC, a subsidiary of Tierra Del Sol Resort, Inc. (the "PCL Loan"). The proceeds of the PCL Loan were used to establish a \$4,000,000 account with KeyBank, which was pledged as security for the Construction Loan. The loan bears interest at the rate of 14% per annum. The term of the loan is two years. The PCL Loan is guaranteed by the Company, the Company's Chief Executive Officer and Chairman, Malcolm J. Wright, individually, and Tierra Del Sol Resort, Inc. We believe that without the guarantees of Mr. Wright, it would have been more difficult, if not impossible, for us to secure the PCL loan facility.

As part of our election not to open the Construction Loan with KeyBank, we have agreed with KeyBank to release the PCL Loan.

### THE LAND LOAN

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

The Land Loan is a \$14,850,000 term loan with a maturity date of June 28, 2007. The proceeds of the Land Loan were primarily used to repay existing debt of the property for the Sonesta Resort. The Land Loan bears interest at LIBOR plus 3.10% per annum, equal to approximately 8.69% as of August 2, 2006, with the LIBOR equal to 5.59% as of that date.

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

The borrowers paid 1% of the Land Loan Agreement as a commitment fee, which totaled \$148,500. The Borrowers were obligated to pay all costs and expenses of KeyBank in connection with the commitment and closing of the loan. Additionally, the Company will pay an exit fee equal to 4% of the maximum loan amount unless the loan is repaid with a construction loan from KeyBank or KeyBank declines to grant a construction loan to the Company for Phase 2. The Company was obligated to pay all costs and expenses of KeyBank in connection with the commitment and the closing of the loan.

In connection with the election not to open the Construction Loan, we and KeyBank have agreed to modify the Land Loan. The Land Loan will remain in place, and we will provide \$1 million in cash or a letter of credit, as additional collateral for the loan. We have also agreed to a principal payment

schedule related to the Company's planned construction of the 426 town homes in Phase 2 of the Sonesta Resort to reduce the balance of the loan between January 2007 and its maturity date.

The Company and Mr. Wright have issued guarantees to KeyBank on the Land Loan. We believe that without the guarantees of Mr. Wright, it would have been more difficult, if not impossible, for us to secure the KeyBank credit facility. The occurrence of any one or more "events of default" under the Land Loan allow KeyBank to pursue certain remedies including taking possession of the Sonesta

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

Resort project; withholding further disbursement of the proceeds of the loan and/or terminate KeyBank's obligations to make further disbursements thereunder; and/or declaring the note evidencing the loans to be immediately due and payable.

### WESTRIDGE COMMUNITY DEVELOPMENT DISTRICT BONDS

The closing of the new credit facilities with KeyBank triggered the closing of the sale of \$25,825,000 in community development bonds issued by the Westridge Community Development District (the "District"). The proceeds of the bonds will be used, in part, to fund infrastructure at the Sonesta Resort and to acquire land for public purposes from Tierra Del Sol Resort (Phase 1), Ltd., The debt service and retirement of these bonds will be funded by a special district tax upon the property owners in the District at an interest rate of 5.8% over a 30-year amortization period. Grading and infrastructure for the District are more than 75% complete.

### RELEASE OF LIEN BY STANFORD

In connection with the closing of the new credit facilities with KeyBank, Stanford Venture Capital Holdings Inc. ("Stanford") released its existing mortgage lien on the Sonesta Resort property. In consideration of this release, the Development Partnerships granted Stanford warrants to acquire a 2% interest in each Partnership at a nominal exercise price. The Company also granted Stanford the right to exchange any distributions that it might receive on account of these interests into shares of the Company's Series E preferred stock at a strike price of \$15.00 per common share.

### SIBL CREDIT FACILITY

On December 29, 2005, Stanford International Bank, Ltd. ("SIBL") provided Tierra Del Sol with financial assistance to facilitate the closings of the Land Loan and the Construction Loan. The financial assistance consisted of a loan to Tierra Del Sol of \$2,100,000 (the "SIBL Tierra Del Sol Loan"), and the establishment of letters of credit in favor of KeyBank in the amount of \$4,000,000 and \$2,000,000, respectively (the "Letters of Credit"). The financial assistance provided by SIBL was evidenced by a Credit Agreement dated as of December 29, 2005 between SIBL, Tierra Del Sol Resort, Inc. and the Company (the "SIBL Credit Agreement"). As consideration for the purchase of the Antiguan call center including our subsidiary Caribbean Leisure Marketing, Inc. (described below), SIBL forgave the \$2,100,000 loan, as well as the accrued interest on such loan in the amount of \$191,100.

20

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

The SIBL Tierra Del Sol Loan has a 2-year term, with an initial interest rate of 12% per annum. The Letters of Credit are in the amounts of \$4,000,000 and \$2,000,000, with terms of 24 months and 12 months, respectively. Tierra Del Sol is obligated to pay a monthly fee for each letter of credit equal to 1% of the face amount of such letter of credit. Upon release of the letters of credit and upon either the payment of the note in full or the maturity of the loan from KeyBank, Tierra Del Sol was also required to pay a one-time minimum fee equal to 3%. After six months, this fee increased by 1% each month until the letters of credit were released, which KeyBank did effective August 16, 2006. As



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

consideration for the purchase of the Antiguan call center including our subsidiary Caribbean Leisure Marketing, Inc. (described below), SIBL forgave these fees which amounted to \$540,000. Any unpaid amounts on the SIBL Tierra Del Sol Loan or Letters of Credit bear interest at the rate of 12% per year.

The obligations of Tierra Del Sol under the SIBL credit facility (the "Stanford Credit Facility") were guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman, along with other third party entities, which third party entities are beneficially owned, in part, by Roger Maddock, a significant shareholder of the Company, pursuant to an Irrevocable and Unconditional Guaranty. We believe that without the guarantees of Mr. Wright and other third parties, it would have been more difficult, if not impossible, for us to secure the SIBL credit facility. These obligations were also secured by a first mortgage lien on a parcel of real property owned by the third party entities. The consideration paid for the third party entities' guarantees was consistent with the existing debt guarantor agreement issued by the Company for its executives. The third party entities will receive and share in a guarantee fee equal to 3% of the amount guaranteed. The third party entities, by virtue of pledging collateral for a debt that benefits the Company, will also receive a collateral pledge fee equal to 2% of the amount guaranteed. The Company paid this fee through the grant of 405,000 warrants to the third party entities to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration date of the guarantees. In consideration of Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright earned a fee for such guarantee equal to three percent (3%) of the amount guaranteed. The Company will pay this fee through the grant of 243,000 warrants to Mr. Wright to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration date of the guarantee.

Tierra Del Sol has pledged its partnership interests in the Development Partnerships to Stanford as additional collateral for this facility. Following an event of default as defined under the Credit Agreement, Stanford has the right for thirty (30) days following such event of default, directly or through

21

its affiliates, to purchase any unsold units in the Sonesta Resort at a price equal to the developer's cost, but only to the extent permitted by KeyBank.

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

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

In connection with the warrants, the Company and Stanford entered into a Registration Rights Agreement (the "Registration Rights Agreement"). Under the Registration Rights Agreement, the Company agreed to prepare and file a Registration Statement with the SEC covering the shares underlying the warrants within 180 days of notice from SIBL of their demand that we file such

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

Registration Statement and to use the Company's best efforts to obtain effectiveness of such Registration Statement as soon as practicable thereafter. In the event the Company does not file a Registration Statement in connection with the shares issuable in connection with the exercise of the warrants after 180 days notice from the warrant holders, the Company agreed to issue the warrant holders as liquidated damages, warrants to purchase 10% of the shares issuable in connection with the warrants, under the same terms and conditions as the warrants, upon such default and for every consecutive quarter in which such default is occurring.

We estimate that the cost to complete the construction of Phase I of the Sonesta Resort will be \$135,500,000 of which \$8,000,000 will be for resort amenities, \$64,000,000 will be for vertical construction on 294 units and \$ 49,500,000 will be for other costs such as contingencies, closing costs and soft costs such as architectural, engineering, and legal costs. An additional approximate amount of \$14,000,000 will be expended for horizontal construction costs which include all of Phase I requirements plus most of the infrastructure requirements for the entire Project. The \$14,000,000 will be funded by the bonds proceeds held by the Westridge Development District and from equity reserves held by Key Bank. A Land Loan was also funded by Key Bank which was described above in the amount of \$14,850,000, of which \$13,806,000 had been borrowed under as of June 30, 2006. We previously had entered into the \$40,000,000 Construction Loan with KeyBank, which loan we decided not to open in favor of alternate, anticipated financing arrangements which we believe will be beneficial to the timely completion of the Sonesta Resort project. We are in the process of negotiating with several lenders for a construction loan for the condominiums and clubhouse and anticipate, although we cannot provide any assurances, that such loan will be

22

evidenced by a firm commitment by September 2006. Assuming we are able to enter into a subsequent funding arrangement, we believe that we have sufficient funds to provide for the completion of Phase 1, assuming there are no material cost overruns, delays or further increases in material costs. Phase 2 will be financed separately. It is anticipated, although we cannot provide any assurances, that certain Phase 2 construction will commence by October, 2006.

In November 2003, we entered into an exclusive sales and marketing agreement with Xpress Ltd. ("Xpress") to sell the vacation homes in the Sonesta Resort. Malcolm J. Wright, one of our founders and our Chief Executive Officer and Chairman, and members of his family are the majority shareholders of Xpress. As of August 1, 2006, Xpress has pre-sold approximately 690 vacation homes in a combination of contracts on town homes and reservations on condominiums for total sales volume of over \$220 million.

### REEDY CREEK ACQUISITION COMPANY, LLC TRANSACTIONS

#### Background

-----

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

Reedy Creek Acquisition Company acquired the Reedy Creek Property in July 2005 for a purchase price of \$12,400,000. Reedy Creek Acquisition Company paid \$8,000,000 of the purchase price in cash and paid the \$4,400,000 balance

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

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

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

At the time of the acquisition of the Reedy Creek Property, Reedy Creek Acquisition Company was owned 99% by SFG and 1% by one of the Company's wholly owned subsidiary, American Leisure Reedy Creek Inc. ("ALRC"), however ALRC, has since exercised its option (the "Reedy Creek Option") to receive 100% of the interest in the Reedy Creek Acquisition Company in return for \$600,000 paid to SFG.

23

### SIBL Reedy Creek Loan Terms

-----

In connection with the exercise of the Reedy Creek Option, Reedy Creek Acquisition Company and SIBL agreed to modify the terms of the SIBL Reedy Creek Loan made by SIBL to Reedy Creek Acquisition Company. The modified loan terms are evidenced by a Renewed, Amended and Increased Promissory Note (the "Amended Note") made by Reedy Creek Acquisition Company in favor of SIBL. The Amended Note has a maturity date of December 31, 2006, a principal balance of \$8,000,000 and bears interest at the rate of 8% per year payable quarterly. Interest in the amount of \$220,652 on the Amended Note has been forgiven as consideration for the purchase of the Antiguan call center including our subsidiary Caribbean Leisure Marketing, Inc. (described below), the balance of \$110,526 is due and payable on September 30, 2006. Upon an event of default as described in the Amended Note, SIBL has several rights and remedies, including causing the Amended Note to be immediately due and payable.

The Amended Note is secured by a second lien on the Reedy Creek Property. It is guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman pursuant to a Modification and Reaffirmation of Guaranty and Environmental Indemnity Agreement. We believe that without the guarantees of Mr. Wright, it would have been more difficult, if not impossible, for us to secure the SIBL credit facility.

### Bankers Credit Corporation Loan

-----

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

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

The Bankers Credit loan is evidenced by a Promissory Note (the "Bankers Credit Note") and bears interest at the greater of the Wall Street Journal published prime rate plus 7.75%, not to exceed the highest rate allowable under Florida law or 15% per year. The interest rate of the Bankers Credit Note as of August 2, 2006 was 15% (with a prime rate, as reported by the Wall Street Journal of 8.25%). Interest on the Bankers Credit Note is payable monthly. The maturity

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

date of the Bankers Credit Note is January 3, 2007, when all principal and unpaid interest is due and payable. Pursuant to the Bankers Credit Note, Reedy Creek Acquisition Company agreed to pay a 10% late charge on any amount of unpaid principal or interest under the Bankers Credit Note. The Bankers Credit Note is subject to a 1% exit fee. Upon an event of default as described in the Bankers Credit Note, Bankers Credit has several rights and remedies, including causing the Bankers Credit Note to be immediately due and payable.

24

The Bankers Credit Note is secured by a first lien on the Reedy Creek Property. Additionally, the Bankers Credit Note is guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman pursuant to a Guaranty Agreement. We believe that without the guarantees of Mr. Wright, it would have been more difficult, if not impossible, for us to secure the Bankers Credit, loan facility.

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

### Development Plans for Reedy Creek Property

-----

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

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

It is anticipated that Walt Disney World's Reedy Creek Improvement District (the "District"), a quasi-government body whose constituents are all affiliated with Walt Disney World Company, will agree to construct and pave the widening and extension of Reedy Creek Boulevard north and westward at its expense. We are currently working with the District towards this end. The District will have a public hearing during which it is anticipated that the District will be given the authority to acquire the land from Reedy Creek Acquisition Company and make the improvements to Reedy Creek Boulevard. If the District acquires the requisite authority from its constituents, Reedy Creek Acquisition Company has agreed to convey relatively small portions of the three combined properties to constitute this roadway. Reedy Creek Acquisition Company will benefit from the conveyance by saving the cost of the road it would have to build anyway and it will enhance the required road frontage for the project.

25

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

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

### Note Modification Agreement

-----

In February 2006, we entered into a Note Modification Agreement with SIBL, whereby we agreed to modify certain provisions of our outstanding promissory notes with SIBL to grant extensions of payments due. Pursuant to the Note Modification Agreement, we and SIBL agreed that all interest due on our \$6,000,000 note, from January 1, 2005, through September 30, 2006, shall be due and payable on September 30, 2006, with all interest thereafter payable with the original terms of that note however, as consideration for the purchase of the Antigua call center including our subsidiary Caribbean Leisure Marketing, Inc. (described below), SIBL forgave \$546,000 of accrued interest; that all interest accrued on the \$3,000,000 note we have with SIBL, from the date of the note until September 30, 2006, shall be due and payable on September 30, 2006, with all interest thereafter payable with the original terms of that note; however, as consideration for the purchase of the Antigua call center including our subsidiary Caribbean Leisure Marketing, Inc. (described below), SIBL forgave the \$654,080 of accrued interest as of June 30, 2006, that the maturity date of our \$1,250,000 note with SIBL be extended until September 30, 2006, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; however, as consideration for the purchase of the Antigua call center including our subsidiary Caribbean Leisure Marketing, Inc. (described below), SIBL forgave this note and \$161,342 of accrued interest; that the maturity date of our \$1,355,000 note with SIBL be extended until June 30, 2007, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; that the maturity date of our \$305,000 note with SIBL be extended until June 30, 2007, and that no payments of principal or interest on that note shall be payable until the extended due date of that note, however, as consideration for the purchase of the Antigua call center including our subsidiary Caribbean Leisure Marketing, Inc. (described below), SIBL forgave \$17,098 of accrued interest; and that interest on our \$2,100,000 note with SIBL with a maturity date of December 27, 2007, shall be payable in arrears, on a quarterly basis, however, as consideration for the purchase of the Antigua call center including our subsidiary Caribbean Leisure Marketing, Inc. (described below), SIBL forgave this note and \$191,100 of accrued interest.

26

### PURCHASE OF MINORITY INTEREST IN TIERRA DEL SOL

-----

In March 2006, and effective as of December 31, 2005, we purchased the minority interest of our now wholly owned subsidiary, Tierra Del Sol, Inc. (the "Minority Interest") from Harborage Leasing Corporation ("Harborage"). The purchase price of the Minority Interest from Harborage was a promissory note for \$1,411,705 ("Harborage Note"); the right to receive, without payment, two (2) three-bedroom condominium units to be constructed in Phase 2 of the Sonesta Resort, or in the event title to both such units is not delivered by December 31, 2007, then, in lieu thereof, payment of \$500,000 for each such unit that is not transferred by such date; 197,000 shares of the Company's common stock; and warrants to acquire

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

300,000 additional shares of the Company's common stock at an exercise price of \$5.00 per share. The warrants expire if unexercised five (5) years from their date of grant. Pursuant to the Stock Purchase Agreement, Harborage has the right to require the Company to purchase all or a portion of the Harborage 197,000 shares at \$5.00 per share, for sixty (60) days, beginning January 1, 2007 (the "Put Option"). The Put Option will no longer be in effect provided that both of the following events occur: (i) Harborage is able to sell the Harborage Shares pursuant to an effective Registration Statement under the Securities Act of 1933 (the "Act"), or pursuant to Rule 144 of the Act; and after the fulfillment of (i) above, the average closing price of the Company on the Over-The-Counter Bulletin Board or principal exchange on which the Company's common stock then trades, exceeds \$5.00 per share for a period of thirty (30) consecutive days. The Harborage Note and shares are guaranteed by Malcolm J. Wright, the Company's Chief Executive Officer and Director of the Company.

### RECENT EVENTS

-----

In August 2006, with an effective date of June 30, 2006, we and several of our subsidiaries, including Castlechart Limited ("CLM"), our former wholly owned subsidiary, which owns 81% of the issued and outstanding stock of Caribbean Leisure Marketing Limited ("Caribbean Leisure Marketing"), which in turn owned 49% of the issued and outstanding stock of Caribbean Media Group, Ltd. ("Caribbean Media Group"), which owned and operated our call center in Antigua, entered into a Stock Purchase Agreement with Stanford International Bank Limited ("SIBL" and the "Stock Purchase Agreement").

The Stock Purchase Agreement provided that we would sell SIBL, all of our interest in CLM, along with a promissory note payable to us by CLM in the amount of \$5,663,274, which amount evidences our total investment in CLM, for an aggregate purchase price of \$5,663,275. In connection with the purchase, SIBL also agreed to forgive the interest on several of our outstanding promissory notes with SIBL, and to amend the due date of such notes, described in greater detail below, and we agreed to grant SIBL a warrant to purchase 355,000 shares of our common stock at an exercise price of \$10.00 per share, which warrants have an expiration date of April 30, 2008, and contain certain anti-dilution clauses, whereby if we grant any options or sell any shares of common stock for less than \$1.02 per share, the exercise price of the 355,000 warrants will reset to such lower price.

27

In connection with the Stock Purchase Agreement, SIBL forgave and permanently discharged the following debts which we owed to SIBL: a \$1,250,000 promissory note and accrued interest thereon through June 30, 2006; a \$2,100,000 promissory note and accrued interest thereon through June 30, 2006; all accrued and unpaid interest on our \$6,000,000 note with SIBL as of June 30, 2006; all accrued and unpaid interest on our \$3,000,000 promissory note payable to SIBL as of June 30, 2006; \$220,652 of the \$331,178 of accrued interest on our \$8,000,000 promissory note payable to SIBL, and all accrued fees on our \$6,000,000 letter of credit, which SIBL agreed to guaranty in connection with the KeyBank loans.

Additionally, in connection with the Stock Purchase Agreement, SIBL also agreed to restate the due dates of the notes which we owe to SIBL, including, the \$6,000,000 note, which now has a maturity date of December 18, 2008; the \$3,000,000 note, which now has a maturity date of \$3,000,000; the \$1,355,000 note, which now has a maturity date of June 30, 2007; the \$8,000,000 note, which now has a maturity date of December 31, 2006; and the \$305,000 note, which has a maturity date of June 30, 2007.

Finally, pursuant to the Stock Purchase Agreement, we and SIBL agreed that CLM

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

would be released and discharged from any liability under the \$6,000,000 note or the \$305,000 note with SIBL, which it previously agreed to guaranteed.

On and effective as of August 1, 2006, our Management Agreement and the License Agreement with Around the World Travel ("AWT"), which we entered into with AWT on December 30, 2004, was terminated. American Leisure Equities Corporation, which is a wholly owned subsidiary, is now operating and managing the TraveLeaders assets.

In August 2006, Tierra del Sol Resorts, Inc. entered into a guaranteed minimum price construction contract with Resorts Construction, LLP ("Resorts Construction") to construct and develop part of the Sonesta Resort and its town home properties. Resorts Construction is 50% owned by Malcolm J. Wright, the Company's Chief Executive Officer and Chairman. We believe that the contract with Resorts Construction provides significant savings over the PCL contract described in detail above, and is advantageous to the Company in comparison with terms available in the market from other third party contractors. Pursuant to the contract with Resorts Construction, we agreed to pay Resorts Construction a contractor's fee equal to 5% of the total cost of the construction performed by Resorts Construction and 7.5% for general conditions. Any payments owed under the Resorts Construction contract which are not paid when due bear interest at the rate of 12% per annum. We provided Resorts Construction a payment of \$4,000,000 upon our entry into the construction agreement with Resorts Construction, which funds Resorts Construction will use to begin construction of Phase 1 of the Sonesta Resort.

28

### PLAN OF OPERATIONS

We are currently in the process of integrating the administrative operations of Hickory and TraveLeaders. The integration process has been slower than we anticipated because it has taken us longer than expected to identify those operations that could be consolidated and determine the allocation and re-assignment of the personnel best suited for the consolidated enterprise; however, we expect such integration process to be completed in fiscal 2006. In addition, time has been required to analyze and determine the impact, if any, of certain litigation commenced by Around The World Travel regarding its contracts with Seamless Technologies, Inc. and others, as discussed in "Legal Proceedings," herein.

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 was retained by Around The World Travel as a management fee, although that management agreement has been terminated.

During the six months ended June 30, 2006, we generated modest revenues from our call center joint venture in Antigua. Effective June 30, 2006, we sold our call center operations to Stanford, as described in greater detail above under "Recent Events."

We believe that the capital requirement for the first phase of the resort will be approximately \$135,500,000, of which \$8,000,000 will be for the resort amenities, \$64,000,000 will be for vertical construction on 294 units and \$49,500,000 will be for other costs such as contingencies, closing costs and soft costs such as architectural, engineering, and legal costs. An additional approximate amount of \$14,000,000 will be expended for horizontal construction costs which include all of Phase I requirements plus most of the infrastructure requirements for the entire Project. On or about December 29, 2005 we closed on

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

\$54.85 million of senior debt to be used in the development of The Sonesta Orlando Resort at Tierra Del Sol (the "Project"), described in greater detail above. KeyBank, N.A. is the lender of a credit facility for the benefit of AMLH. The credit facility is a land loan in the amount of \$14,850,000, which is secured by Project land on phase two of the Sonesta Resort, that is dedicated to specific phases of the development. KeyBank had also originally agreed to provide us a \$40,000,000 revolving construction loan, for up to \$72,550,000 in funding, however we have since decided not to move forward with such funding. KeyBank Capital Markets had the underwriting role in the sale of the Community Development District Bonds. We are in the process of negotiating with several lenders for a construction loan for the condominiums and anticipate that such loan will be evidenced by a firm commitment during the month of September 2006, of which there can be no assurance. Financing for the balance of the development budget, which includes infrastructure, retention, roads and green space of approximately \$26,000,000, was through the sale of Westridge Community Development District bonds which was completed on December 29, 2005 as described above. In June 2005, we began the earth moving and clearing process on the land for the resort and we expect to begin the vertical construction in the third or fourth quarters of 2006. We have established a relationship with GMAC Bank, through Millennium Capital Mortgage, to provide construction financing to the

29

individual purchasers of the Sonesta Resort town homes, which funding we believe will enable all town homes and amenities at Tierra del Sol to be built through this program. Additionally, we are in the process of negotiating with several lenders for a construction loan on favorable terms for the condominiums and/or for the clubhouse. We anticipate that such loan will be evidenced by a firm commitment during the month of September 2006, but we have no assurances that a commitment will be secured. Assuming we are able to enter into a subsequent funding arrangement, we believe that we have sufficient funds to provide for the completion of Phase 1, assuming there are no material cost overruns, delays or further increases in material costs. Phase 2 will be financed separately.

### KNOWN TRENDS, EVENTS, AND UNCERTAINTIES

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

### CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities. We base our estimates on various assumptions that we believe to be reasonable under



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

the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. On an on-going basis, we evaluate our estimates. Actual results may differ from these estimates if our assumptions do not materialize or conditions affecting those assumptions change. For a detailed discussion of our significant accounting policies, see Note 2, Summary of Significant Accounting Policies to the Notes to our audited consolidated financial statements included in "Item 7. Financial Statements."

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

30

### GOING CONCERN CONSIDERATIONS

-----

We have incurred losses during the development stage during our existence, and we have negative retained earnings. We had an accumulated deficit of \$13,499,420 at December 31, 2005 and \$11,510,650 as of June 30, 2006. We expect our travel operations through the end of the current fiscal year to require additional working capital of approximately \$2,000,000 and Hickory to require approximately \$500,000 in working capital during the next twelve months. If we are unable to obtain these funds, we may have to curtail or delay our travel business plan. In addition to our ability to raise additional capital, our continuation as a going concern also depends upon our ability to generate sufficient cash flow to conduct our operations. If we are unable to raise additional capital or generate sufficient cash flow to conduct our Travel Division operations and/or to complete the construction of our planned vacation homes, we may be required to delay the acquisition of additional travel agencies and restructure or refinance all or a portion of our outstanding debt. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### REVENUE RECOGNITION

-----

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

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

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

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

We have entered into approximately 690 pre-construction sales contracts for units in the Sonesta Orlando Resort at Tierra Del Sol. We will recognize revenue when title is transferred to the buyer.

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

31

### GOODWILL

-----

We adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." This statement requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation under the provisions of SFAS No. 144. In 2004, we recorded an impairment of \$1,500,000 related to the acquisition of the TraveLeaders assets in December 2004, based on our payment of more than fair value. The remaining goodwill of \$14,425,437 as of December 31, 2004 was composed of \$12,585,435 from the TraveLeaders acquisition and \$1,840,002 from the Hickory acquisition. In 2005 we renegotiated and ultimately reached a settlement on the acquisition which resulted in an acquisition of goodwill of \$5,585,435 of which \$1,500,000 was previously impaired resulting in a goodwill balance of \$4,085,435. Our remaining goodwill of \$1,840,002 is related to the Hickory acquisition and has not been further impaired as of either June 30, 2006 or December 31, 2005. Therefore, total goodwill amounts to \$5,925,437. The goodwill will be evaluated on an annual basis and impaired whenever events or circumstances indicate the carrying value of the goodwill may not be recoverable.

### COMPARISON OF OPERATING RESULTS

THREE MONTHS ENDED JUNE 30, 2006 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2005

We had total revenue for the three months ended June 30, 2006 of \$1,844,194, which was solely composed of operating revenues. This represented an increase in total revenues of \$20,948 or 1.15%, from total revenues of \$1,823,246 of total revenues for the three months ended June 30, 2005. The reasons for the increase in total revenue for the three months ended June 30, 2006; compared to the three months ended June 30, 2005 were due to increased revenues from our travel center operations and call center operations, which call center operations we subsequently sold to Stanford, as described above.

We had a gross margin of \$1,844,194 for the three months ended June 30, 2006, compared to a gross margin of \$1,823,246 for the three months ended June 30, 2005, an increase of \$20,948 or 1.15% from the prior period, which increase in gross margin was directly attributable to the 1.15% increase in revenues for the three months ended June 30, 2006, compared to the three months ended June 30, 2005.

We had total operating expenses of \$2,772,294 for the three months ended June 30, 2006, compared to total operating expenses of \$2,654,587 for the three months ended June 30, 2005, an increase in total operating expenses of \$117,707 or 4.4% from the prior period. The increase in total operating expenses from the

32

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

prior period was mainly due to the \$81,549 or 3.5% increase in general and administrative expenses caused by the accompanying increase in operations during the three months ended June 30, 2006.

We had loss from operations of \$928,100 for the three months ended June 30, 2006, compared to loss from operations of \$831,341 for the three months ended June 30, 2005, an increase in loss from operations of \$96,759 or 11.6% from the prior period. The increase in loss from operations was mainly attributable to increased general and administrative expenses.

We had total interest expense of \$1,289,500 for the three months ended June 30, 2006, compared to total interest expense of \$343,526 for the three months ended June 30, 2005, an increase in interest expense of \$945,974 from the prior period. The increase in interest expense was mainly due to interest on loans from Stanford that were not in place in during the three months ended June 30, 2005 and the amortization of deferred financing costs.

We had equity in operations of unconsolidated affiliate of \$75,760 for the three months ended June 30, 2006, compared to equity in operations of unconsolidated affiliate of (\$160,849) for the three months ended June 30, 2005. Equity in operations of unconsolidated affiliate for the three months ended June 30, 2006 was due to the call center operations of Caribbean Media Group, Ltd. ("Caribbean Leisure Marketing"), our former wholly owned subsidiary, which owns 49% of Caribbean Media Group, Ltd. Subsequent to June 30, 2006, we sold Caribbean Leisure Marketing to Stanford, as described in greater detail above under "Recent Events. The increase for the three months ended June 30, 2006 compared to the three months ended June 30, 2005 was due to the call center operations being profitable during the three months ended June 30, 2006 and were operating at a loss during the three months ended June 30, 2005.

We had a gain on sale of affiliate of \$2,988,082 for the three months ended June 30, 2006, compared to gain on sale of affiliate of \$0 for the three months ended June 30, 2005. Effective June 30, 2006, pursuant to a Stock Purchase Agreement between the Company and Stanford International Bank Limited, we sold our call center operations (Caribbean Leisure Marketing, Ltd.) In connection with the sale, promissory notes in the amounts of \$1,250,000 and \$2,100,000 were forgiven by Stanford, along with \$2,313,175 of fees and accrued interest for total consideration of \$5,663,175. This sale resulted in a gain of \$2,988,082.

We had total other income of \$1,774,342 for the three months ended June 30, 2006, compared to total other loss of \$504,375 for the three months ended June 30, 2005. Total other income included the \$2,988,082 gain on sale of affiliate and the \$75,760 of equity in operations of unconsolidated affiliate offset by the \$1,289,500 in interest expense for the three months ended June 30, 2006. The total other expense for the three months ended June 30, 2005 were attributed to interest expense of \$343,526 and equity in operations of unconsolidated affiliate of (\$160,849).

33

We had income before income taxes of \$846,242 for the three months ended June 30, 2006, compared to loss before income taxes of \$1,355,716 for the three months ended June 30, 2005, an increase in income before income taxes of \$2,181,658 or 163.4% from the prior quarter.

We had net income of \$846,242 for the three months ended June 30, 2006, compared to net loss of \$1,335,716 for the three months ended June 30, 2005, an increase in net income of \$2,181,658 or 163.4% from the prior period. The increase in net income was due to the gain on the sale of Caribbean Leisure Marketing.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2005

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

We had total revenue for the six months ended June 30, 2006 of \$16,635,735, which was composed of operating revenues of \$3,506,489 and undeveloped land sales of \$13,129,246. This represented an increase in total revenues of \$8,751,827, or 111.0% from total revenues of \$7,883,908 of total revenues for the six months ended June 30, 2005. The reasons for the increase in total revenue for the six months ended June 30, 2006; compared to the six months ended June 30, 2005 were the \$8,776,574 or 201.6% increase in undeveloped land sales relating to the sale of forty-two acres of land to the District during the three months ended March 31, 2006, offset by the \$24,747 or 0.7% decrease in operating revenues relating to decreased revenues during the six months ended June 30, 2006, relating to our affinity clubs and the operations of our wholly owned subsidiary, Comtech Fibernet, Inc. which were partially offset by an increase in revenues in our real estate segment and our call center.

Total cost of undeveloped land sales for the six months ended June 30, 2006, was \$9,796,634, compared to cost of undeveloped land sales of \$3,384,988 for the six months ended June 30, 2005, an increase of \$6,411,646 or 189.4% from the prior period. The increase in cost of undeveloped land sales was directly related to the increased land sales for the six months ended June 30, 2006, compared to the six months ended June 30, 2005.

We had a gross margin of \$6,839,101 for the six months ended June 30, 2006, compared to a gross margin of \$4,498,920 for the six months ended June 30, 2005, an increase of \$2,340,181 or 52.0% from the prior period, which increase in gross margin was mainly due to the 111.0% increase in total revenue offset by the 189.4% increase in cost of undeveloped land sales for the six months ended June 30, 2006, compared to the six months ended June 30, 2005.

We had total operating expenses of \$5,447,611 for the six months ended June 30, 2006, compared to total operating expenses of \$5,491,125 for the six months ended June 30, 2005, a decrease in total operating expenses of \$43,514 or 0.8% from the prior period. The decrease in total operating expenses from the prior period was mainly due to the \$63,661 or 1.4% decrease in general and administrative expenses caused by personnel reductions and cost containment efforts in our travel sector plus a large decrease in expenditures in our communications sector.

34

We had total income from operations of \$1,391,490 for the six months ended June 30, 2006, compared to total loss from operations of \$992,205 for the six months ended June 30, 2005, an increase in income from operations of \$2,383,695 or 240.2% from the prior period. The increase in total income from operations was mainly due to the sale of forty-two acres of undeveloped land to the District, as described above.

We had total interest expense of \$2,529,648 for the six months ended June 30, 2006, compared to total interest expense of \$736,845 for the six months ended June 30, 2005, an increase in interest expense of \$1,792,803 or 243.3% from the prior period. The increase in interest expense was mainly due to interest on loans from Stanford that were not in place during the six months ended 2005 and the amortization of deferred financing costs.

We had equity in operations of unconsolidated affiliate of \$140,244 for the six months ended June 30, 2006, compared to equity in operations of unconsolidated affiliate of (\$214,759) for the six months ended June 30, 2005. Equity in operations of unconsolidated affiliate for the six months ended June 30, 2006 was due to the call center operations of Caribbean Media Group, Ltd. Caribbean Leisure Marketing, Ltd., our wholly owned subsidiary, owns 49% of Caribbean Media Group, Ltd. Subsequent to June 30, 2006, we sold Caribbean Leisure

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

Marketing to Stanford, as described in greater detail above under "Recent Events."

We had a gain on sale of affiliate of \$2,988,082 for the six months ended June 30, 2006, compared to gain on sale of affiliate of \$0 for the six months ended June 30, 2005. Effective June 30, 2006, pursuant to a Stock Purchase Agreement between the Company and Stanford International Bank Limited, we sold our call center operations (Caribbean Leisure Marketing, Ltd.) In connection with the sale, promissory notes in the amounts of \$1,250,000 and \$2,100,000 were forgiven by Stanford, along with \$2,313,175 of fees and accrued interest for total consideration of \$5,663,175. This sale resulted in a gain of \$2,988,082.

We had total other income of \$598,678 for the six months ended June 30, 2006, compared to total other expense of \$951,640 for the six months ended June 30, 2005, which represented an increase in total other income of \$1,550,318 or 162.9% from the prior period, which increase was due to the \$140,244 of equity in operations of unconsolidated affiliate and \$2,988,082 of gain on sale of affiliate for the six months ended June 30, 2006.

We had income before income taxes of \$1,990,168 for the six months ended June 30, 2006, compared to loss before income taxes of \$1,943,845 for the six months ended June 30, 2005, an increase in income before income taxes of \$3,934,013 or 202.4% from the prior six month period.

We had provision for income taxes of \$1,399 for the six months ended June 30, 2006, compared to provision for income taxes of \$-0- for the six months ended June 30, 2005.

35

We had net income of \$1,988,769 for the six months ended June 30, 2006, compared to net loss of \$1,943,845 for the six months ended June 30, 2005, an increase in net income of \$3,932,614 or 202.3% from the prior period. The increase in net income was mainly due to the sale of forty-two acres of undeveloped land.

### LIQUIDITY AND CAPITAL RESOURCES

We had total current assets of \$31,038,433 as of June 30, 2006, which included cash of \$3,641,725, restricted cash of \$19,254,793, accounts receivable of \$822,827, other receivable of \$7,199,711 and prepaid expenses and other of \$119,387. This represented an increase in total current assets of \$8,908,118 from December 31, 2005, when total current assets were \$22,130,325. The main reason for the increase in total current assets as of June 30, 2006, compared to December 31, 2005, was a \$6,079,439 increase in restricted cash in connection with additional deposits on units in the Sonesta Resort and funds raised from the sale of the District bond, as described above. Restricted cash consisted of escrowed deposit funds from customers as well as funds devoted exclusively to the development of the Sonesta Resort.

We had net property and equipment as of June 30, 2006 of \$1,595,774, which was a decrease of \$2,988,079 from net property and equipment of \$4,583,853 as of December 31, 2005. The decrease in net property and equipment at June 30, 2006 compared to as of December 31, 2005 was mainly caused by the depreciation of our call center equipment, which we sold to Stanford subsequent to June 30, 2006, as described above.

We had \$50,480,540 of land held for development as of June 30, 2006, which was an increase of \$15,785,259 or 45.5% from land held for development of \$34,695,281 as of December 31, 2005. The increase in land held for development was due to capitalization of costs such as interest, professional fees, operating expenses on Tierra Del Sol, Inc. until the units at the Sonesta Resort

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

property are completed and the acquisition of Reedy Creek Acquisition Company for \$13,386,265 which increased our ownership in such entity and the undeveloped Reedy Creek Property from 1% to 100%. The \$50,480,540 of land held for development as of June 30, 2006, represented the total costs capitalized since 2002 including the cost of the land.

We had total other assets of \$27,320,307 as of June 30, 2006, which included prepaid sales commissions of \$8,776,125; prepaid sales commissions from an affiliated entity, Xpress, Ltd., of \$3,354,823; investment senior notes \$5,170,000; goodwill of \$5,925,437; trademark of \$962,500 and other assets of \$3,131,422, which included deferred financing costs, member contracts and customer lists. Trademark of \$962,500 as of June 30, 2006, represented the Company's trademark on "Traveleaders." Prepaid sales commissions are paid to a sales agent at the point of sale and the agent then executes a note indicating that if the customer does not ultimately close on the sale of the property, the agent will return the advance. One half of the total sales commissions are paid at the point of sale, with the remaining balance being paid to the agent at closing.

36

We had total assets of \$110,435,064 as of June 30, 2006, which included total current assets of \$31,038,443; net property and equipment of \$1,595,774; land held for development of \$50,480,540 and total other assets of \$27,320,307, compared to total assets of \$89,923,247 as of December 31, 2005. The increase in total assets was mainly due to the increases in total current assets and land held for development as described above.

We had total current liabilities of \$27,394,757 as of June 30, 2006, which included current maturities of long-term debt and notes payable of \$16,870,617; current maturities of notes payable-related parties of \$4,455,159; accounts payable and accrued expenses of \$3,058,521; accrued expenses-officers of \$2,370,500 and other liabilities of \$639,960. In June 2006, Malcolm J. Wright, our Chief Executive Officer and Chairman was paid \$1,540,500 in accrued salaries and interest which he was owed. Accrued expenses-officers as of June 30, 2006, included \$1,825,000 in salaries and interest due to MrWright. Mr. Wright's accrued and unpaid salaries accrue interest at the rate of 12% per year until paid., Additionally included in accrued expenses-officers was \$279,250 owed to L. William Chiles, the Chief Executive Officer of Hickory and our Director, which included \$250,000 of unpaid salary accrued to Mr. Chiles and \$29,250 of accrued interest on such unpaid salary. Total current liabilities as of June 30, 2006 increased \$16,874,083 or 160% from total current liabilities of \$10,520,674 as of December 31, 2005. The increase in current liabilities was mainly attributable to an increase of \$15,079,809 or 842.1% in current maturities of long term debt and notes payable which increase was mainly due to the Reedy Creek Acquisition Company loans with SIBL and Banker's Credit, which we received during the three months ended June 30, 2006 and the \$3,187,058 or 251% increase in current maturities of notes payable for advances from related parties and an increase of \$354,517 or 124% in other expenses, which was offset by a \$1,023,000 or 30.1% decrease in accrued expenses due to officers and a \$724,301 or 19.1% decrease in accounts payable and accrued expenses.

As of June 30, 2006, we owed \$4,827,962 in connection with notes payable to related parties including \$207,703 owed to our Director, William Chiles; \$574,000 owed to Charles Sieberling, the Secretary of Hickory, and \$2,166,250 owed to our Chief Executive Officer and Chairman, Malcolm J. Wright.

We had total liabilities of \$101,750,847 as of June 30, 2006, which included total current liabilities of \$27,394,757; long-term debt and notes payable of \$34,478,693; a put liability related to the purchase of the minority interest in Tierra Del Sol, Inc. of \$985,000, and deposits on pre-unit sales of \$38,892,397.

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

This represents an increase in total liabilities of \$18,045,954 or 21.6% from total liabilities of \$83,704,893 as of December 31, 2005, which increase was mainly due to the \$15,079,809 or 842.1% increase in current maturities of long-term debt and notes payable and the \$3,187,058 or 251% increase in current maturities of notes payable to related parties, described in greater detail above.

We had total working capital of \$3,643,686 and a ratio of current assets to current liabilities of 1.13 as of June 30, 2006.

37

We had net cash flows used in operating activities of \$3,808,722 for the six months ended June 30, 2006, which was mainly attributable to \$1,988,769 of net income, \$1,477,348 of non-cash interest expense, \$1,226,029 of increase in deposits on unit pre-sales, \$920,392 of decrease in accounts payable and accrued expenses and \$1,220,314 of decrease in receivables offset by a gain on sale of subsidiary of \$2,988,082 and an increase in prepaid commissions of \$843,790.

We had total cash flows used in investing activities of \$6,955,069 for the six months ended June 30, 2006, which included \$13,914,505 in capitalization of real estate carrying costs, \$6,079,439 of increase in restricted cash, and \$90,371 of disposal of fixed assets offset by \$13,129,246 of proceeds from property sold, which was generated by Tierra del Sol in connection with the sale of forty-two acres of land in the Sonesta Resort for \$9,090,130 to the Westridge Community Development District ("District") and an additional \$4,039,116, which was received from the District in connection with reimbursements for site improvements on the land purchased by the District. The capitalized real estate carrying costs are costs related to the construction and development of the Sonesta Resort properties, which are capitalized until the units are closed (ownership is transferred to the buyer), and include the sale proceeds from the sale of the land to the District as described above. Once the units close, the accumulation of costs related to that particular unit is recognized as cost of goods sold. The increase in restricted cash was in connection with additional deposits on units in the Sonesta Resort and funds raised from the sale of the District bond, as described above. Restricted cash consisted of escrowed deposit funds from customers as well as funds devoted exclusively to the development of the Sonesta Resort.

We had net cash provided by financing activities of \$6,563,017 for the six months ended June 30, 2006, which was due to \$7,294,080 of proceeds from notes payable and \$308 from proceeds from the exercise of warrants offset by \$731,371 of payment of debt.

During the six months ended June 30, 2006, we borrowed an additional \$228,900 under the Land Loan with KeyBank, bringing the total outstanding balance of such loan to \$13,806,000.

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

We estimate that the cost to complete the construction of Phase I of the Sonesta Resort will be approximately \$135,500,000 of which \$8,000,000 will be for resort amenities, \$64,000,000 will be for vertical construction on 294 units and \$49,500,000 will be for other costs such as contingencies, closing costs and soft costs such as architectural, engineering, and legal costs. An additional approximate amount of \$14,000,000 will be expended for horizontal construction costs which include all of Phase I requirements plus most of the infrastructure requirements for the entire Project. As of June 30, 2006, approximately \$13,806,000 had been advanced to the Company pursuant to the Land Loan (as

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

described and defined above).

38

On December 30, 2005, we closed on an aggregate of \$54,850,000 in senior debt to be used in the development of The Sonesta Orlando Resort at Tierra Del Sol. KeyBank, N.A. is the lender of the senior debt, which was provided to us in the form of two credit facilities. The first is a land loan in the amount of \$14,850,000, which is secured by Project land that is dedicated to specific phases of the development. The second was a \$40,000,000 revolving construction loan that we originally planned to use to fund the development and construction for Phase 1 of the Sonesta Resort, but which we subsequently decided not to use. We are in the process of negotiating with several lenders for a construction loan for the condominiums and anticipate that such loan will be evidenced by a firm commitment during the month of August 2006, of which there can be no assurance. We also have funding in the amount of \$25,825,000 from the Westridge Community Development District ("CDD" or the "District"), which bonds will be used to pay for infrastructure facilities for public purposes such as water supply and retention systems, roadways, green space and nature recreation areas. In addition to the KeyBank provided senior debt, the Project is also benefiting from \$25,825,000 in bonds issued by the CDD, a special purpose taxing district formed for the purpose of financing the installation of vital public services such as water supply and retention, sanitary and storm water sewer systems, roadways and the landscaping attendant to those uses. The CDD supports these initiatives, through the provision of capital and maintenance, via a tax upon the property owners of the district that utilizes a low finance rate (5.8% per annum) and a long-term amortization of the capital costs (30 years).

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

We hope to obtain alternate financing for the amounts which were originally to be loaned to us by KeyBank pursuant to the Construction Loan, which alternate financing we hope to obtain in September 2006, of which there can be no assurance. Assuming we raise such additional funding, we believe that such funding and the bond sale proceeds will provide sufficient capital for the construction of Phase 1 of The Sonesta Orlando Resort at Tierra Del Sol. In June 2005, we began the earth moving and clearing process on the land for the Sonesta Resort and we expect to begin the vertical construction of Phase 1 in the third or fourth quarters of 2006. We will need to raise additional capital to begin and complete Phase 2 of the Sonesta Resort, assuming the construction of Phase 1 is successful, of which there can be no assurance. Additionally, we will need to raise significant capital to plan and construct our planned development activities on our Reedy Creek Property.

39

In August 2006, with an effective date of June 30, 2006, we and several of our subsidiaries, including CLM, our former wholly owned subsidiary, which owns 81% of the issued and outstanding stock of Caribbean Leisure Marketing, which in turn owns 49% of the issued and outstanding stock of Caribbean Media Group,



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

which owned and operated our call center in Antigua, entered into a Stock Purchase Agreement with Stanford International Bank Limited.

The Stock Purchase Agreement provided that we would sell SIBL, all of our interest in CLM, along with a promissory note payable to us by CLM in the amount of \$5,663,274, which amount evidences our total investment in CLM, for an aggregate purchase price of \$5,663,275. In connection with the purchase, SIBL also agreed to forgive the interest on several of our outstanding promissory notes with SIBL, and to amend the due date of such notes, described in greater detail below, and we agreed to grant SIBL a warrant to purchase 355,000 shares of our common stock at an exercise price of \$10.00 per share, which warrants have an expiration date of April 30, 2008, and contain certain anti-dilution clauses, whereby if we grant any options or sell any shares of common stock for less than \$1.02 per share, the exercise price of the 355,000 warrants will reset to such lower price.

In connection with the Stock Purchase Agreement, SIBL forgave and permanently discharged the following debts which we owed to SIBL: a \$1,250,000 promissory note and accrued interest thereon through June 30, 2006; a \$2,100,000 promissory note and accrued interest thereon through June 30, 2006; all accrued and unpaid interest on our \$6,000,000 note with SIBL as of June 30, 2006; all accrued and unpaid interest on our \$3,000,000 promissory note payable to SIBL as of June 30, 2006; \$220,652 of the \$331,178 of accrued interest on our \$8,000,000 promissory note payable to SIBL, and all accrued fees on our \$6,000,000 letter of credit, which SIBL agreed to guaranty in connection with the KeyBank loans.

Additionally, in connection with the Stock Purchase Agreement, SIBL also agreed to restate the due dates of the notes which we owe to SIBL, including, the \$6,000,000 note, which now has a maturity date of December 18, 2008; the \$3,000,000 note, which now has a maturity date of \$3,000,000; the \$1,355,000 note, which now has a maturity date of June 30, 2007; the \$8,000,000 note, which now has a maturity date of December 31, 2006; and the \$305,000 note, which has a maturity date of June 30, 2007.

Finally, pursuant to the Stock Purchase Agreement, we and SIBL agreed that CLM would be released and discharged from any liability under the \$6,000,000 note or the \$305,000 note with SIBL, which it previously agreed to guaranteed.

At June 30, 2006, we had an outstanding principal balance of \$6,000,000 under our secured revolving credit facility with Stanford, which bears interest at a fixed rate of 6% per annum payable accruing from July 1, 2006 quarterly in arrears and matures on December 18, 2008. As of June 30, 2006, 355,000 warrants with a strike price of \$10 per share with a maturity of April 30, 2008 were issued to replace the conversion feature of the credit facility whereby the loan could previously be converted into shares of our common stock at a

40

conversion price of \$15.00 per share in connection with our entry into the Stock Purchase Agreement with SIBL. The \$6,000,000 credit facility is guaranteed by Malcolm J. Wright, our Chief Executive Officer and Chairman and is secured by a second mortgage on our Sonesta Orlando Resort property, including all fixtures and personal property located on or used in connection with these properties, and all of the issued and outstanding capital stock and assets of two of our subsidiaries, American Leisure Marketing & Technology, Inc. and Caribbean Leisure Marketing Limited. We believe that without the guarantees of Mr. Wright, it would have been more difficult, if not impossible, for us to secure the Stanford, credit facility.

As of June 30, 2006, we had an outstanding principal balance of \$3,000,000, under another secured revolving credit facility with Stanford, which bears

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

interest at a fixed rate of 8% per annum accruing from July 1, 2006 payable quarterly in arrears and matures on April 30, 2007. At the sole election of the lender, any amount outstanding under the credit facility may be converted into shares of our common stock at a conversion price of \$10.00 per share. The credit facility is secured by collateral assignments of our stock in the active Travel Division subsidiaries as well as a collateral assignment of our first lien security interest in the assets formerly owned by Around The World Travel, Inc.

As of June 30, 2006, we had a total of \$1,355,000 outstanding under our secured revolving credit facility with Stanford, which bears interest at a fixed rate of 8% per annum and matures on June 30, 2007. Interest on the credit facility accrues from July 1, 2006 and is due quarterly in arrears. 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.

As of June 30, 2006 we had another credit facility in the amount of \$305,000 with Stanford. The credit facility bears interest at 8.0% per annum and accrues interest from July 1, 2006 and is secured by the assets and stock of the Company. The credit facility is due on June 30, 2007.

On December 29, 2005, Stanford International Bank, Ltd. ("SIBL") provided Tierra Del Sol with financial assistance to facilitate the establishment of the Land Loan and the Construction Loan. The financial assistance consisted of a loan to Tierra Del Sol of \$2,100,000 (the "SIBL Tierra Del Sol Loan"), however, as consideration for the purchase of the Antigua call center, SIBL forgave this note and \$191,100 of accrued interest and the establishment of letters of credit in favor of KeyBank in the amount of \$4,000,000 and \$2,000,000, respectively (the "Letters of Credit"), the fees for which amounting to \$540,000, were also forgiven as consideration for the purchase of the Antigua call center, as described above. As additional consideration for this financial assistance, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of \$5.00 per share and warrants to purchase 154,000 shares of our common stock at an exercise price of \$0.001 per share. Additionally, in January 2006, in connection with the SIBL Reedy Creek Loan, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of \$5.00 per share and warrants to purchase

41

154,000 shares of the Company's common stock at an exercise price of \$0.001 per share. The warrants expire 5 years from issuance. The warrants contain anti-dilution provisions, including a provision which requires us to issue additional shares under the warrants if we issue or sell any common stock at less than \$1.02 per share, or grant, issue or sell any options or warrants for shares of the Company's common stock to convert into shares of our common stock at less than \$1.02 per share. If we do issue or sell common stock, which would cause a re-pricing of the warrants issued to SIBL, it would likely have an adverse effect on the trading value of our common stock and could cause substantial dilution to our then shareholders.

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

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

Additionally, Hickory has a \$375,900 loan through the U.S. Small Business Administration ("SBA") of which \$364,361 has been drawn as of June 30, 2006. The SBA loan is due by May 2033 and bears interest at 4% per annum with principal and interest payments of approximately \$1,862 due monthly from May 2005 until May 2033. The SBA note is secured by Hickory's assets and the personal guaranty of William Chiles, who is our Director.

In connection with our purchase of the assets of Around The World Travel, Inc. ("AWT"), as of June 30, 2006 there is a balance from those liabilities we assumed from AWT of \$3,743,509, of which approximately \$370,744 is due in the next twelve months.

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

In connection with the exercise of the Reedy Creek Option, Reedy Creek Acquisition Company and SIBL agreed to modify the terms of the SIBL Reedy Creek Loan made by SIBL to Reedy Creek Acquisition Company. The modified loan terms are evidenced by a Renewed, Amended and Increased Promissory Note (the "Amended Note") made by Reedy Creek Acquisition Company in favor of SIBL. The Amended Note has a maturity date of December 31, 2006, a principal balance of \$8,000,000

42

and bears interest at the rate of 8% per year. Interest on the Amended Note is payable quarterly on June 30, 2006, September 30, 2006 and on the maturity date of the Amended Note. Upon an event of default as described in the Amended Note, SIBL has several rights and remedies, including causing the Amended Note to be immediately due and payable.

The Amended Note is secured by a second lien on the Reedy Creek Property. It is guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman pursuant to a Modification and Reaffirmation of Guaranty and Environmental Indemnity Agreement. We believe that without the guarantees of Mr. Wright, it would have been more difficult, if not impossible, for us to secure the SIBL, loan facility. In consideration for Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright earned a fee equal to three percent (3%) of principal amount of the Amended Note. The Company will pay this fee through the grant of 240,000 warrants to Mr. Wright to purchase shares of the Company's common stock at an exercise price of \$1.02 per share. These warrants will expire 5 years from the expiration of the guaranty.

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

The Bankers Credit loan is evidenced by a Promissory Note (the "Bankers Credit Note") and bears interest at the greater of the Wall Street Journal published

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

prime rate plus 7.75%, not to exceed the highest rate allowable under Florida law or 15% per year. The interest rate of the Bankers Credit Note as of August 2, 2006 was 15% (with a prime rate, as reported by the Wall Street Journal of 8.25%). Interest on the Bankers Credit Note is payable monthly. The maturity date of the Bankers Credit Note is January 3, 2007, when all principal and unpaid interest is due and payable. Pursuant to the Bankers Credit Note, Reedy Creek Acquisition Company agreed to pay a 10% late charge on any amount of unpaid principal or interest under the Bankers Credit Note. The Bankers Credit Note is subject to a 1% exit fee. Upon an event of default as described in the Bankers Credit Note, Bankers Credit has several rights and remedies, including causing the Bankers Credit Note to be immediately due and payable.

The Bankers Credit Note is secured by a first lien on the Reedy Creek Property. Additionally, the Bankers Credit Note is guaranteed by the Company and Malcolm J. Wright, the Company's Chief Executive Officer and Chairman pursuant to a Guaranty Agreement. We believe that without the guarantees of Mr. Wright, it would have been more difficult, if not impossible, for us to secure the Bankers Credit, loan facility. In consideration for Mr. Wright's guarantee, and pursuant to an existing agreement between Mr. Wright and the Company, Mr. Wright earned a fee equal to three percent (3%) of the Bankers Credit Note. The Company will pay this fee through the grant of 210,000 warrants to Mr. Wright to purchase shares

43

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

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

While we currently believe we have sufficient funds to continue our business plan, because we have decided not to move forward with the KeyBank Construction Loan, we will need to find alternative financing for the construction of Phase 1 of the Sonesta Resort, of which there can be no assurance.

We have established a relationship with GMAC Bank, through Millennium Capital Mortgage, to provide construction financing to the individual purchasers of the Sonesta Resort town homes, which funding we believe will enable all town homes and amenities at Tierra del Sol to be built through this program. Additionally, we are in the process of negotiating with several lenders for a construction loan on favorable terms for the condominiums and/or for the clubhouse. We anticipate that such loan will be evidenced by a firm commitment during the month of September 2006, but we have no assurances a commitment will be secured. Assuming we are able to enter into a subsequent funding arrangement, we believe that we have sufficient funds to provide for the completion of Phase 1, assuming there are no material cost overruns, delays or further increases in material costs. Phase 2 will be financed separately.

However, even if we are able to secure sufficient financing for the construction of Phase 1 of the Sonesta Resort, moving forward, our growth and continued operations may be impaired by limitations on our access to the capital markets. In the event that our current anticipated costs of developing the Sonesta Resort and/or the Reedy Creek Property, are more than we anticipate, and/or our other travel service operations do not continue to generate revenue at their current levels, we may not have sufficient funds to complete such construction projects and/or repay amounts owed on the notes payable described above. As a result, we may be forced to reduce our annual construction goals and maintain our

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

operations at current levels, and/or scale back our operations which could have a material adverse impact upon our ability to pursue our business plan and/or the value of our common stock. There can be no assurance that capital from outside sources will be available, or if such financing is available, that it will not involve issuing further securities senior to our common stock or equity financings which are dilutive to holders of our common stock.

While our common stock currently trades on the Over-The-Counter Bulletin Board in the United States, there is the potential that we may choose to change our common stock listing to an alternative market in order to improve our liquidity and our access to the capital markets.

44

### RISK FACTORS

-----

#### RISKS RELATING TO OUR CAPITAL AND LIQUIDITY NEEDS

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

Since our inception, we have been assembling our Travel Division including the acquisition of Hickory in October 2003 and TraveLeaders in December 2004, planning The Sonesta Orlando Resort at Tierra Del Sol, building travel club membership databases, and assembling our management team. We have incurred net operating losses since our inception. As of December 31, 2005, we had an accumulated deficit of \$13,499,420 and as of June 30, 2006, we had an accumulated deficit of \$11,510,650.

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

Our costs of establishing our business models for both the Travel Division and the Resort Development Division, including acquisitions and the due diligence costs of that process, together with the un-financed development costs incurred in the Resort Development Division requires significant capital. Historically, our sources for capital have been through loans from our founding and majority shareholders as well as from loans from our capital partner, Stanford. On December 29, 2005, certain affiliates of the Company closed two (2) credit facilities with Key Bank related to the Sonesta Resort. The credit facilities consisted of a \$40,000,000 revolving construction loan which we planned to use to construct Phase 1 of the Sonesta Resort (the "Construction Loan"), but which we have subsequently elected not to open and a \$14,850,000 term loan used to finance the acquisition of the property for the Resort and to pay certain related costs (the "Land Loan"). Since we have not decided to move forward with the Construction Loan financing, we will need to obtain alternative financing for the construction of Phase 1 of the Sonesta Resort, which may be on less favorable terms than the Construction Loan, if such financing is available at all. We are currently working with several financing sources and hope to close additional financing in September 2006. If we are unable to enter into an alternative funding arrangement in connection with the construction of Phase 1 of the Sonesta Resort, generate enough operating revenue to satisfy our capital needs, or if we cannot obtain future capital from our founding and majority shareholders or from Stanford, and/or if we are not able to repay the Land Loan, it will have a material adverse effect on our financial condition and results of operation.

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

The occurrence of any one or more "events of default" under the Land Loan would allow KeyBank to pursue certain remedies against us including taking possession of the Sonesta Resort project; withholding further disbursement of the proceeds of the loan and/or terminate KeyBank's obligations to make further disbursements thereunder; and/or declaring the note evidencing the loans to be immediately due and payable. We do not currently have cash on hand sufficient to repay the approximately \$13,806,000 which was borrowed from KeyBank pursuant to the Land Loan as of June 30, 2006. The Land Loan is due for repayment on June 28, 2007, and we do not currently have sufficient cash to repay such loan when due. Furthermore, we currently anticipate the need for a significant amount of additional funding to complete the construction of Phase 1 of the Sonesta Resort, and as such, we will likely not have sufficient cash to repay the Land Loan or any future loan in connection with the funding of Phase 1 of the Sonesta Resort, assuming such financing is obtained, until the completion of the units in the Sonesta Report, without additional financing. If we do not repay the amounts owing under the Land Loan or any subsequent loans when due, KeyBank may take possession of the Sonesta Resort project, and we may be forced to curtail or abandon our current business plans, which could cause the value of our securities to become worthless.

Furthermore, we have established a relationship with GMAC Bank, through Millennium Capital Mortgage, to provide construction financing to the individual purchasers of the Sonesta Resort town homes, which funding we believe will enable all town homes and amenities at Tierra del Sol to be built through this program. Additionally, we are in the process of negotiating with several lenders for a construction loan on favorable terms for the condominiums and/or for the clubhouse. We anticipate that such loan will be evidenced by a firm commitment during the month of September 2006, but we have no assurances of a commitment will be obtained. Assuming we are able to enter into a subsequent funding arrangement, we believe that we will have sufficient funds to provide for the completion of Phase 1, assuming there are no material cost overruns, delays or further increases in material costs. We plan to finance Phase 2 separately.

WE HAVE RECEIVED \$10,355,000 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 \$10,355,000 million of convertible debt financing from Stanford. The terms of our financial arrangements with Stanford are secured by the following mortgages on our properties and liens on our assets:

- Our \$6,000,000 credit facility has been re-structured to be secured by a first mortgage on land owned by third parties. However, Stanford has agreed that the mortgage securing the \$6,000,000 credit facility shall be released in exchange for payment of the primary obligations it secures, which includes the the release of the Letters Of Credit. In consideration of Stanford's release of the mortgage securing the \$6,000,000 credit facility, we have granted Stanford warrants to acquire up to 2% of each of the Development Partnerships.

A component of that collateral is that Stanford has an option to elect to receive warrants to purchase Series E Preferred Stock in lieu of and equivalent to distributions (after tax) from the Development Partnerships. Series E Preferred Stock has a conversion value to common stock at \$15.00 per common share. Other assets previously

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

provided to secure this credit facility, including all of the issued and outstanding capital stock and assets of two of our subsidiaries, American Leisure Marketing & Technology, Inc. and Caribbean Leisure Marketing Limited remain as security for the debt.

- Our \$ \$3,000,000 credit facility is secured by collateral assignments of our stock in American Leisure Marketing & Technology, Inc., Orlando Holidays, Inc, American Leisure, Inc, Welcome To Orlando, Inc, American Travel & Marketing Group, Inc. and Hickory Travel Systems, Inc.
- Our \$1,355,000 credit facility is secured by all of the issued and outstanding stock of our subsidiaries American Leisure Marketing & Technology, Inc., Orlando Holidays, Inc, American Leisure, Inc, Welcome To Orlando, Inc., American Travel & Marketing Group, Inc. and Hickory Travel Systems, Inc. This facility is non-recourse to the Company but for the assets and revenues of those subsidiaries.

In addition, Malcolm J. Wright, our Chief Executive Officer and Chairman provided a personal guarantee for our \$6,000,000 credit facility. We believe that without the guarantees of Mr. Wright, it would have been more difficult, if not impossible, for us to secure the Stanford credit facility. If we fail to comply with the covenants in our credit facilities, Stanford can elect to accelerate the amounts due under the credit facilities and may foreclose on our assets and property that secure the loans.

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

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

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

47

- 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

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

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

In December 2005, we closed two credit facilities with KeyBank, National Association ("KeyBank") related to the Sonesta Resort. The credit facilities consisted of a \$40,000,000 revolving credit line (the "Construction Loan") and a \$14,850,000 term loan to be used to finance the acquisition of the property for the resort (the "Land Loan"). We have since decided not to move forward with the Construction Loan, however we have approximately \$13,806,000 outstanding under the Land Loan to date. The Land Loan bears interest at the rate of the daily London Interbank Offered Rate ("LIBOR") plus 3.10%, respectively, currently 8.69%, with the LIBOR equal to approximately 5.59% as of August 2, 2006. The maturity date of the Land Loan is June 28, 2007. The Land Loan is secured by a first lien on the land within Phase 2 of the Sonesta Resort, including any improvements, easements, and rights of way; a first lien and security interest in all fixtures and personal property, an assignment of all leases, subleases and other agreements relating to the property; an assignment of construction documents; a collateral assignment of all contracts and agreements related to the sale of each condominium unit; a collateral assignment of all purchase deposits and any management and/or operating agreement. As of the date of this filing we have borrowed \$13,806,000 under the Land Loan, which amount we do not currently have funds on hand to repay. We are under no pressure to repay the Land Loan. Our business plan includes retiring that debt with a construction loan to build Phase 2 of the Sonesta Resort, assuming that we raise sufficient funding to complete the construction of Phase 1 of the Sonesta Resort first, of which there can be no assurance.

WE NEED SIGNIFICANT ADDITIONAL FINANCE FACILITIES TO BEGIN AND COMPLETE THE DEVELOPMENT OF PHASE 2 OF THE SONESTA RESORT, TO BEGIN THE VERTICAL CONSTRUCTION OF PHASE 1 OF THE SONESTA RESORT AND TO BEGIN AND COMPLETE OUR PLANNED CONSTRUCTION OF THE REEDY CREEK PROPERTY.

48

As we have decided not to move forward with the Construction Loan, we currently anticipate the need for a significant amount of additional funding to complete the development of Phase 1 of the Sonesta Resort. Additionally, we do not currently have sufficient capital to begin or complete Phase 2 of the Sonesta Resort and/or our planned development of the Reedy Creek Property (as described above). We are currently in discussions with several parties regarding obtaining financing for the vertical construction of Phase 1 of the Sonesta Resort, which we hope to obtain in September 2006, of which there can be no assurance. Our plan for the financing of the Phase 2 town homes is to use a program from a national mortgage lender to employ construction loans issued to each purchaser that will, upon completion, convert to permanent, conventional mortgages. The finance plan for the Phase 2 amenities is to employ a line of credit secured by a segment of the profits from the sale of the residential units. We will employ a conventional construction loan for the condominium units. As of this date, the Company has not yet secured the line of credit for the amenities or the construction loan for the condominium units. It is impossible at this time for us to estimate the cost of completing Phase 1 or Phase 2 of the Sonesta Resort and/or the development of the Reedy Creek Property, however, based upon the size of the projects, we would anticipate such costs to be substantial. We will not begin the construction of Phase 1 or Phase 2 until we have capitalized the construction appropriately. If we cannot obtain the appropriate financing, we may have to delay the commencement of the construction of Phase 1 and/or Phase 2 until such time as we have adequate funding available. We may never have sufficient capital to begin or complete the development of Phase 1 or Phase 2 of the Sonesta Resort which could force us to modify or abandon the development



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

plan for the Sonesta Resort. Our business plan for the development of the Reedy Creek Property is to enter into a partnership agreement with an experienced and high credit development partner, and as such, we do not expect to raise capital or incur debt to begin or complete that project. At present, the Company has not yet chosen such partner although we are in receipt of proposals from qualified developers that are consistent with our business plan.

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

All construction projects, especially construction projects as large as our planned Sonesta Resort are subject to delays and cost overruns. We have experienced very significant cost increases and overruns since sales commenced in 2004, due to significant price increases in construction materials, which have been exacerbated by the hurricanes of 2004 and 2005, as well as to a lesser extent the threat of hurricanes in 2006. The increased costs have impacted construction throughout the southeastern United States and are not unique to us. Because of the significant cost increases, we are evaluating and plan to implement a program to revise upwards the price of sold and unsold units or to cancel contracts on units because of cost overruns. If we continue to experience substantial delays or additional cost overruns during the construction of Phase 1 of the Sonesta Resort and/or Phase 2, we could be forced to obtain additional financing to complete the projects, which could be at terms worse than our then

49

current funding, assuming such funding is available to us at all, of which there can be no assurance, and could force us to curtail or abandon our current plans for Phases 1 and 2 of the Sonesta Resort. As a result, sales of our town homes and condominiums could be severely effected, which could force us to curtail or abandon our business plans and/or could make it difficult if not impossible to repay the significant amount of money due to KeyBank (as explained above), which as a result could cause the value of our securities to become worthless.

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

We will engage third-party contractors to construct our resorts. However, our customers may assert claims against us for construction defects or other perceived development defects including, but not limited to, structural integrity, the presence of mold as a result of leaks or other defects, electrical issues, plumbing issues, or road construction, water or sewer defects. In addition, certain state and local laws may impose liability on property developers with respect to development defects discovered in the future. To the extent that the contractors do not satisfy any proper claims as they are primarily responsible, and to the extent claims are not satisfied by third-party warranty coverage, claims for development-related defects could be brought against us. To the extent that claims brought against us are not covered by insurance, our payment of those claims could adversely affect our liquidity, financial condition, and results of operations.

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

Malcolm J. Wright is the President of American Leisure Real Estate Group, Inc., a real estate development company with which we have contracted for the development of our resorts including The Sonesta Orlando Resort at Tierra Del

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

Sol ("ALREG") and Reedy Creek Property. Mr. Wright has a 100% interest in ALREG. Additionally, Mr. Wright is an officer of Xpress Ltd., with which we have contracted for exclusive sales and marketing for The Sonesta Orlando Resort at Tierra Del Sol and Reedy Creek. Mr. Wright is also an officer and shareholder of Inovative Concepts, Inc., which does not have any operations, M J Wright Productions, Inc., which does not have any operations, but which owns our Internet domain names, Resorts Development Group, LLC which develops resort properties in Orlando including Bella Citta, Los Jardines Del Sol, The Preserve, Tortuga Cay and Sherberth Development LLC, Resorts Construction, LLC with whom we have contracted to construct part of the Sonesta Resort as described above, Resorts Concepts, LLC which operates a design business, Titan Manufacturing, LLC from whom we intend to purchase roof tiles for our developments, South Beach Resorts LLC in conjunction with Mr. Pauzar and Mr. Maddock which is redeveloping

50

the Boulevard Hotel on South Beach, Miami. Because Mr. Wright is employed by us and the other party to these transactions, Mr. Wright might profit from a transaction when we do not.

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

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

Malcolm J. Wright is the President of ALREG, Xpress Ltd., Inovative Concepts, Inc., M J Wright Productions, Inc., Resorts Development Group, LLC, Resorts Construction, LLC, Titan Manufacturing LLC, Tortuga Cay Resort, LLC, Osceola Business Managers, Inc., Florida World, Inc., SBR Holding LLC (a non trading holding company of South Beach Resorts, LLC), RDG LLC, and SunGate Resort Villas, Inc. Mr. Wright is engaged full-time as the Company's Chairman and as a senior executive officer. Although Mr. Wright has not indicated any intention to reduce his activities on behalf of the Company, 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. If Mr. Wright does not spend sufficient time serving 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. For example, Malcolm J. Wright would receive 19% of the pre-tax profits of Leisureshare International Ltd, Leisureshare International Espanola SA, American Leisure Homes, Inc., Advantage Professional Management Group, Inc., Tierra Del Sol Resort, Inc., and Wright Resorts Villas & Hotels, Inc. However, we do not have any agreements with our officers regarding the bonus other than our agreement with L. William Chiles. Mr. Chiles is entitled to receive 19% of the profits of Hickory up to a maximum payment over

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

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

51

other subsidiaries would share a bonus of up to 19% of the pre-tax profits of the subsidiary in which they serve as executive officers. We would retain the right, but not the obligation to buy out all of the above agreements after a period of five years by issuing such number of shares of our common stock equal to the product of 19% of the average after-tax profits for the five-year period multiplied by one-third of the price-earnings ratio of our common stock at the time of the buyout divided by the greater of the market price of our common stock or \$5.00. If we pay bonuses in the future, it will reduce our profits and the amount, if any, that we may otherwise have available to pay dividends to our preferred and common stockholders. Additionally, if we pay bonuses in the future it will take away from the amount of money we have to repay our outstanding loans and the amount of money we have available for reinvestment in our operations and as a result, our future results of operations and business plan could be affected by such bonuses, and we could be forced to curtail or abandon our current business plan and plans for future expansion.

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

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

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

Our success depends, in part, upon the personal efforts and abilities of Malcolm J. Wright and Frederick Pauzar. Mr. Wright is the Chairman of the Company and the Company's Chief Executive Officer. Mr. Pauzar is the President, Chief Operating Officer and a Director of the Company. Our ability to operate and implement our business plan is dependent on the continued service of Messrs. Wright and Pauzar. We are in the process of entering into written employment agreements with Mr. Wright and Mr. Pauzar. If we are unable to retain and motivate them on economically feasible terms, our business and results of operations will be materially adversely affected. In addition, the absence of Mr. Wright or Mr. Pauzar may force us to seek a replacement who may have less experience or who may not understand our business as well.

52

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

We have not paid cash to Malcolm J. Wright for his services as an executive officer and a Director as of the filing of this report; however, he is entitled

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

to receive various forms of remuneration from us such as accrued salary of \$ 800,000 per year beginning in 2004, accrued salary of \$ 550,000 per year from 2002 to 2004, and accrued compensation of \$18,000 per year for serving as a director. We may pay Mr. Wright a bonus of up to 19% of the pre-tax profits, if any, of various subsidiaries as discussed above. We have made payments to entities controlled by Mr. Wright in consideration for substantial valuable services that those entities have provided to us for The Sonesta Orlando Resort at Tierra Del Sol. In June 2006, Mr. Wright was paid \$1,540,500 of the accrued salaries that he was owed which consisted of accrued salaries of \$1,275,000 and accrued interest of \$265,500. As of June 30, 2006, the total accrued and unpaid remuneration due to Mr. Wright in connection with his salary as an officer of the Company totaled \$1,825,000 and an additional 341,250 in interest as of June 30, 2006. If we do not have sufficient cash on hand to pay Mr. Wright for his salary, director's compensation and bonus in the future, he may determine to spend less of his time on our business or to resign his positions as an officer and a director.

COMPANIES AFFILIATED WITH OUR CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD, MALCOLM J. WRIGHT ARE PAID A SUBSTANTIAL AMOUNT OF OUR REVENUES IN CONNECTION WITH SERVICES RENDERED.

Certain companies controlled by our Chief Executive Officer and Director, Malcolm J. Wright, including American Leisure Real Estate Group, Inc. ("ALRG"), which entered into an exclusive Development Agreement with our subsidiary, Tierra del Sol Resort, Inc. ("TDSR") and Xpress, Ltd. ("Xpress"), which entered into an exclusive sales and marketing agreement with TDSR in November 2003, are paid substantial fees in connection with services rendered to us in connection with such agreements. In connection with ALRG's Development Agreement with TDSR, we are required to pay ALRG a fee in the amount of 4% of the total costs of the development of the Sonesta Resort paid by ALRG. As of June 30, 2006, the total costs and fees paid by ALRG amounted to \$22,398,243, of which 4% of such amount is equal to approximately \$895,930. In connection with Xpress' sales and marketing agreement, we agreed to pay Xpress a sales fee in the amount of 3% and a marketing fee of 1.5% of the total sales prices received by TDSR in connection with sales of units in the Sonesta Resort, which shares are payable in two installments, one-half of the sales fee and all of the marketing fee when the rescission period has elapsed in a unit sales agreement and the other half of the sales fee upon the actual conveyance of the unit. As of June 30, 2006, total sales of units in the Sonesta Resort were approximately \$223,654,843, and as a result, TDSR was obligated to pay Xpress a fee of \$6,709,645 in connection with sales and marketing fees, and as of June 30, 2006, \$6,765,244 had been paid to Xpress, which number includes fees paid on cancelled sales, which fees Xpress is able to keep. Additionally, TDSR will be obligated to pay Xpress \$3,354,823, the

53

other half of the sales fees upon conveyance of the units. These payments represent a significant portion of our non-restricted current cash and equivalents and as a result of such payments, we could have less cash on hand than we will require for our operations and upcoming liabilities. Additionally, as a result of such payments, we may be forced to curtail or scale back our business plan, which could have a material adverse effect on the trading value of our common stock. We believe, however, that the transactions with ALRG and Xpress are in the best interest of the Company and provide efficiencies and savings not otherwise available in the open market.

### RISKS RELATED TO OUR TRAVEL DIVISION

WE NEED APPROXIMATELY \$2,500,000 OF CAPITAL THROUGH THE END OF THE 2005 FISCAL YEAR FOR OUR TRAVEL DIVISION OPERATIONS AND THE OPERATIONS OF HICKORY, WHICH MAY NOT BE AVAILABLE TO US ON FAVORABLE TERMS, IF AT ALL.

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

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

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

Our suppliers of travel services including airline, hotel, cruise, tour and car rental suppliers may reduce the commissions and fees that we earn under contract with them based on the volume of business that we generate for them. These contracts generally renew annually and in some cases may be cancelled at will by the suppliers. If we cannot maintain our volume of business, our suppliers could contract with us on terms less favorable than the current terms of our contracts or the terms of their contracts with our competitors, exclude us from the products and services that they provide to our competitors, refuse to renew our

54

contracts, or, in some cases, cancel their contracts with us at will. In addition, our suppliers may not continue to sell services and products through global distribution systems on terms satisfactory to us. If we are unable to maintain or expand our volume of business, our ability to offer travel service or lower-priced travel inventory could be significantly reduced. Any discontinuance or deterioration in the services provided by third parties, such as global distribution systems providers, could prevent our customers from accessing or purchasing particular travel services through us. If these suppliers were to cancel or refuse to renew our contracts or renew them on less favorable terms, it could have a material adverse effect on our business, financial condition or results of operations.

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

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

FAILURE TO MAINTAIN RELATIONSHIPS WITH TRADITIONAL TRAVEL AGENTS FOR OUR TRAVEL

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

DIVISION COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS.

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

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

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

- price escalation in the airline industry or other travel related industries;
- airline or other travel related strikes;

55

- political instability, war and hostilities;
- long term bad weather;
- fuel price escalation;
- increased occurrence of travel-related accidents; and/or
- economic downturns and recessions.

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

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

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

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

OUR CONTRACTS WITH CLIENTS OF THE TRAVELEADERS BUSINESS DO NOT GUARANTEE THAT WE

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

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

56

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

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

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

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

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

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

We believe that the market in which we operate is fragmented and highly competitive and that competition may intensify in the future. We compete with small firms offering specific applications, divisions of large entities, large independent firms and the in-house operations of clients or potential clients. A number of competitors have or may develop greater capabilities and resources than us. Additional competitors with greater resources than us may enter our

57

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

market. Competitive pressures from current or future competitors could cause our services to lose market acceptance or result in significant price erosion, all of which could have a material adverse effect upon our business, results of operations or financial condition.

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

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

### RISKS RELATING TO OUR STOCK AND GENERAL BUSINESS RISKS

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

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

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

On December 29, 2005, Stanford International Bank, Ltd. ("SIBL") provided Tierra Del Sol with financial assistance to facilitate the establishment of the Land Loan and the Construction Loan. The financial assistance consisted of a loan to Tierra Del Sol of \$2,100,000 (the "SIBL Tierra Del Sol Loan") however, as consideration for the purchase of our Antiguan call center and in connection with our entry into the Stock Purchase Agreement, described above, SIBL forgave this note and \$191,100 of accrued interest, and the establishment of letters of

58

credit in favor of KeyBank in the amount of \$4,000,000 and \$2,000,000, respectively (the "Letters of Credit"), the fees for which amounting to \$540,000 were also forgiven as part of the consideration for the purchase of the Antiguan call center. As additional consideration for this financial assistance, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of \$5.00 per share and warrants to purchase 154,000 shares of our common stock at an exercise price of \$.001 per share. Additionally, in January 2006, in connection with the SIBL Reedy Creek Loan, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of \$5.00 per share and warrants to purchase 154,000 shares of the Company's common stock at an exercise price of \$.001 per



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

share. The warrants expire 5 years from the dates of issuance. The warrants contain anti-dilution provisions, including a provision which requires us to issue additional shares under the warrants if we issue or sell any common stock at less than \$1.02 per share, or grant, issue or sell any options or warrants for shares of the Company's common stock to convert into shares of our common stock at less than \$1.02 per share. If we do issue or sell common stock which causes a re-pricing of the warrants issued to SIBL, it would likely have an adverse effect on the trading value of our common stock and could cause substantial dilution to our then shareholders.

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

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

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

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

59

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

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

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

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

Our directors, officers, and principal shareholders beneficially own a substantial portion of our outstanding common and preferred stock. Malcolm J. Wright, who serves as our Chief Executive Officer and Chief Financial Officer and as a Director, and Roger Maddock, one of our majority shareholders, own, directly and indirectly, approximately an aggregate of 73% of the voting power in us. As a result, these persons control our affairs and management, as well as all matters requiring shareholder approval, including the election and removal of members of the Board of Directors, transactions with directors, officers or affiliated entities, the sale or merger of the Company or substantially all of our assets, and changes in dividend policy. This concentration of ownership and control could have the effect of delaying, deferring, or preventing a change in our ownership or management, even when a change would be in the best interest of other shareholders.

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

Pursuant to new Over-The-Counter Bulletin Board ("OTCBB") rules relating to the timely filing of periodic reports with the SEC, any OTCBB issuer which fails to file a periodic report (Form 10-QSB's or 10-KSB's) by the due date of such report (notwithstanding any extension granted by the filing of a Form 12b-25),

60

three (3) times during any twenty-four (24) month period is automatically de-listed from the OTCBB. Such removed issuer would not be re-eligible to be listed on the OTCBB for a period of one-year, during which time any subsequent late filing would reset the one-year period of de-listing. If we are late in our filings three times in any twenty-four (24) month period and are de-listed from the OTCBB, our securities may become worthless and we may be forced to curtail or abandon our business plan.

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

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

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

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

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

of our common stock (and in fact reflect a value that is much higher than the actual value of our Common Stock). Shareholders and potential investors in our Common Stock should exercise caution before making an investment in the Company, and should not rely on the publicly quoted or traded stock prices in determining our Common Stock value, but should instead determine value of our Common Stock based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies.

### ITEM 3. CONTROLS AND PROCEDURES

- (a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the "Evaluation Date"), has concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to

61

disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

However, because we have not fully integrated our administrative operations, we face increased pressure related to recording, processing, summarizing and reporting consolidated financial information required to be disclosed by us in the reports that we file or submit under the Exchange Act in a timely manner as well as accumulating and communicating such information to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We believe that until we have fully integrated our administrative operations, we will continue to face such pressure regarding the timeliness of our filings as specified in the Commission's rules and forms which could lead to a future determination that our disclosure controls and procedures are not effective as of a future evaluation date.

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

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

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

Inc., Case No. CIO-01-4874, Ninth Judicial Circuit, Orange County, Florida. In June, 2001, after almost 2 years from receiving notice from Malcolm J. Wright that one Mr. Roger Smee, doing business under the names Rock Investment Trust, PLC (a British limited company) and RIT, LLC (a Florida limited liability company) (collectively, the "Smee Entities") had defaulted under various agreements to loan or to joint venture or to fund investment into various real estate enterprises founded by Mr. Wright, the Smee Entities brought the lawsuit against Mr. Wright, American Leisure, Inc. and several other entities. The gravamen of the initial complaint is that the Smee Entities made financial advances to Wright with some expectation of participation in a Wright real estate enterprise. In general, the suit requests either a return of the Smee Entities' alleged advances of \$500,000 or an undefined ownership interest in one or more of the defendant entities. Mr. Wright, American Leisure, Inc., and Inversora Tetuan, S.A., have filed a counterclaim and cross complaint against

62

the Smee Entities and Mr. Smee denying the claims and such damages in the amount of \$10 million. If the court rules that Mr. Wright is liable under his guarantee of an American Leisure, Inc. obligation to Smee, it is believed that such a ruling would not directly affect American Leisure Holdings, Inc. The litigation is in the discovery phase and is not currently set for trial. We have been advised by our attorneys in this matter that Mr. Wright's position on the facts and the law is stronger than the positions asserted by the Smee Entities.

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

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

This lawsuit involves allegations of fraud against Malcolm J. Wright. The lawsuit filed by Seamless has been abated and consolidated with the original lawsuit filed by Around The World Travel. In a related matter, Seamless' attorneys brought another action entitled Peter Hairston v. Keith St. Clair et al. This suit mimics the misappropriation of business opportunity claim, but it is framed within a shareholder derivative action. The relief sought against American Leisure Holdings, Inc. includes monetary damages and litigation costs. We intend to vigorously support the original litigation filed against Seamless

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

and defend the counterclaim and allegations against us. In June of 2005, the court dismissed certain claims of tortious interference against the Company and Malcolm J. Wright and provided Seamless with leave to amend all of their other claims with specificity. In addition, the court dismissed a claim of conspiracy and a demand for judgment. As of January 18, 2006, the Defendants filed their

63

amended answer and amended counterclaim. The Company's attorneys have filed a comprehensive reply seeking to dismiss the counterclaim against the Company and Mr. Wright.

On May 4, 2005, Simon Hassine, along with members of his family, filed a lawsuit against us and Around The World Travel in the Circuit Court of Dade County, Florida, Civil Division, Case Number 05-09137CA. The plaintiffs are the former majority shareholders of Around The World Travel. The plaintiffs allege that that they have not been paid for i) a subordinated promissory note owed by AWT in the principal amount of \$3,550,000 plus interest on such note which they allege was issued to them by Around The World Travel in connection with their sale of 88% of the common stock in Around The World Travel to Around The World Holdings, LLC; and ii) subordinated undistributed retained earnings and accrued bonuses in an aggregate amount of \$1,108,806 which they allege were due to them as part of the sale to Around The World Holdings, LLC. The plaintiffs allege that the note was issued to them net of \$450,000 of preferred stock of Around The World Travel that they further allege they never received. Despite the absence of any executed agreements, the plaintiffs also allege that in December 2004 they entered into a settlement agreement with the Company regarding some of these matters. The plaintiffs are pursuing a claim of breach of the alleged settlement agreement with damages in excess of \$1,000,000, interest and costs as well as performance under the alleged settlement agreement. The Plaintiffs also seek a declaratory judgment that they are not bound by a provision in the underlying documents on which they rely that their action is barred by said provision. In the alternative, the Plaintiffs seek a ruling that the promissory note, undistributed retained earnings and accrued bonuses are not subordinated to the Galileo Debt. The suit seeks full payment of the promissory note, undistributed retained earnings and accrued bonuses plus prejudgment interest, stated interest on the note, costs and reasonable attorney's fees. Despite the absence of any executed agreements, the plaintiffs are also pursuing a claim for breach of contract regarding the preferred stock of Around The World Travel and seeking \$450,000 plus interest, costs and reasonable attorney's fees. The plaintiffs are also pursuing claims of fraudulent transfer regarding our acquisition of interests in the debt and equity of Around The World Travel and seeking unspecified amounts. We intend to vigorously defend the lawsuit. We filed various motions including a motion to dismiss the complaint in its entirety as against us and Malcolm J. Wright due to the failure by the plaintiffs to comply with a provision in the underlying documents that grants exclusive jurisdiction to the courts located in Cook County, Illinois; a motion to disqualify, based upon an alleged conflict of interest by the plaintiff's attorneys. A hearing on the case is scheduled to occur in September 2006.

On August 10, 2006, Patsy Berman and Berman Mortgage Corporation served a complaint against Tierra del Sol Resort, Inc., Malcolm Wright, our Chief Executive Officer and Chairman, and a non-existent entity, Vantage Circa 39 Condotel Limited Partnership ("Vantage"), in the 11th Judicial Circuit in and for Miami-Dade County, Florida. The complaint alleges that Tierra del Sol and Vantage sought loans, that the plaintiffs offered to make loans, that Mr. Wright guaranteed the loans, that valid contracts were formed, and that because such loans did not close, the plaintiffs claim \$3,550,000 in damages, representing funding fees, brokerage fees, and interest. We have concluded that the

64

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

plaintiffs' complaint is wholly frivolous, and we intend to vigorously defend the action and to seek attorney fees from the plaintiffs and their attorney.

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

### ITEM 2. CHANGES IN SECURITIES

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

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

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

Pursuant to a Stock Purchase Agreement SIBL, effective June 30, 2006, we sold all of our interest in our former wholly owned subsidiary CLM, along with a promissory note payable to us by CLM in the amount of \$5,663,274, which amount evidences our total investment in CLM, for an aggregate purchase price of \$5,663,275. In connection with the purchase, SIBL also agreed to forgive the interest on several of our outstanding promissory notes with SIBL, and to amend the due date of such notes, described in greater detail above under "Recent Events," and we agreed to grant SIBL a warrant to purchase 355,000 shares of our common stock at an exercise price of \$10.00 per share, which warrants have an expiration date of April 30, 2008, and contain certain anti-dilution clauses,

65

whereby if we grant any options or sell any shares of common stock for less than \$1.02 per share, the exercise price of the 355,000 warrants will reset to such lower price. We relied on an exemption from registration set forth in Section 4(2) of the Act in issuing the securities as the issuance of the securities did not involve a public offering, the recipient acquired the securities for investment purposes and we took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuance and no

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

underwriting discounts were paid by us.

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

None.

### ITEM 5. OTHER INFORMATION

None.

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

#### a) Exhibits

Exhibit No.	Description
-----	-----
10.01(1)	Commitment Letter with KeyBank National Association for \$96,000,000 for Phase I
10.02(1)	Commitment Letter with KeyBank National Association for \$14,850,000 for Phase II
10.03(2)	Re-Stated Promissory Note for \$6,356,740 issued in favor of Around The World Travel, Inc. dated June 30, 2005.
10.04(3)	Commitment Letter with KeyBank National Association for \$96,000,000 for Phase I
10.05(4)	Commitment Letter with KeyBank National Association for \$14,850,000 for Phase II
10.06(4)	Commitment Letter with KeyBank National Association for up to 72,550,000, with a maximum principal balance of \$40,000,000 for Phase 1 dated December 1, 2005
10.07(4)	Commitment Letter with KeyBank National Association for up to \$14,850,000 for Phase 2 dated December 1, 2005
66	
10.08(5)	Construction Loan Agreement with KeyBank National Association for \$40,000,000 for Phase 1 dated December 29, 2005
10.09(5)	Promissory Note with KeyBank National Association for \$40,000,000
10.10(5)	Loan Agreement with KeyBank National Association for 14,850,000 for Phase 2 dated December 29, 2005
10.11(5)	Promissory Note with KeyBank National Association for \$14,850,000
10.12(5)	Promissory Note for \$4,000,000 issued by TDS Management, LLC in favor of PCL Construction Enterprises, Inc.
10.13(5)	Guaranty by the Registrant of the \$4,000,000 Promissory Note to PCL Construction Enterprises, Inc.
10.14(5)	Guaranty of Malcolm J. Wright guaranteeing the \$4,000,000 Promissory Note to PCL Construction Enterprises, Inc.
10.15(5)	Addendum to Construction Loan Agreement Condominium and Townhouse

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

Project Development

10.16(5) Payment Guaranty Phase 1

10.17(5) Payment Guaranty Phase 2

10.18(5) Amended Debt Guarantor Agreement

10.19(5) Guaranty of Tierra Del Sol (Phase 1), Ltd. guaranteeing the \$4,000,000 Promissory Note to PCL Construction Enterprises, Inc.

10.20(5) Performance and Completion Guaranty

10.21(5) Pledge and Security Agreement

10.22(6) Option Exercise Agreement with Stanford Financial Group Company

10.23(6) Assignment of Interest in Reedy Creek Acquisition Company, LLC

10.24(7) Registration Rights Agreement with SIBL dated January 4, 2006

10.25(7) Credit Agreement with SIBL

10.26(6) \$7,000,000 Promissory Note with Bankers Credit Corporation

67

10.27(6) Modification and Reaffirmation of Guaranty and Environmental Indemnity Agreement

10.28(6) Renewed, Amended and Increased Promissory Note

10.29(7) Stanford International Bank, Ltd. Warrant for 77,000 shares at \$0.001 per share

10.30(7) Stanford International Bank, Ltd. Warrant for 154,000 shares at \$5.00 per share

10.31(6) Irrevocable and Unconditional Guaranty

10.32(7) Registration Rights Agreement with SIBL dated December 28, 2005

10.33(6) SIBL \$2.1 million note

10.34(7) Partnership Interest Pledge and Security Agreement and Collateral Assignment (Phase 1)

10.35(7) Partnership Interest Pledge and Security Agreement and Collateral Assignment (Phase 2)

10.36(7) SIBL Warrant Agreement for 2% Phase 1 interest

10.37(7) SIBL Warrant Agreement for 2% Phase 2 interest

10.38(6) Stanford International Bank, Ltd. Warrant for 154,000 at \$0.001 per share

10.39(6) Stanford International Bank, Ltd. Warrant for 308,000 at \$5.00 per share

10.40(8) Original Purchase Agreement



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

- 10.41(9) First Amendment to Asset Purchase Agreement
- 10.42(10) Settlement Agreement effective as of December 31, 2005 by and among American Leisure Holdings, Inc., American Leisure Equities Corporation and Around The World Travel, Inc.
- 10.43(11) Stock Purchase Agreement between Harborage Leasing Corporation and the Company
- 10.44(11) \$1,411,705 Promissory Note payable to Harborage Leasing Corporation

68

- 10.45(11) Malcolm J. Wright Guaranty Agreement regarding \$1,411,705 Promissory Note with Harborage Leasing Corporation
- 10.46(11) Harborage Leasing Corporation warrant to purchase 300,000 shares of common stock at \$5.00 per share
- 10.47(12) Note Modification Agreement with SIBL
- 10.48\* Stock Purchase Agreement with SIBL for the purchase of our Antigua call center operations
- 10.49\* Warrant Agreement with SIBL for the purchase of up to 355,000 shares of common stock at the exercise price of \$10.00 per share
- 31.1\* Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1\* Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 10 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed Herein.

(1) Filed as Exhibit 10.1 and 10.2, respectively to the Registrant's Form 8-K on August 18, 2005, and incorporated herein by reference.

(2) Filed as Exhibit 10.5 to the Registrant's Form 8-K on August 19, 2005, and incorporated herein by reference.

(3) Filed as Exhibits to our Report on Form 8-K filed with the Commission on August 18, 2005, and incorporated herein by reference.

(4) Filed as Exhibits to our Report on Form 8-K filed with the Commission on December 15, 2005 and incorporated herein by reference.

(5) Filed as Exhibits to the Registrant's report on form 8-K on January 12, 2006 and incorporated by reference herein.

(6) Filed as Exhibits to the Registrant's report on Form 8-K filed on January 19, 2006 and incorporated herein by reference.

(7) Filed as Exhibits to the Company's report on Form 8-K, which was filed with the SEC on March 28, 2006.

(8) Filed as Exhibit 10.1 to the Company's report on Form 8-K, which was filed with the SEC on January 6, 2005, and is incorporated herein by reference.

(9) Filed as Exhibit 10.44 to the Company's report on Form 10-QSB for the quarter ended March 31, 2005, which was filed with the SEC on May 23, 2005, and is incorporated herein by reference.

(10) Filed as Exhibit 10.3 to the Company's report on Form 8-K, which was filed with the SEC on March 2, 2006, and is incorporated herein by reference.

(11) Filed as Exhibits to the Company's Report on Form 8-K, which was filed with the SEC on March 29, 2006, and is incorporated herein by reference.

(12) Filed an Exhibit to the Company's Report on Form 10-KSB, which was filed with the SEC on March 31, 2006, and is incorporated herein by reference.

b) REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the fiscal period covered by this report. The Company filed one report on Form 8-K subsequent to the fiscal period covered by this report and prior to the date this report was filed:

- o On August 1, 2006, to report that the Company had notified KeyBank that it elected not to open the \$40,000,000 revolving credit facility for the construction of Phase 1 of the Sonesta Resort.

SIGNATURES

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

AMERICAN LEISURE HOLDINGS, INC.

DATED: August 21, 2006

By: /s/ Malcolm J. Wright  
-----  
Malcolm J. Wright  
Chief Executive Officer