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ALTERNATIVE TECHNOLOGY RESOURCES INC

Form 10-K

September 27, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

(Mark One)

- ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20468

ALTERNATIVE TECHNOLOGY RESOURCES, INC.  
(Exact name of issuer as specified in its charter)

Delaware 68-0195770  
(State or other jurisdiction (IRS Employer  
of incorporation or organization) Identification No.)

33 Jewell Court, Portsmouth, N.H. 03801  
(Address of principal executive offices, including zip code)

(603) 501-3200  
(Issuer's telephone number, including area code)

Securities registered under Section 12(b) of the Act:  
Title of Each Class Name of Each Exchange on Which Registered  
None

Securities registered under Section 12(g) of the Act:

Common Stock, par value \$0.01 per share  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 X No\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Aggregate market value of the Registrant's common voting stock held by non-affiliates of the Registrant on September 12, 2002 was \$38,410,596 (based on the final trading price on that date).

Number of shares of Common Stock outstanding at August 31, 2002: 60,916,017

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Company's Annual Meeting of Stockholders are incorporated by reference in Part III. The Proxy Statement will be filed within 120 days of the Company's fiscal year end.

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Exhibit index is located on page 24.

## PART I

### Item 1. Business

#### General

Alternative Technology Resources, Inc. (hereinafter referred to as "ATR," the "Company," "we" or "us") has developed and is operating an Exchange for healthcare services ("Healthcare Exchange"). The purpose of the Healthcare Exchange is to utilize the Internet and other technologies to facilitate Provider initiated discounts and administrative, billing and remittance services for all commercial lines of business in the healthcare industry. The Healthcare Exchange offers a direct and efficient conduit between Providers and Purchasers of healthcare services and/or their agents, such as Preferred Provider Organizations.

Providers submit bills to the Company, who reprints the bills to the rate set by the Providers, including adding a transaction-processing fee, and then routes them to Purchasers or their intermediaries. The Company receives payments from Purchasers on behalf of Providers, and then remits payments to Providers.

ATR's Healthcare Exchange began operations with a limited number of Providers and Purchasers in the quarter ending June 30, 2001. The Company continues to receive, process and analyze operating data, and the results of the Company's analysis will determine the amount and timing of remaining development related efforts.

The Company is currently recruiting medical doctors, medical groups, hospitals and other health care practitioners (collectively, "Providers") in thirty-two markets in twenty-two states to offer their services through the Healthcare Exchange to those who purchase or facilitate the purchase of healthcare services ("Purchasers").

The Company has outsourced to multiple vendors portions of the development and operations of the information systems for its Healthcare Exchange. The Company contracts with an application services provider to license, support and run software to process medical bills submitted to the Company's Healthcare Exchange. ATR also works with vendors to receive claims from Providers through electronic clearinghouses and to convert paper claims into electronic formats. ATR is evaluating other potential technology vendors as well.

ATR does not provide healthcare services, but rather expects to act as a neutral conduit for efficiency between Providers, Purchasers and their intermediaries including preferred provider organizations, that should benefit all. ATR believes that reducing the costs associated with traditional "bricks and mortar" operations, creating economies of scale, facilitating access to Providers and Purchasers, streamlining overhead costs, exploiting possibilities for functional integration, reducing errors and speeding the payment of claims should allow Purchasers to pay less and Providers to recover more of what they bill.

#### History

Alternative Technology Resources, Inc. was founded as 3Net Systems, Inc. in

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1989. In August 1999, James W. Cameron, Jr., the Company's largest stockholder, was named Chairman and Chief Executive Officer. Under his direction the Company identified what it believes to be a significant business opportunity and began developing a business model involving the establishment of a Healthcare Exchange under the name "DoctorandPatient."

In February 2000, Jeffrey S. McCormick assumed the position of the Company's Chief Executive Officer. Mr. McCormick has significant experience in financing, managing and growing early stage development companies as a managing director of Boston-based Saturn Asset Management, Inc. Mr. McCormick has served as an advisor or director of several Internet and electronic commerce companies over the last six years. As the Company's CEO, Mr. McCormick is responsible for all phases of development, implementation and operation of the Company's Healthcare Exchange. Mr. Cameron still acts as Chairman and Chief Financial Officer and continues to play an active and substantial role in formulating the Company's business strategy and policy.

The Company is using its management's experience in health care and information technology to establish the Healthcare Exchange, which has become the Company's sole focus. ATR's Healthcare Exchange began operations with a limited number of Providers and Purchasers in the quarter ending June 30, 2001. The Company continues to receive, process and analyze operating data, and the results of the Company's analysis will determine the amount and timing of remaining development related efforts. ATR's previous business was recruiting, hiring, and training foreign computer programmers and placing them with U.S. companies. In line with the Company's strategy to focus on the establishment of the Healthcare Exchange, ATR suspended recruitment of foreign computer programmers in December 1999 and began pursuing the conversion of foreign computer programmers to become employees of ATR's customers. This conversion process was complete as of June 30, 2001, and the Company is no longer in that business.

### Overview of the Industry

According to the Healthcare Financing Administration ("HCFA"), in 1999 health care in the United States was a \$1.2 trillion dollar industry, up 5.6% from 1998 and comprising approximately 13% of gross domestic product. The industry is characterized by extremely complex decision-making, high fragmentation, high barriers to entry, rising costs and slow adoption and incorporation of many information technologies. The health care industry's poor rate of investment in technological innovation has created a system rampant with inefficiencies. According to the Health Data Directory, less than 39% of private sector billing claims (including commercial, indemnity, PPO and HMO claims) were automated in 1999. Even those that are automated often have processing delays because of a myriad of reasons, including improper coding of information, inaccurate data on patients and improper eligibility information. Waste in the acquisition, delivery and processing of billing and payment for health services has been widely reported and documented. The Company believes that there are gaps and inefficiencies in the purchasing process and in billing and claims processing systems creating a key business opportunity for the Healthcare Exchange.

In its simplest form, health care can be described as the demand for services by individuals ("Patients") and the supply of services by Providers, which include medical doctors, hospitals, physical therapists and other health practitioners. Providers often form groups and practice associations. Purchasers include Patients and various forms of third parties, such as HMO's, insurance companies, Medicare, Medicaid and self-insured employers, that act as purchaser and payor for services provided to Patients.

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In most instances, Patients are members of a health service purchasing group or pool commonly offered by Purchasers. The members' health coverage is described in a plan that spells out what care is fully, partially or not covered, rules relating to payment and deductibles, selection of Providers, use

of specialists, required permissions, exclusions and so on. In these circumstances, Patients rarely pay Providers directly except for co-payments and deductibles that represent only a fraction of the total bill.

Purchasers pay Providers generally after considerable delay. Provider bills are reviewed by Purchasers and their managed care companies to verify Patient's eligibility, plan group membership, compliance with treatment and billing format and rules, and other plan provisions. The Provider's bill often is adjusted for violations and errors. Providers, like their Patients, often do not understand many health plans and may accept incorrect payment lowered by reductions they do not understand.

There are a large number of variations of the above Patient-Provider-Purchaser relationship - such as HMOs, PPOs, Medicare, Medicare enrolled HMOs, Medicaid - all of which involve some combination or redistribution of some of the functions described.

In a cash model, the Patient will pay the Provider directly. For many Americans, this simple cash model is the only one possible for all or much of their care. In many cases, these individuals may have the financial wherewithal to pay for many health services. However, Providers generally do not have the time, inclination or capability to seek out these cash Patients.

### Business Description

The purpose of the Healthcare Exchange is to utilize the Internet and other technologies to facilitate Provider initiated discounts and administrative, billing and remittance services for all commercial lines of business. The Healthcare Exchange offers a direct and efficient conduit between Providers and Purchasers of health care services, their PPOs' and/or their agents. Providers submit bills to the Company, who reprices the bills to the Provider's Healthcare Exchange rate, including adding a transaction-processing fee, and then routes them to Purchasers or their intermediaries. The Company receives payments from Purchasers on behalf of Providers, and then remits payments to Providers.

### Relationship to the Provider

The Company has developed the Healthcare Exchange for Providers (including Provider groups) to market their services to Purchasers more efficiently. The Company believes eliminating costs and delays in the billing process should allow Providers to recover more of what they bill. In the United States, there are approximately 750,000 medical doctors, 6,000 hospitals and 539,000 licensed ancillary Providers (such as chiropractors, optometrists, physical therapists and physician assistants) and suppliers (such as pharmacies, durable medical equipment suppliers, and transportation). The Company is currently marketing to and entering into contracts with Providers. A transaction-processing fee will be added to bills received from Providers and routed to Purchasers or their intermediaries.

### Relationship to Purchasers

The Company has developed the Healthcare Exchange so Purchasers can access services offered by Providers. The Company believes eliminating costs and delays in the billing process should allow Purchasers to reduce costs. The Company will

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process medical bills submitted to the Healthcare Exchange so as to add efficiencies to the purchasing and processing function. We will make these

additional services available to Purchasers on a contractual basis and through Provider initiated discount offers. Purchasers may contract with us in order to receive Providers' offered rates, and in order to lower their costs by receiving bills electronically and pre-priced. The goal of this system is to introduce additional cost certainty and to streamline the billing and payment process. A transaction-processing fee will be charged to Purchasers or their intermediaries.

### Relationship to Individual Uninsured and Under Insured Purchasers

In September 1999, the Company entered into an agreement with WebMD Corp. to develop a web-based portal through which individual uninsured and under-insured Patients can procure healthcare services. Currently both parties are reevaluating this agreement, given changed directions and priorities of each company. The agreement has not formally been modified or terminated, nor has either party proposed any specific changes. However, neither party is currently devoting any substantial resources to this project. (See Note 4 to Financial Statements.)

### Application Services Provider

The Company signed agreements effective in January 2001 with an application services provider to license, support and run software to process medical bills submitted to the Company's Healthcare Exchange. The agreements are for a period of 66 months. They required payment of an initial base license fee of \$250,000, which is being amortized over 66 months, and start-up costs, including data center set up, training and implementation fees of approximately \$145,000, which were expensed. The agreements require monthly minimum payments currently of about \$35,000 and additional fees that are transaction based if volumes exceed levels included in the monthly minimums.

### Competition

The Company's Healthcare Exchange generally will endeavor to cooperate with certain established preferred provider organizations, integrated delivery systems and health plans and other companies offering "discount plans" to potential Purchasers, and Internet companies. However, such plans and companies may choose to compete against the Healthcare Exchange and its purchasers, providers and affiliated organizations. These industries are intensely competitive and rapidly evolving.

Increased competition in the industry could result in price reductions, reduced gross margins or loss of market share, which could seriously harm the Company's business and operating results. The Company's success depends on the ability to market the Healthcare Exchange to potential Providers and Purchasers and their agents. The Company believes that the principal competitive factors in this market are health and managed care expertise, data integration and transfer of technology, ability to persuade Providers and Purchasers to accept new technology and new models, customer service and support and product and service fees. Competition is expected to increase in the future.

As a new participant in the health care industry, the Company's potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and significantly greater name recognition. In addition, many of the Company's competitors have well-established relationships with the Company's current and potential Purchasers and have extensive knowledge of the industry. Current and potential

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competitors have established or may establish strategic relationships among themselves or with third parties to increase the ability of their products and services to address Purchaser needs. These competitors may seek and obtain business method patents on portions of or all their operations, which could effectively preclude the Company from competing with the most efficient model. Also, other companies may implement a similar strategy. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

### Government Regulation

The Company's operations are subject to various federal and state laws. The Company believes that its operations currently comply with such laws, but there can be no assurance that subsequent laws, or subsequent changes in current laws or legal interpretations, will not adversely affect the Company's operations.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) will impose obligations previously unknown on the healthcare industry. HIPAA is designed to reduce the amount of administrative waste in the healthcare industry and to protect the privacy of patients' medical information. HIPAA establishes new requirements for the confidentiality of patient health information and standard formats for the secure transmission of healthcare data among healthcare providers and purchasers. HIPAA, among other things, will create federal criminal penalties for health plans, providers and claims clearinghouses that knowingly and improperly disclose information or obtain information under false pretenses. The regulations regarding the standard formats for the secure transmission of healthcare information will become effective in October 2002, but extended to October 2003 if an extension is requested and a compliance plan is filed with Secretary of the Department of Health and Human Services. The regulations regarding privacy issues will become effective in April 2003.

The Company was aware of and tried to incorporate HIPAA requirements or their timely adoption as its products and services were developed. We have filed a compliance plan and a request for extension to October 2003 to comply with the standard formats requirements. We are currently reviewing processes, systems or policies that may require modification, and we are working to implement appropriate changes to avoid any adverse impact on our ability to perform services in accordance with HIPAA standards. We are also communicating with significant third-party service providers to assess their readiness and the extent to which we will need to modify our agreements or relationships with them to comply with HIPAA standards.

The cost of this compliance effort is estimated to be less than \$100,000. However, there can be no guarantee that the costs will not materially exceed this, or that changes in federal standards would require expending additional resources.

The confidentiality of patient records and claims data and the circumstances under which records and data may be released or must be secured for inclusion in the Company's databases may be subject to substantial regulation by state governments. These state laws govern both the disclosure and the use of confidential patient medical records. Although compliance with these laws currently is principally the responsibility of Providers and health plans, these regulations may be extended to cover the business and the claims data and other information that are included in the Company's databases. If these laws are extended to cover the Company's business, the Company may be required to expend additional resources in order to comply with these laws, including changes to the Company's security practices, and may be exposed to greater liability in the event of failure to comply with these laws.

The offering of health provider services is subject to extensive regulation

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under state laws. Under some state laws, regulators may take the position that a registration fee for Purchaser access to favorable fees from Providers requires meeting the requirements for licensing as a health plan or health insurer. In addition, to the extent that fees are paid by Providers, state regulators could

assert that the Company's Healthcare Exchange is a referral agency, which requires licensing under many state laws, or that Providers are paying prohibited referral fees, which could subject the Provider or the Company to civil or criminal penalties. In addition, the Company's relationships with Purchasers may require licensing or certifications in some states. Also, although the Company does not currently anticipate entering the Medicare or state Medicaid markets, similar federal regulations could adversely impact the business. Because the e-commerce business is relatively new to the provider network industry, the impact of current or future regulations is difficult to anticipate.

As we develop our business plan, compliance with or prohibitions by state regulations could delay or eliminate certain aspects of our business or force us to modify our business, which could have a material adverse impact on our business and prospects.

### Human Resources

At August 31, 2002, the Company had 119 employees, consisting of 73 employees located in Sacramento, and 44 employees in satellite offices in 17 states, including California, and 2 employees in the Company's headquarters located in Portsmouth, New Hampshire. This includes Provider Development staff of 44 that is recruiting medical providers for contracting in 32 markets in 22 states for the Healthcare Exchange.

### Insurance

The annual coverage limits for the Company's general premises liability, professional liability and workers' compensation insurance policies are \$3,000,000 for liability insurance policies and \$1,000,000 for workers' compensation. ATR also has a \$1,000,000 policy for errors and omissions insurance. Management believes such limits are adequate for the Company's business; however, there can be no assurance that potential claims will not exceed the limits on these policies.

### RISK FACTORS

An investment in our common stock involves considerable risk. In addition to the other information contained in this annual report, you should carefully consider the following factors in evaluating an investment in the Company. This annual report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in such forward-looking statements. Factors that might cause such a difference includes those discussed below. Note that this is not an all-inclusive list of the risks to which we are subject.

We only have a limited operating history in the health care and Internet industries that investors may use to assess our future prospects.

Although we have been an operating company in the computer programmer recruiting and placement industry for several years, we only recently began operating in the Internet and health care industries. We have not generated significant revenues and may never generate sufficient revenues to achieve profitability in this new venture. We have limited experience addressing challenges frequently encountered by early-stage companies in the electronic

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commerce and health care industries. Accordingly, our limited operating history does not provide investors with a meaningful basis for evaluating an investment in our common stock.

The likelihood of our success must be considered in light of the potential problems, expenses, difficulties, complications and delays frequently

encountered in connection with any enterprise starting a new business with a completely new business plan, particularly in new and rapidly evolving markets such as the Internet. Such risks include an evolving, untested and unpredictable business model, the creation of brand identity, the expansion or creation of competing services, the uncertainty of the acceptance of the marketing medium and the management of anticipated growth.

Our current operations are not profitable and we have a history of significant losses.

We have experienced losses since our inception. Our net loss applicable to common stockholders for the years ended June 30, 2002 and 2001 was \$9,815,906 and \$9,800,897. As of June 30, 2001 we had completed the phase out of the contract programmer operations that resulted in previous operating losses. However, there is no assurance we can develop our Healthcare Exchange into a profitable and sustainable business. As a result, the report of independent auditors on the Company's June 30, 2002 financial statements includes an explanatory paragraph indicating there is substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

We need additional financing.

Based on the steps the Company has taken to refocus its operations and obtain additional financing, the Company believes that it has developed a viable plan to address the Company's ability to continue as a going concern, and that this plan will enable the Company to continue as a going concern through at least the end of fiscal 2003. However, the Company believes it will need to raise additional funds during fiscal 2003. The Company has engaged a placement agent to assist in the sale of shares of the Company common stock in a private placement. However there can be no assurance that the Company will be able to raise sufficient funds to successfully implement its business plan. If unsuccessful the Company may be required to reduce the development efforts of its Healthcare Exchange or be forced into seeking protection under federal bankruptcy laws. Traditionally, we have relied on major stockholders or affiliates to finance our operations. However, there can be no assurance that they will continue to do so. The issuance of additional shares of common stock will dilute the ownership of existing stockholders.

Our growth depends on industry acceptance of our health care products and services.

The time, expense and effort of securing Purchasers and Providers may exceed our expectations and may negatively impact our business and operating results. The decision to implement our products and services requires time intensive education of both Providers and Purchasers of the advantages of our products and services. The failure of industry participants to accept our services and products as a replacement for traditional methods of operations could limit our revenue growth. We, therefore, will devote significant resources and incur costs without any assurance that sufficient medical providers will join our network or that Purchasers will use our products or services. In the



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event that Purchasers do not use our products or services, we may have incurred substantial costs that cannot be recovered and which will not result in future revenues.

Our future revenue growth depends upon our establishment and maintenance of successful relationships with Providers and strategic vendors in order to attract Purchasers to our products and services.

We believe that our future revenue growth depends in part upon the successful creation and maintenance of relationships with Providers, Purchasers

and strategic vendors. To date we have established relationships with a small number of the Providers that we are targeting. In order to successfully attract Purchasers, we may need to have a large number of relationships with Providers with diverse practices and over broad geographic areas. We may not be able to adequately develop relationships with the number of Providers necessary to achieve this type of coverage and those already existing relationships with Providers may not be ultimately successful.

The Company signed agreements effective in January 2001 with an application services provider to license, support and run software to process medical bills submitted to the Company's Healthcare Exchange. ATR has also signed agreements to receive claims from Providers through electronic clearing houses and to convert paper claims into electronic formats. These relationships are non-exclusive.

In September 1999, ATR entered into an agreement with WebMD Corp. to develop a web-based portal through which Patients can procure health services. This relationship is nonexclusive and the status of the project is currently being reevaluated by the parties.

We may enter into additional strategic relationships in the future and are currently evaluating other potential technology vendors. Strategic vendors may offer products or services of several different companies, including products and services that compete with our products or services. Strategic vendors may be influenced by our competitors to scale back or end their relationships with us. We may not establish additional strategic relationships, and any relationships we do establish ultimately may be unsuccessful.

If we are unable to establish and maintain successful relationships with Providers or strategic vendors, we may have to devote substantially more resources to the sales and marketing of our products and services.

The failure of our Providers to provide high quality services will diminish our brand value and the number of Purchasers who use our proposed services may decline.

Promotion of our brand value depends on our ability to provide a high quality experience for finding Providers. If our Providers do not provide Purchasers high quality service, the value of our services could be damaged and the number of Purchasers using our proposed services may decrease. The failure by our Providers to provide the level of health care that Purchasers expect will result in low satisfaction, damage to our brand name and could materially and adversely affect our business, results of operations and financial condition.

Failure to manage our growth effectively could harm our business and operating results.

We have hired a significant number of new employees and will continue to add personnel to maintain our ability to grow in the future. Our growth will

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place significant strain upon our management and operational systems and resources. We must integrate our new employees into a cohesive team and at the same time increase the total number of employees and train and manage our employee work force in a timely and effective manner to expand our business. We may not be able to do so successfully.

Our business could suffer if the integrity of our systems and the systems of those third parties we depend on are inadequate.

We will depend on third parties to develop significant portions of the information systems for our Healthcare Exchange. Any failure of the systems we

are developing, or those of third parties, could harm our business and operating results. We intend for these systems to process vast amounts of pricing and financial data and execute large numbers of payment transactions. Any delay or failure in these systems or in our ability to communicate electronically with Purchasers or in our ability to collect, store, analyze or process accurately pricing and financial data may result in the denial of claims, or in the delay or failure to execute payment transactions accurately. This type of delay or failure would harm our business and operating results.

Our business and reputation may be harmed if we are unable to protect the privacy of our confidential health information.

Our information systems and Internet communications may be vulnerable to damage from physical break-ins, computer viruses, programming errors, attacks by computer hackers and similar disruptive problems. A user who is able to access our computer or communication systems could gain access to confidential health information of individuals. Therefore, a material security breach could harm our business and our reputation or could result in liability to us.

Our future revenue growth depends in part on increasing use of the Internet and on the growth of e-commerce.

Rapid growth in the use of the Internet is a recent phenomenon. As a result, its acceptance and use may not continue to develop at historical rates and a sufficiently broad base of business customers and individual customers may not adopt or continue to use the Internet as a medium of commerce. Demand and market acceptance for recently introduced products and services over the Internet are subject to a high level of uncertainty, and there exist few proven products and services.

Our future profitability depends, in part, upon increased Provider and Purchaser demand for additional Internet and e-commerce solutions that we are in the process of developing or may develop in the future.

Our ability to comply with the Health Insurance Portability and Accountability Act of 1996 (HIPAA) could harm our business and operating results.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) will impose obligations previously unknown on the healthcare industry. HIPAA is designed to reduce the amount of administrative waste in the healthcare industry and to protect the privacy of patients' medical information. HIPAA establishes new requirements for the confidentiality of patient health information and standard formats for the secure transmission of healthcare data among healthcare providers and purchasers. HIPAA, among other things, will create federal criminal penalties for health plans, providers and claims clearinghouses that knowingly and improperly disclose information or obtain information under false pretenses. The regulations regarding the standard formats for the secure transmission of healthcare information will become effective in October 2002,

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but extended to October 2003 if an extension is requested and a compliance plan is filed with Secretary of the Department of Health and Human Services. The regulations regarding privacy issues will become effective in April 2003.

The Company was aware of and tried to incorporate HIPAA requirements or their timely adoption as its products and services were developed. We have filed a compliance plan and a request for extension to October 2003 to comply with the standard formats requirements. We are currently reviewing processes, systems or

policies that may require modification, and we are working to implement appropriate changes to avoid any adverse impact on our ability to perform services in accordance with HIPAA standards. We are also communicating with significant third-party service providers to assess their readiness and the extent to which we will need to modify our agreements or relationships with them to comply with HIPAA standards.

The cost of this compliance effort is estimated to be less than \$100,000. However, there can be no guarantee that the costs will not materially exceed this, or that changes in federal standards would require expending additional resources.

State and local laws regarding confidentiality and security of health information could harm our business and operating results.

The confidentiality of patient records and claims data and the circumstances under which records and data may be released or must be secured for inclusion in our databases may be subject to substantial regulation by state governments. These state laws govern both the disclosure and the use of confidential patient medical records. Although compliance with these laws currently is principally the responsibility of Providers and health plans, these regulations may be extended to cover our business and the claims data and other information that we include in our databases. If these laws are extended to cover our business, we may be required to expend additional resources in order to comply with these laws, including changes to our security practices, and may be exposed to greater liability in the event we fail to comply with these laws.

State laws and regulations concerning the marketing of health provider services over the Internet could harm our business and operating results.

The offering of health provider services is subject to extensive regulation under state laws. Under some state laws, regulators may take the position that a registration fee for Purchaser access to favorable fees from Providers requires meeting the requirements for licensing as a health plan or health insurer. In addition, to the extent that fees are paid by Providers, state regulators could assert that the Company's Healthcare Exchange is a referral agency, which requires licensing under many state laws, or that Providers are paying prohibited referral fees, which could subject the Provider or the Company to civil or criminal penalties. In addition, the Company's relationships with Purchasers may require licensing or certifications in some states. Also, although the Company does not currently anticipate entering the Medicare or state Medicaid markets, similar federal regulations could adversely impact the business. Because the e-commerce business is relatively new to the provider network industry, the impact of current or future regulations is difficult to anticipate.

As we develop our business plan, compliance with or prohibitions by state regulations could delay or eliminate certain aspects of our business or force us to modify our business, which could have a material adverse impact on our business and prospects.

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Internet commerce has yet to attract significant regulation, but government regulations may result in administrative monetary fines, penalties or taxes that may reduce our future earnings.

There are currently few laws or regulations that apply directly to the Internet. Because our business utilizes the Internet, the adoption of new (or applications of existing) local, state, national or international laws or regulations may decrease the growth of Internet usage or the acceptance of Internet commerce which could, in turn, decrease the demand for our services and increase our costs or otherwise have a material adverse effect on our business, results of operations and financial condition.

We face a risk of litigation.

Although the Company is not currently involved in any litigation, we have been involved in several significant litigation matters in our history. No assurances can be given that additional legal proceedings will not be initiated against us. In addition, involvement in litigation will require us to spend time and pay expenses to defend ourselves, which will have an adverse effect on our operations and financial condition and results. The health care and Internet industry that we are entering into may cause us to face an increased risk of litigation. Patients who file lawsuits against doctors often name as defendants all persons and companies with any relationship to the doctors.

Our Common Stock price is volatile and could be impacted by fluctuating results in the future and by general market conditions.

Our common stock price is volatile and could be impacted by fluctuating results in the future and by general market conditions. Our common stock is quoted and traded on the OTC Bulletin Board and the public market for our common stock has been limited, sporadic and highly volatile. Between July 1, 2001 and June 30, 2002, the closing price of a share of our Common Stock ranged from a low of \$2.00 to a high of \$3.70. There can be no assurance that a more active trading market for our common stock will develop or be sustained.

Our executive officers and existing stockholders have significant control.

Our executive officers, directors and holders of over five percent (5%) of our stock and their affiliates beneficially own approximately 80% of the outstanding shares of our common stock as of June 30, 2002. As a result, if these holders act as a group, they may be able to control us and direct our affairs, including the election of directors and approval of significant corporate transactions without further approval by other stockholders. This concentration of ownership also may delay, defer or prevent a change in control of our company, and make some transactions more difficult or impossible without the support of these stockholders.

Our stock price may be affected by the availability of shares for sale in the near future, and the future sale of large amounts of our stock, or the perception that such sales could occur, could negatively affect our stock price.

To finance its operations, the Company has sold shares of its common stock and a convertible promissory note convertible into common stock in private placements to accredited investors. Pursuant to these private placements, the Company has agreed to register the shares of common stock sold in the private placement and that may be issued upon the conversation of the convertible promissory note with the SEC. In light of our limited trading market, the market price of our common stock could drop as a result of sales of a large number of restricted shares of our common stock in the market, or the perception that such sales could occur, due to the shares of common stock being registered for resale pursuant to a registration statement file with the SEC.

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In addition, as of August 31, 2002, the Company has reserved a total of 11,682,713 shares of common stock pursuant to outstanding warrants, options, convertible notes payable to stockholders, and future issuance of options to employees and non-employee directors. Our outstanding options, warrants and convertible debt may have a detrimental impact on the price of our shares of common stock since they may be dilutive to new investors.

Future issuances of preferred stock could reduce the value of our common stock.

We are authorized to issue up to 1,200,000 shares of our preferred stock. The preferred stock may be issued in one or more series, on such terms and with such rights, preferences and designations as our board of directors may determine, without action by stockholders. The issuance of any preferred stock could adversely affect the rights of the holders of common stock, and therefore reduce the value of the common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party, thus making it more difficult for a third party to acquire a majority of our outstanding voting stock. We have no current plans to issue shares of preferred stock.

We have not paid dividends, and expect to retain our earnings for the foreseeable future.

We have not paid cash dividends on our common stock since our inception. We do not intend to pay cash dividends on our common stock in the foreseeable future so that we may reinvest earnings, if any, in the development of our business.

### Item 2. Description of Property

The Company's headquarters are located in Portsmouth, New Hampshire, consisting of approximately 2,340 square feet of office space for a monthly rent of \$3,263. The lease commenced December 1, 2000, and runs through May 31, 2003.

In addition, the Company has an office located in Sacramento, California. The Company occupies approximately 7,523 square feet of office space in Sacramento, which it leases from Mr. James W. Cameron, Jr., the Company's Chairman of the Board and majority stockholder, for a monthly rent of \$12,131. A February 1, 2000, addendum to the lease extended the expiration of the lease to January 31, 2004.

### Item 3. Legal Proceedings

As of September 12, 2002 the Company is not currently a party to any pending legal proceedings.

### Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted during the quarter ended June 30, 2002 to a vote of security holders.

## PART II

### Item 5. Market for Common Equity and Related Stockholder Matters

ATR's common stock is quoted on the OTC Bulletin Board under the symbol "ATEK." Transactions in ATR's common stock are subject to the "penny stock" disclosure requirements of Rule 15g-9 under the Exchange Act.

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The table below sets forth the high and low closing prices for the common stock of the Company for each of the last eight quarters. Such over the counter market quotations reflect inter dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Period -----	High -----	Low ---
Quarter ended September 30, 2000	\$4.81	\$2.75
Quarter ended December 31, 2000	\$3.38	\$1.38
Quarter ended March 31, 2001	\$2.31	\$1.34
Quarter ended June 30, 2001	\$2.26	\$1.90
Quarter ended September 30, 2001	\$3.70	\$2.08
Quarter ended December 31, 2001	\$3.09	\$2.62
Quarter ended March 31, 2002	\$3.06	\$2.06
Quarter ended June 30, 2002	\$2.55	\$2.00

As of August 27, 2002, the Company had approximately 244 holders of its shares of common stock, excluding holders of the Company's common stock held in street name.

### Dividend Policy

The Company has never paid a cash dividend on its common stock and does not anticipate paying cash dividends on its common stock in the foreseeable future. ATR's Series D preferred stock carried a cumulative dividend of \$0.60 per share per year until the Series D preferred stock was exchanged for common stock on September 11, 2000. On September 11, 2000, in connection with the exchange of 204,167 shares Series D preferred stock, for 408,334 shares of common stock based on a per share price of \$3.00 per share, the Company declared accrued dividends of \$759,110 in the aggregate. Of the \$759,110 in accrued dividends, two of the Series D preferred stockholders agreed to accept 158,638 shares of common stock for \$475,915 in accrued dividends based on a \$3.00 per share value.

The Board of Directors, on the basis of various factors, including the Company's results of operations, financial condition, capital requirements and other relevant factors, will determine ATR's future dividend policy.

### Item 6. Selected Financial Data

The following table presents a summary of unaudited selected financial data for each of the five years ended June 30. The data should be read in conjunction with the Financial Statements and related notes included herein.

	Years Ended June 30,		
	2002	2001	2000
Statement of Operations Data			
Healthcare Exchange revenue	\$ 1,642,565	\$ 50,944	\$ -
Healthcare Exchange gross profit (loss)	179,048	(33,584)	-
Contract programming revenue	-	308,469	2,561,101

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Contract programming gross profit	-	62,797	422,062
Selling, marketing and product development costs	(7,076,558)	(5,097,513)	(1,154,244)
General and administrative expenses	(2,482,272)	(3,850,971)	(1,276,726)
Loss from operations	(9,379,782)	(8,919,271)	(2,008,908)
Total other income (expense)	(436,124)	4,516	(2,806,733)
Net loss	(9,815,906)	(8,914,755)	(4,815,641)
Preferred stock dividends	-	(886,142)	(122,500)
Net loss applicable to common stockholders	(9,815,906)	(9,800,897)	(4,938,141)
Basic and diluted net loss per share	\$(0.16)	\$(0.17)	\$(0.10)
Shares used in per share calculation	59,936,435	58,686,778	50,329,614
Balance Sheet Data			
Total assets	\$ 1,203,309	\$ 5,577,658	\$2,502,703
Long term obligations	-	3,740,450	3,567,424
Accrued preferred stock dividends	283,195	283,195	735,001
Redeemable Preferred Stock, Series D	-	-	1,225,002

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion provides information to facilitate the understanding and assessment of significant changes in trends related to the financial condition of the Company and its results of operations. It should be read in conjunction with the audited financial statements and footnotes appearing elsewhere in this annual report.

#### Critical Accounting Policies

**Revenue Recognition.** The Company recognizes revenue for the transaction-processing fee when earned and the Company has substantially completed all of its obligations under the contract.

**Prepaid License and Service Fees.** Prepaid license and services fees are recorded at cost and amortized on a straight-line basis over the service period. Management considers whether indicators of impairment of these assets are present at each balance sheet date and an impairment loss is recorded, if

necessary. In assessing the recoverability of the Company's prepaid license and service fees, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded.

#### Results of Operation

Year ended June 30, 2002 compared to year ended June 30, 2001

#### Healthcare Exchange

**Healthcare Exchange Revenue.** The Company began operations with a limited number of Providers in the quarter ending June 30, 2001. Providers submit bills to ATR, who reprices the bills to the rate set by the Providers, including adding a transaction-processing fee, and then routes them to Purchasers or their intermediaries. ATR receives payments from Purchasers on behalf of Providers, and then remits payments to Providers. The Company recognizes revenue for the transaction-processing fee when earned and the Company has substantially completed all of its obligations under the contract. For fiscal year 2002, \$1,642,565 of revenue was recognized as compared to \$50,944 in fiscal year 2001.

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This increase of \$1,591,621 was primarily due to an increase in the number of transactions processed by the Healthcare Exchange during a full year of operations.

**Healthcare Exchange Costs.** Healthcare Exchange costs are the direct costs related to the processing of the bills submitted by Providers and payments received from Purchasers. These costs include the salary and other wage and benefit costs of the Healthcare Exchange operations staff and the operating cost of the application services provider. The costs for fiscal year 2002 were \$1,463,517, an increase of 1,631% over fiscal year 2001 cost of \$84,528. As of June 30, 2002 there were 25 operations staff members responsible for the processing of bills submitted by Providers and payments received from Purchasers, compared to 7 operations staff members as of June 30, 2001.

### Contract Programming

ATR's previous business was recruiting, hiring, training and placing foreign computer programmers with U.S. companies. In line with the Company's strategy to focus on the establishment of the Healthcare Exchange for health care services, ATR suspended recruitment of foreign computer programmers in December 1999 and began pursuing the conversion of computer programmers to employees of ATR's customers. This conversion process was complete as of June 30, 2001.

**Contract Programming Revenue.** Contract programming revenue resulted primarily from sales of programmer services. There was no revenue recognized in fiscal year 2002 due to the conversion of all contract programmers to customer employees and the phase-out of contract programming services as of June 30, 2001. Revenue of \$308,469 were recognized in fiscal year 2001

**Programmer Costs.** Programmer costs represent the salary and other wage and benefit costs of ATR's programmer employees. There were no programmer costs in fiscal year 2002 due to the conversion of all contract programmers to customer employees and the phase-out of contract programming services as of June 30, 2001. Programmer costs of \$235,258 were recognized in fiscal year 2001.

**Start-up and Other Costs.** Start-up and other costs represent the costs of recruiting fees, training, and travel for programmer employees coming to the United States from the former Soviet Union for the first time, relocation costs within the United States, and legal and other costs related to obtaining and maintaining compliance with required visas, postings and notifications. Start-up and other costs were expensed as incurred.

Included in this category of costs is compensation paid by ATR whenever programmer employees were hired and entered the United States or were relocated once in the United States but before these programmers began working at a customer's work site. There were times when under immigration law, ATR, as employer, paid a programmer employee at least 95% of prevailing wages for his or her specialty even when the programmer was not placed.

There were no start-up-and-other-costs recognized in fiscal year 2002 due to the conversion of all contract programmers to customer employees and the phase-out of contract programming services as of June 30, 2001. Start-up-and-other-costs of \$10,414 was recognized in fiscal year 2001.

### Selling, Marketing and Product Development Costs



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In October 1999 the Company began incurring costs to develop its Healthcare Exchange. Costs incurred are primarily the salary, other wage and benefit costs of ATR's employees and other operational costs associated with recruiting the network of healthcare Providers. The increase of the sales and marketing staff from 55 in fiscal year 2001 to 77 in fiscal year 2002 resulted in the cost increase of \$1,979,045 for fiscal year 2002 as compared to fiscal year 2001.

### General and Administrative Expenses

General and administrative expense decreased \$1,368,699 in fiscal year 2002 compared to fiscal year 2001. This decrease was primarily due to non-cash stock based compensation expense of \$1,931,036 related to the purchase of common stock in the Company's August 2000 private placement by the Company's Chief Executive Officer and related entities and non-cash compensation due to conversion of Series D Preferred Stock into common stock by the Company's Chairman of the Board in fiscal year 2001. This was partially offset by an increase in the number of employees and related costs to support the Healthcare Exchange, and non-cash compensation expense of \$138,583 related to the purchase of common stock by the Company's Chairman.

### Other Income (Expense)

Interest Income. Interest income decreased \$405,179 in fiscal year 2002 compared to fiscal year 2001 primarily due to a decrease of average cash balances generating interest income in fiscal year 2002.

Interest Expense. Interest expense increased \$35,461 in fiscal year 2002 compared to fiscal year 2001 due to the increase in Notes Payable to Stockholders and Convertible Notes Payable to Stockholders, and interest of \$31,076 paid on Provider claims when payment is received from the Purchaser and paid to the Provider later than 21 days of receiving a claim in accordance with the terms of the Provider contracts.

Year ended June 30, 2001 compared to year ended June 30, 2000

### Healthcare Exchange

Healthcare Exchange Revenue. The Company began operations with a limited number of Providers in the quarter ending June 30, 2001. During the quarter ending June 30, 2001, the first quarter of operations, \$50,944 of revenue was recognized.

Healthcare Exchange Costs. Healthcare Exchange costs are the direct costs related to the processing of the bills submitted by Providers and payments received from Purchasers. The costs for fiscal year 2001 were \$84,528. No such costs were incurred in fiscal year 2000.

### Contract Programming

Contract Programming Revenue. Contract programming revenue resulted primarily from sales of programmer services. Revenue decreased \$2,252,632 or 88% in fiscal year 2001 compared to fiscal year 2000. This decrease was due to a reduction in the monthly average number of contract programmers working at customer sites in fiscal year 2001 compared to fiscal year 2000. This decline in the number of programmers at customer sites, started in the last half of fiscal year 1999, was due to several customers choosing to exercise a contract termination provision which allowed them to convert, for a fee, ATR's programmers to their employees. The Company escalated this conversion process

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during fiscal years 2000 and 2001 to enable it to focus its business strategy toward developing its Healthcare Exchange.

As of June 30, 2001, all contract programmers had been converted to customer employees. The phase out of contract programming services is complete and all expenses have been incurred.

**Contract Termination Fees.** Contract termination fees represent amounts received from customers when they exercised the contract provision, which allowed them to convert ATR's programmer to their employee. In addition, these fees were also received from programmers when they exercised their contract provision to terminate their relationship with the Company prior to the termination date of their contract. These fee amounts were stipulated in customer and programmer contracts, were based on the length of time remaining under the contract, and were recognized as revenue when such contract provisions were invoked.

**Programmer Costs.** Programmer costs represent the salary and other wage and benefit costs of ATR's programmer employees. These costs decreased by \$1,509,753 or 87% in fiscal year 2001 compared to fiscal year 2000. This decrease was primarily due to the reduction in the number of contract programmers working at customer sites as discussed above in "Contract Programming Revenue".

**Start-up and Other Costs.** Start-up and other costs represent the costs of recruiting fees, training, and travel for programmer employees coming to the United States from the former Soviet Union for the first time, relocation costs within the United States, and legal and other costs related to obtaining and maintaining compliance with required visas, postings and notifications. Start-up and other costs were expensed as incurred.

Start-up and other costs decreased \$389,067 or 97% in fiscal year 2001 as compared to fiscal year 2000. This decrease was due to a decrease in the number of programmers who were in the United States but not working at customer sites. In fiscal year 2001 there were no programmers temporarily unassigned compare to 2 in fiscal year 2000.

### Product Development Costs

In October 1999 the Company began incurring costs to develop its Healthcare Exchange. Costs incurred are primarily the salary, other wage and benefit costs of ATR's employees and other operational costs associated with recruiting the network of healthcare Providers. The increase of the sales and marketing staff from 23 in fiscal year 2000 to 55 in fiscal year 2001 resulted in the cost increase of \$3,943,269 for fiscal year 2001 as compared to fiscal year 2000.

### General and Administrative Expenses

General and administrative expense increased \$2,574,245 in fiscal year 2001 compared to fiscal year 2000. This increase was primarily due to non-cash stock based compensation expense of \$1,931,036 and costs relating to increases in support staff, licensing and consulting fees and rent and facilities for the New Hampshire headquarters.

### Other Income (Expense)

**Interest Income.** Interest income increased \$360,070 in fiscal year 2001 compared to fiscal year 2000 primarily due to increased interest income earned on higher average cash balances as a result of funds received from the sale of our common stock in August 2000.

**Interest Expense.** Interest expense decreased \$2,451,179 in fiscal year 2001

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compared to fiscal year 2000 due to the charges recorded as a result of the benefit accruing to the note holders from amending the conversion terms of the \$1,000,000 convertible note in fiscal year 2000.

### Income Taxes

As of June 30, 2002 the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$46,119,000 million and \$26,245,000 million, respectively. The federal net operating loss carryforwards expire in 2004 through 2022 and the state net operating loss carryforwards expire in 2002 through 2022. The Company also has approximately \$98,000 and \$25,000 of research and development tax credit carryforwards for federal and state income tax purposes, respectively. The federal research and development tax credit carryforwards expire in 2005.

In connection with the Company's initial public offering in August 1992, a change of ownership (as defined in Section 382 of the Internal Revenue Code of 1986, as amended) occurred. As a result, the Company's net operating loss carryforwards generated through August 20, 1992 (approximately \$1,900,000) are subject to an annual limitation in the amount of approximately \$300,000.

In 1993, a controlling interest of the Company's stock was purchased, resulting in a second annual limitation in the amount of approximately \$398,000 on the Company's ability to utilize net operating loss carryforwards generated between August 11, 1992 and September 13, 1993 (approximately \$7,700,000).

In accordance with provisions of the Internal Revenue Code Section 382, additional portions of the net operating loss carryforwards may be disallowed as a result of additional changes in ownership of the Company.

The Company expects the aforementioned annual limitations will result in net operating loss carryovers, which will not be utilized prior to the expiration of the carryover period.

### Liquidity and Capital Resources

For the fiscal year ending June 30, 2002, the Company earned revenues of \$1,642,565 but incurred a net loss of \$9,815,906. Until the Company can generate sufficient revenue to finance its operations, the Company will have to seek other financing. Traditionally, the Company has used a combination of equity and debt financing and revenue generated to fund operations but has incurred operating losses since its inception, which has resulted in an accumulated deficit of \$59,362,879 at June 30, 2002.

The Company's Healthcare Exchange development efforts will require substantial funds prior to generating sufficient revenues to fund operations and repay debt. The Company believes that it has developed a viable plan to address the Company's ability to continue as a going concern, and that this plan will enable the Company to continue as a going concern, at least through the end of fiscal year 2003. However, the Company believes it will need to raise additional funds during fiscal 2003. The Company has engaged a placement agent to assist in the sale of shares of the Company common stock in a private placement. However there can be no assurance that the Company will be able to raise sufficient funds to successfully implement its business plan. Traditionally, the Company has relied on major stockholders or affiliates to finance its operations. However, there can be no assurance that they will continue to do so. If unsuccessful the Company may be required to reduce the development efforts of its Healthcare Exchange or be forced into seeking protection under federal bankruptcy laws. As a result, the report of independent auditors on the Company's June 30, 2002 financial statements includes an explanatory paragraph indicating there is substantial doubt about the Company's ability to continue as

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a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

During the period between January 9, 2002 and March 28, 2002, the Company sold 1,232,585 shares of its common stock at a purchase price of \$2.25 per share. The shares of common stock issued in the private placement are restricted securities. Further pursuant to the private placement, in the event that within one year from the final closing the Company sells shares of common stock, or securities exercisable or convertible into common stock, at a price less than \$2.25 per share, the Company will issue additional shares to these investors in an amount such that the overall purchase price will be equal to the lower, subsequent sales price. The forgoing shall exclude common stock that may be issued in connection with a merger, as a dividend, pursuant to the exercise of outstanding options, warrants and other convertible securities and pursuant to options subsequently issued to employees. Net proceeds from the offering were \$2,742,519. The proceeds from the private placement were used to fund operations and repay debt. The Company's Chairman and Chief Financial Officer purchased 222,222 shares of the Company's common stock in the private placement. Because the purchase price of such stock was less than the public trading price on the date of purchase, the Company recorded compensation expense of \$138,583 during fiscal year 2002.

Subsequent to year-end, the Company has received short-term unsecured financing in the form of a convertible note of \$1,000,000 as of July 26, 2002 from a lender. This note bears interest at 8% and is payable at the earliest of July 25, 2003 or when the Company, in a proposed Private Placement of Common Stock offering, raises \$8,000,000. All or a portion of the convertible note may

be converted into shares of common stock at the lower of \$2.25 per share or the subscription per share price of the proposed Private Placement of Common Stock. In consideration for the loan the Company will issue three warrants. The Company will issue to the lender one warrant to purchase 100,000 shares of common stock. The lender will also receive a second warrant to purchase 100,000 shares of common stock that may only be exercisable if the Company does not repay the convertible note within 180 days of the agreement. The lender will also receive a third warrant to purchase 100,000 shares of common stock that may be exercisable if the Company does not repay the convertible note within one year of the agreement. Each of the warrants will have an exercise price equal to the lower of \$2.14 or the subscription per share price of the proposed Private Placement of Common Stock. When, and if, exercisable the lender may exercise these warrants through July 26, 2009.

During fiscal year 2002, the Company issued 284,200 shares of common stock pursuant to the exercise of warrants for the amount of \$213,150.

On August 28, 2000, the Company sold 3,333,334 shares of its common stock at \$3.00 per share. Proceeds, net of offering costs, were approximately \$9,560,345. Proceeds were used to develop the Company's Healthcare Exchange. The Company's Chief Executive Officer and related entities purchased 2,333,335 shares of the Company's common stock in the private placement. Because the purchase price of such stock was less than the public trading price on the date of purchase, the Company recorded compensation expense of \$1,458,334 in the first fiscal quarter ended September 30, 2000.

During fiscal year 2000, the Company received \$3,712,348 in private sales of its common stock at an average price of \$3.42 per share.

On September, 11, 2000, the Company agreed with the Series D Preferred

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stockholders to exchange all their outstanding Series D shares and \$475,915 in accrued preferred stock dividends into 566,972 shares of common stock based on a purchase price of \$3.00 per common share. The benefit accruing to the Series D Preferred stockholders was recorded in the quarter ended September 30, 2000, approximately \$316,702 in compensation expense and \$862,000 in preferred stock dividends.

The Company has received short-term, unsecured financing to fund its operations in the form of notes payable of \$4,636,352 as of June 30, 2002, from Mr. Cameron and another stockholder. These notes bear interest at 10.25%. On September 1, 2001, the Company agreed with Mr. Cameron to extend the due date on notes payable to him until December 31, 2002 in exchange for an extension fee of 2%. These extended notes total \$1,630,529, including accrued interest and extension fees, and bear interest at 10.25% per annum. During the quarter ending June 30, 2002, Mr. Cameron loaned the Company an additional \$582,000 bearing interest at 10.25% payable on December 31, 2002. On September 1, 2001, the Company agreed with the other note holder to extend the due date of his convertible promissory notes until December 31, 2002. These convertible promissory notes total \$2,423,823, including accrued interest, bear interest at 10.25% per annum and are convertible into common stock at \$3.00 per share at the note holder's option. Subsequent to fiscal year end 2002, Mr. Cameron loaned the Company an additional \$426,000 bearing interest at 10.25% payable on December 31, 2002.

On April 21, 1997, the Company issued an unsecured note payable (the "Straight Note") to Mr. Cameron for \$1,000,000 in accordance with the Reimbursement Agreement the Company signed on February 28, 1994. No maturity date was stated in the note; however, under the terms of the Reimbursement Agreement, upon written demand by Mr. Cameron, the Straight Note was to be

replaced by a note convertible into the Company's common stock (the "Convertible Note") in a principal amount equal to the Straight Note and bearing interest at 9.5%. Subsequent to June 30, 1999, Mr. Cameron disposed of a portion of his interest in the Straight Note, reducing the balance due him to \$711,885, plus accrued interest. On August 19, 1999, the Company's Board of Directors agreed with the Straight Note holders to fix the conversion price of the Convertible Note to \$0.044 in exchange for the Straight and/or Convertible Notes ceasing to accrue interest as of that date. Because of the decline in revenues caused by the non-renewal of programmer contracts and the steady decline in the quoted value of the Company's common stock at that time (trading price was at \$0.25 on August 19, 1999), the Board agreed it was in the best interest of the Company to eliminate the future market risk that the conversion price become lower than a fixed conversion price of \$0.044. The benefit accruing to the note holders resulting from the amendment to the conversion terms, as measured on August 19, 1999, was approximately \$2.4 million and was recorded as additional interest expense in the quarter ended September 30, 1999. Subsequent to August 19, 1999, Mr. Cameron elected to replace his remaining interest in the Straight Note, including accrued interest, with the Convertible Note and then simultaneously converted the Convertible Note into 19,762,786 shares of the Company's common stock. All other Straight Note holders also replaced their Straight Notes, including accrued interest, with Convertible Notes and converted such Convertible Notes into an aggregate of 7,998,411 shares of the Company's common stock during fiscal 2000.

The following table represents the debt requirements pertaining to contractual obligations of the Company over the next five years:

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Contractual Obligations	Payments Due by Period		
	Total	Less than 1 year	1-3 years
Notes payable to stockholder	\$ 2,212,529	\$ 2,212,529	\$ -
Convertible notes payable to stockholder	2,423,823	2,423,823	-
Operating leases - facilities - payable to stockholder	222,722	147,753	74,969
Operating leases - equipment	165,277	51,641	101,528
Application services provider	1,618,824	404,706	1,214,118
<b>Total contractual cash obligations</b>	<b>\$ 6,643,175</b>	<b>\$ 5,240,452</b>	<b>\$ 1,390,615</b>

### Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Boards issued Statements of Financial Accounting Standards No. 141, "Business Combinations," or SFAS 141 and No. 142, "Goodwill and Other Intangible Assets," or SFAS 142. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is no longer permitted. SFAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. SFAS 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment in accordance with existing guidance. We are required to adopt SFAS 142 effective July 1, 2002. Because the

Company has historically not been party to any business combinations and therefore has not recorded related goodwill and intangible assets, the adoption of SFAS 141 and 142 did not have an effect on the Company's results of operations, financial position or cash flows.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes SFAS 121, however it retains the fundamental provisions of that statement related to the recognition and measurement of the impairment of long-lived assets to be "held and used." Among other things, SFAS 144 provides more guidance on estimating cash flows when performing a recoverability test. The Company will adopt SFAS 144 effective July 1, 2002. The adoption of SFAS 144 did not have an effect on the Company's results of operations, financial condition or cash flows.

### Effects of Inflation

Management does not expect inflation to have a material effect on the Company's operating expenses.

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### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company has notes payable in the aggregate amount of \$4,636,352 as of June 30, 2002, payable to two stockholders of the Company. The notes bears interest at 10.25% per annum and are due December 31, 2002. The Company does not believe that any change in interest rates will have a material impact on the Company during fiscal 2003. Further, the Company has no foreign operations and therefore is not subject to foreign currency fluctuations.

### Item 8. Financial Statements and Supplementary Data

The financial statements of the Company, including the notes thereto and report of the independent auditors thereon, and the supplementary financial information required by Item 302, are attached hereby as exhibits following page number 27.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

## PART III

### Item 10. Directors and Executive Officers of the Company

The information required by this item is incorporated by reference to the Captions "Election of Directors", "Further Information concerning the Board of Directors" and "Section 16 (a) Information" of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders, which will be filed within 120 days of the Company's fiscal year end.

### Item 11. Executive Compensation

The information required by this item is incorporated by reference to the Caption "Principal Stockholders" of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders, which will be filed within 120 days of the Company's fiscal year end.

### Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference to the Caption "Principal Stockholders" of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders, which will be filed within 120 days of the Company's fiscal year end.

### Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the Caption "Certain Relationships and Related Transactions" of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders which will be filed within 120 days of the Company's fiscal year end.

### Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Exhibit Number	Description of Document
3.1	Second Amended and Restated Bylaws of the Registrant

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(incorporated by reference to Exhibit 3.3 to Amendment No. 1 to Registration Statement on Form S-18, Reg. No. 33-48666).

- 3.2 Amendment to Second Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.3 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1994).
- 3.3 Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.3 of Form 10-KSB for the fiscal year ended June 30, 1997).
- 4.1 Amended and Restated Certificate of Incorporation of Registrant, including Certificates of Designation with respect to Series A, Series B, Series C, Series D, and Series E Preferred Stock, including any amendments thereto (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3, Reg. No. 33-86962).
- 10.1 Form of Director and Executive Officer Indemnification Agreement (incorporated by reference to Exhibit 10.19 to Registration Statement on Form S-18, Reg. No. 33-48666).
- 10.11+ 1993 Stock Option/Stock Issuance Plan (incorporated by reference to Exhibit 10.47 to Form 10-KSB for the fiscal year ended June 30, 1994).
- 10.12+ Stock Option Agreement, dated August 11, 1993, between the Registrant and Russell J. Harrison (incorporated by reference to Exhibit 10.51 to Form 10-KSB for the fiscal year ended June 30, 1994).
- 10.18 Note Payable between the Registrant and the Negri Foundation dated December 24, 1996 (incorporated by reference to Exhibit 10.60 to Form 10-QSB for the quarter ended December 31, 1996).
- 10.19 Note Payable between the Registrant and the Negri Foundation dated December 31, 1996 (incorporated by reference to Exhibit 10.61 to Form 10-QSB for the quarter ended December 31, 1996).
- 10.20 Note Payable between the Registrant and the Max Negri Trust dated December 31, 1996 (incorporated by reference to Exhibit 10.62 to Form 10-QSB for the quarter ended December 31, 1996).
- 10.21 Note Payable between the Registrant and the Cameron Foundation dated December 31, 1996 (incorporated by reference to Exhibit 10.63 to Form 10-QSB for the quarter ended December 31, 1996).
- 10.22 Note Payable between the Registrant and the James W. Cameron, Jr., as an individual, dated December 31, 1996 (incorporated by reference to Exhibit 10.64 to Form 10-QSB for the quarter ended December 31, 1996).
- 10.23 Note Payable between the Registrant and James W. Cameron, Jr., as an individual, dated January 16, 1997 (incorporated by reference to Exhibit 10.65 to Form 10-QSB for the quarter ended December 31, 1996).
- 10.24 Note Payable between the Registrant and James W. Cameron,



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Jr., as an individual, dated January 31, 1997 (incorporated by reference to Exhibit 10.66 to Form 10-QSB for the quarter ended December 31, 1996).

- 10.25 Note Payable between the Registrant and James W. Cameron, Jr., as an individual, dated February 7, 1997 (incorporated by reference to Exhibit 10.67 to Form 10-QSB for the quarter ended December 31, 1996).
- 10.29 Note Payable between the Registrant and James W. Cameron, Jr., dated April 21, 1997 (incorporated by reference to Exhibit 10.29 to Form 10-KSB for the year ended June 30, 1997).
- 10.33+ Alternative Technology Resources, Inc. 1997 Stock Option Plan (incorporated by reference to Exhibit 10.33 to Form 10-KSB for the year ended June 30, 1998).
- 10.34 Memorandum regarding rent reduction on that Lease between James W. Cameron, Jr., and the Registrant, dated July 15, 1998 (incorporated by reference to Exhibit 10.34 to Form 10-KSB for the year ended June 30, 1998).
- 10.35 Fourth Addendum to Lease between James W. Cameron, Jr., and the Registrant, effective January 1, 1999 (incorporated by reference to Exhibit 10.35 to Form 10-QSB for the quarter ended March 31, 1999).
- 10.36 Fifth Addendum to Lease between James W. Cameron, Jr., and the Registrant, effective January 1, 2000 (incorporated by reference to Exhibit 10.36 to Form 10-KSB for the year ended June 30, 2000).
- 10.37 Healtheon Customer Agreement effective September 16, 1999 (incorporated by reference to Exhibit 10.37 to Form 10-K for the year ended June 30, 2001).
- 10.38 Employment Agreement with Jeffrey McCormick. (Incorporated by reference to Exhibit 10.38 to Form 10-K for year end June 30, 2001.)
- 10.40 Master Agreement for Computer Software Products and Related Services between Alternative Technology Resources, Inc. and Resource Information Management Systems, Inc. (incorporated by reference to Exhibit 10.40 to Form 10-Q for the quarterly period ended December 31, 2000).
- 23.1 Consent of Ernst & Young LLP, Independent Auditors
- 99.1 Chief Executive Officer Certification
- 99.2 Chief Financial Officer Certification

+ Indicates a management contract or compensatory plan or arrangement as required by Item 13(a).

Financial Statement Schedules

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All schedules have been omitted because they are not required or are not applicable or the required information is shown in the financial statements or related notes

Reports on Form 8-K

There were no reports on Form 8-K filed during the last quarter of the period covered by this report.

### SIGNATURES

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

Dated: September 20, 2002 ALTERNATIVE TECHNOLOGY RESOURCES, INC.

By /S/ JEFFREY S. MCCORMICK

-----  
Jeffrey S. McCormick.  
Chief Executive Officer

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

Signature -----	Title -----	Date -----
/S/ JAMES W. CAMERON, JR. ----- James W. Cameron, Jr.	Chairman of the Board, Director And Chief Financial Officer	September 20, 2002
/S/ EDWARD L. LAMMERDING ----- Edward L. Lammerding	Director	September 20, 2002
/S/ JEFFREY S. MCCORMICK ----- Jeffrey S. McCormick	Director	September 20, 2002

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Alternative Technology Resources, Inc.

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Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders  
Alternative Technology Resources, Inc.

We have audited the accompanying balance sheets of Alternative Technology Resources, Inc. as of June 30, 2002 and 2001, and the related statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended June 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alternative Technology Resources, Inc. at June 30, 2002 and 2001 and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2002 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that Alternative Technology Resources, Inc. will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring operating losses and has an accumulated deficit of \$59,362,879 as of June 30, 2002. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets

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or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/S/ ERNST & YOUNG LLP

Sacramento, California  
August 16, 2002

## Alternative Technology Resources, Inc.

### Balance Sheets

		2002
	Assets	-----
	-----	
Current assets:		
Cash and cash equivalents		\$ 402,
Short-term investments		
Trade accounts receivable		3,
Interest receivable		
Prepaid expenses and other current assets		81,
		-----
Total current assets		487,
Property and equipment:		
Equipment and software		788,
Accumulated depreciation and amortization		(297,
		-----
Property and equipment, net		490,
Prepaid license and service fees		211,
Other non-current assets		14,
		-----
		\$ 1,203,
		=====
	Liabilities and Stockholders' Equity (Deficit)	
	-----	
Current liabilities:		
Payable to Healthcare Exchange providers		\$ 409,
Trade accounts payable		438,
Accrued payroll and related expenses		274,
Accrued preferred stock dividends		283,
Accounts payable and accrued interest payable to stockholders		797,
Notes payable to stockholder		2,212,
Convertible notes payable to stockholder		2,423,
Other current liabilities		254,
		-----

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Total current liabilities	7,094,
Long term notes payable to stockholder	
Long term convertible notes payable to stockholder	-----
Total long term liabilities	
Commitments and contingencies (Notes 1 and 6)	
Stockholders' equity (deficit):	
Convertible preferred stock, \$6.00 par value - 1,200,000 shares authorized, none issued and outstanding at June 30, 2002 and 2001, 204,167 shares designated Series D, none issued and outstanding at June 30, 2002 and 2001	
Common stock, \$0.01 par value - 100,000,000 shares authorized 60,968,213 shares issued and outstanding at June 30, 2002 (59,394,844 at June 30, 2001)	609,
Additional paid-in capital	52,862,
Accumulated deficit	(59,362,
Accumulated other comprehensive loss	-----
Total stockholders' equity (deficit)	(5,890,
	-----
	\$ 1,203,
	=====

See accompanying notes.

### Alternative Technology Resources, Inc.

#### Statements of Operations

	Years Ended June 30	
	2002	2001
Healthcare Exchange		
Healthcare Exchange revenue	\$ 1,642,565	\$ 50,944
Healthcare Exchange costs	(1,463,517)	(84,528)
Healthcare Exchange gross profit (loss)	179,048	(33,584)
Contract Programming:		
Contract programming revenue	-	308,469
Contract termination fees	-	-
Programmer costs	-	(235,258)
Start-up and other costs	-	(10,414)
Contract programming gross profit	-	62,797
Selling, marketing & product development costs	(7,076,558)	(5,097,513)
General and administrative expenses	(2,482,272)	(3,850,971)
	-----	-----

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Loss from operations	(9,379,782)	(8,919,271)
Other income (expense):		
Interest income	42,563	447,742
Interest expense to stockholders and directors	(478,687)	(443,226)
Total other income (expense)	(436,124)	4,516
Net loss	(9,815,906)	(8,914,755)
Preferred stock dividends	-	(886,142)
Net loss applicable to common stockholders	\$ (9,815,906)	\$ (9,800,897)
Basic and diluted net loss per share applicable to common stockholders	\$ (0.16)	\$ (0.17)
Weighted-average common stock outstanding	59,936,435	58,686,778

See accompanying notes.

Alternative Technology Resources, Inc.  
Statements of Stockholders' Equity (Deficit)

Years ended June 30, 2002, 2001 and 2000

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit
	Shares	Amount	Shares	Amount		
Balance, June 30, 1999	204,167	\$ 1,225,002	26,169,718	\$ 261,697	\$28,742,403	\$ (1,000,000)
Issuance of common stock in settlement of accounts payable	-	-	15,126	151	8,751	
Issuance of common stock upon conversion of notes payable	-	-	27,761,197	277,612	3,359,029	
Private placement of common stock, net of issuance costs	-	-	1,086,145	10,862	3,701,486	
Options and warrants exercised	-	-	309,919	3,100	190,219	

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Repurchase of common stock	-	-	(12,500)	(125)	125	(
Preferred stock dividends	-	-	-	-	(122,500)	
Net loss	-	-	-	-	-	(
-----						
Balance, June 30, 2000	204,167	1,225,002	55,329,605	553,297	35,879,513	(
Issuance of common stock in settlement of accounts payable	-	-	80,000	800	155,200	
Issuance of common stock upon conversion of Series D preferred stock	(204,167)	(1,225,002)	566,972	5,670	2,011,949	
Issuance of common stock upon conversion of note payable	-	-	20,000	200	59,800	
Private placement of common stock, net of issuance costs	-	-	3,333,334	33,333	10,985,346	
Options exercised	-	-	64,933	649	41,584	
Preferred stock dividends	-	-	-	-	(24,109)	
Other comprehensive income (loss) change in unrealized gain/loss on available-for-sale securities	-	-	-	-	-	
Net loss	-	-	-	-	-	(
-----						
Balance, June 30, 2001	-	-	59,394,844	593,949	49,109,283	(4
Private placement of common stock, net of issuance costs	-	-	1,232,584	12,325	2,868,777	
Compensation expense related to grant of stock options to employees and issuance of stock to a consultant	-	-	-	-	649,028	
Options and warrants exercised	-	-	340,785	3,408	235,195	
Other comprehensive income (loss) - change in unrealized gain/loss on available-for-sale securities	-	-	-	-	-	
Net loss	-	-	-	-	-	(
-----						
Balance, June 30, 2002	-	\$ -	60,968,213	\$609,682	\$52,862,283	\$(
=====						

See accompanying notes.

Alternative Technology Resources, Inc.

Statements of Cash Flows  
Increase (Decrease) in Cash and Cash Equivalents

2002  
Years ended J  
2001

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Cash flows from operating activities:		
Net loss	\$ (9,815,906)	\$ (8,91
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	190,139	9
Interest expense resulting from amendment to conversion terms of notes payable	-	
Interest expense included in notes payable to stockholders	313,902	23
Write-off of WebMD prepaid service fee	-	25
Stock based compensation	787,611	1,93
Changes in operating assets and liabilities:		
Trade accounts receivable	20,650	7
Interest receivable	52,134	5
Prepaid expenses and other current assets	186,412	(28
Non-current assets	100,717	(32
Payable to Healthcare Exchange providers	368,982	4
Trade accounts payable	287,089	5
Accrued payroll and related expenses	93,749	1
Accounts payable and accrued interest payable to stockholders	68,291	11
Other current liabilities	(41,211)	2
Net cash used by operating activities	(7,387,441)	(6,64
Cash flows from investing activities:		
Purchases of equipment and software	(286,566)	(32
Purchases of short-term investments	-	(6,30
Maturities of short-term investments	1,354,159	4,95
Net cash provided (used) by investing activities	1,067,593	(1,68

(Continued on next page)

Alternative Technology Resources, Inc.

Statements of Cash Flows  
Increase (Decrease) in Cash and Cash Equivalents  
(continued)

	2002	Years ended Jun 2001
Cash flows from financing activities:		
Proceeds from private placement of common stock	\$ 2,742,519	\$ 9,560,34
Proceeds from exercise of options and warrants	238,603	42,23



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Proceeds from notes payable to stockholders	582,000	
Payments on notes payable to stockholders	-	
Proceeds from notes payable to directors	-	
Payments on notes payable to directors	-	(23,32)
<hr style="border-top: 1px dashed black;"/>		
Net cash provided (used) by financing activities	3,563,122	9,579,25
<hr style="border-top: 1px dashed black;"/>		
Net increase (decrease) in cash and cash equivalents	(2,756,726)	1,249,59
Cash and cash equivalents at beginning of year	3,159,017	1,909,42
<hr style="border-top: 1px dashed black;"/>		
Cash and cash equivalents at end of year	\$ 402,291	\$ 3,159,01
<hr style="border-top: 1px dashed black;"/>		
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 110,697	\$ 94,61
<hr style="border-top: 1px dashed black;"/>		
Supplemental disclosure of non-cash financing activities:		
Conversion of notes payable to common stock	\$ -	\$ 60,00
<hr style="border-top: 1px dashed black;"/>		

See accompanying notes.

### Alternative Technology Resources, Inc. Notes to Financial Statements

Years Ended June 30, 2002, 2001 and 2000

#### 1. Summary of Significant Accounting Policies

##### Description of Business

Alternative Technology Resources, Inc. (hereinafter referred to as "ATR," the "Company," "we" or "us") has developed and is operating an Exchange for healthcare services ("Healthcare Exchange"). The Company contracts with medical doctors, medical groups, hospitals and other health care practitioners (collectively, "Providers") to offer their services through the Healthcare Exchange to those who purchase or facilitate the purchase of healthcare services ("Purchasers"). ATR's Healthcare Exchange began operations with a limited number of Providers and Purchasers in the quarter ending June 30, 2001

The purpose of the Healthcare Exchange is to utilize the Internet and other technologies to facilitate Provider initiated discounts and administrative, billing and remittance services for all commercial lines of business within the healthcare industry. Our Healthcare Exchange offers a direct and efficient conduit between Providers and Purchasers of health care services, their PPOs' and/or their agents. Providers submit bills to the Company, who reprices the bills to the rate set by the Providers, including adding a transaction-processing fee, and then routes them to Purchasers or their intermediaries. The Company receives payments from Purchasers on behalf of Providers, and then remits payments to Providers.

The Company's Healthcare Exchange development efforts will require substantial funds. The Company believes that it has developed a viable plan to address the Company's ability to continue as a going concern, and that this plan will enable the Company to continue as a going concern, at least through the end of fiscal year 2003. However, the Company believes it will need to raise

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additional funds during fiscal 2003. The Company has engaged a placement agent to assist in the sale of shares of the Company common stock in a private placement, but there can be no assurance that the Company will be able to raise sufficient funds to successfully implement its business plan. Also, traditionally, the Company has relied on major stockholders or affiliates to finance its operations, although there can be no assurance that they will continue to do so. If unsuccessful the Company may be required to reduce the development efforts of its Healthcare Exchange or be forced into seeking protection under federal bankruptcy laws. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

### Use of Estimates in Preparation of Financial Statements

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Alternative Technology Resources, Inc. Notes to Financial Statements

Years Ended June 30, 2002, 2001 and 2000

### Cash, Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. At June 30, 2002 and 2001 substantially all of the Company's cash equivalents represent investments in money market accounts.

As of June 30, 2002 the Company's had no short-term investments. At June 30, 2001 short-term investments are corporate obligations with maturity dates of 91 days to one year from the date of purchase.

### Prepaid License and Service Fees

Prepaid license and service fees are recorded at cost and amortized on a straight-line basis over the service period. Management considers whether indicators of impairment of these assets are present at each balance sheet date and an impairment loss is recorded, if necessary.

### Property and Equipment

Property and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets or the lease term, whichever is shorter. The estimated useful lives range from three to five years.

### Revenue Recognition

The Company recognizes revenue for the transaction-processing fee when it is earned and the Company has substantially completed all of its obligations under the contract.

Contract programming revenue represented work performed for customers, primarily on a time and materials basis, and was recognized when the related

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services were rendered. Contract termination fees were amounts received from customers when they exercised the contract provision, which allowed them to convert ATR's programmer to their employee. In addition, these fees were also received from programmers when they exercised their contract provision to terminate their relationship with the Company prior to the termination date of their contract. These fee amounts were stipulated in customer and programmer contracts, were based on the length of time remaining under the contract, and were recognized as revenue when such contract provisions were invoked. As of June 30, 2001, the Company is no longer in the contract programming business.

### Product Development Costs

In October 1999, the Company began incurring costs to develop its Healthcare Exchange. In accordance with SOP 98-5, "Reporting on Costs of Start-Up Activities," start-up costs associated with the Healthcare Exchange have been expensed as incurred. The Company's Healthcare Exchange began operations in the quarter ending June 30, 2001.

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

### Stock-Based Compensation

As permitted under the provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company has elected to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price or fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Disclosures required under SFAS No. 123 are included in Note 7 to the financial statements.

### Net Loss Per Share

All loss per share amounts for all periods have been presented in accordance with Statement of Financial Accounting Standards Board No. 128, "Earnings per Share". As the Company has reported net losses in all periods presented, basic and diluted loss per share have been calculated on the basis of net loss applicable to common stockholders divided by the weighted average number of common shares outstanding without giving effect to outstanding options, warrants, and convertible securities whose effects are anti-dilutive. For the fiscal years ended June 30, 2002, 2001 and 2000, there were stock options, stock warrants and a convertible note payable outstanding, and for the fiscal year ended June 30, 2000 there was also convertible preferred stock outstanding (Notes 3 and 7), which could potentially dilute earnings per share in the future but were not included in the computation of diluted loss per share as their effect was anti-dilutive in the periods presented.

### Segment Disclosures

As of June 30, 2002, the Company operates in one segment, the selling, marketing, development and operation of an Exchange for health care services. Prior to beginning operations with a limited number of Providers and Purchasers in the quarter ending June 30, 2001, the Company was in the business of recruiting, hiring and training foreign computer programmers and placing them with U.S. companies.

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### Comprehensive Loss

Total comprehensive loss for fiscal years 2002, 2001 and 2000 was \$9,815,884, \$8,914,777 and \$4,815,641 respectively. Other comprehensive income (loss) represents the net change in unrealized gains (losses) on available-for-sale securities.

### Concentrations of Risk

The Company invests its cash with high credit quality financial institutions. The Company believes the financial risks associated with these financial instruments are minimal.

During fiscal year 2002, no single healthcare provider represented 10% or more of the Company's Healthcare Exchange revenues. During fiscal year 2001,

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

three customers individually accounted for 41%, 39% and 11% of Contract Programming revenues. During fiscal year 2000, three customers individually accounted for 40%, 21% and 10% of Contract Programming revenues.

At June 30, 2001, two Contract Programming customers individually accounted for 55% and 31% of accounts receivable.

### Fair Value of Financial Instruments

The Company's financial instruments consist of cash, cash equivalents, short-term investments, accounts receivable, and accounts and notes payable. Fair values of cash, cash equivalents, short-term investments, accounts receivable, and accounts payable (other than accounts payable to stockholders) are considered to approximate their carrying values.

Fair values of accounts payable to stockholders and notes payable to stockholders could not be determined with sufficient reliability because these are instruments held by related parties and because of the cost involved in such determination. Principal characteristics of these financial instruments that, along with information on the financial position of the Company, are pertinent to their fair values are described in Notes 2 and 3.

### Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Boards issued Statements of Financial Accounting Standards No. 141, "Business Combinations," or SFAS 141 and No. 142, "Goodwill and Other Intangible Assets," or SFAS 142. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is no longer permitted. SFAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. SFAS 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. Intangible assets that do not have indefinite lives will continue to be amortized over

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their useful lives and reviewed for impairment in accordance with existing guidance. We are required to adopt SFAS 142 effective July 1, 2002. Because the Company has historically not been party to any business combinations and therefore has not recorded related goodwill and intangible assets, the adoption of SFAS 141 and 142 did not have an effect on the Company's results of operations, financial position or cash flows.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes SFAS 121, however it retains the fundamental provisions of that statement related to the recognition and measurement of the impairment of long-lived assets to be "held and used." Among other things, SFAS 144 provides more guidance on estimating cash flows when performing a recoverability test. The Company will adopt SFAS 144 effective July 1, 2002. The adoption of SFAS 144 did not have an effect on the Company's results of operations, financial condition or cash flows.

### Alternative Technology Resources, Inc. Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

#### 2. Investor Group Transactions

In fiscal year 1994, the Company entered into a series of agreements with James W. Cameron, Jr. pursuant to which Mr. Cameron and Dr. Max Negri became principal stockholders of the Company. As of June 30, 2002, Mr. Cameron owned 39,614,006 shares of the Company's common stock. As of June 30, 2002 Dr. Negri held less than 5% of the Company's common stock.

During fiscal years 2002, 2001 and 2000, the Company did not generate sufficient cash flow from operations and borrowed funds from these two stockholders. Notes payable to stockholders were \$4,636,352 at June 30, 2002 and \$3,740,450 at June 30, 2001 (Note 3). Accrued interest of \$269,435 at June 30, 2002 and \$232,469 at June 30, 2001 on these notes is included in accounts payable and accrued interest payable to stockholders.

The Company leases its office facilities in Sacramento, California from Mr. Cameron (Note 6). Accrued lease expense of \$527,896 at June 30, 2002 and \$496,472 at June 30, 2001 is also included in accounts payable and accrued interest payable to stockholders.

During fiscal years 2002, 2001 and 2000, Cameron & Associates, which is wholly owned by Mr. Cameron, provided consulting services to the Company. Fees for such services totaled \$120,000 in fiscal years 2002 and 2001, and \$90,000 in 2000.

#### 3. Financing Arrangements

The Company has received short-term, unsecured financing to fund its operations in the form of notes payable of \$4,636,352 as of June 30, 2002, from Mr. Cameron and another stockholder. These notes bear interest at 10.25%. On September 1, 2001, the Company agreed with Mr. Cameron to extend the due date on notes payable to him until December 31, 2002, in exchange for an extension fee of 2%. These extended notes total \$1,630,529, including accrued interest and extension fees, and bear interest at 10.25% per annum. During fiscal year June 30, 2002 Mr. Cameron loaned the Company an additional \$582,000 bearing interest

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at 10.25% payable on December 31, 2002. On September 1, 2001, the Company agreed with the other note holder to extend the due date of his convertible promissory notes until December 31, 2002. These convertible promissory notes total \$2,423,823, including accrued interest, bear interest at 10.25% per annum and are convertible into common stock at \$3.00 per share at the note holder's option. Subsequent to fiscal year end 2002, Mr. Cameron loaned the Company an additional \$426,000 bearing interest at 10.25% payable on December 31, 2002.

On April 21, 1997, the Company issued an unsecured note payable (the "Straight Note") to Mr. Cameron for \$1,000,000 in accordance with the agreement the Company signed on February 28, 1994. Terms of the note provided for an interest rate of 9.5% and monthly interest payments. No maturity date was stated in the note; however, under the terms of the Reimbursement Agreement, upon written demand by Mr. Cameron, the Straight Note was to be replaced by a note convertible into ATR's common stock (the "Convertible Note") in a principal amount equal to the Straight Note and bearing interest at the same rate. The conversion price of the Convertible Note was equal to 20% of the average trading price of the Company's common stock over the period of ten trading days ending on the trading day next preceding the date of issuance of such Convertible Note.

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

Subsequent to June 30, 1999, Mr. Cameron disposed of a portion of his interest in the Straight Note, reducing the balance due him to \$711,885, plus accrued interest. On August 19, 1999, the Company's Board of Directors agreed with the Straight Note holders to fix the conversion price of the Convertible Note to \$0.044 in exchange for the Straight and/or Convertible Notes ceasing to accrue interest as of that date. Because of the decline in revenues caused by the non-renewal of programmer contracts and the steady decline in the quoted value of the Company's common stock at that time (trading price was at \$0.25 on August 19, 1999), the Board agreed it was in the best interest of the Company to eliminate the future market risk that the conversion price become lower than a fixed conversion price of \$0.044. The benefit accruing to the note holders resulting from the amendment to the conversion terms, as measured on August 19, 1999, was approximately \$2,415,222 and was recorded as additional interest expense.

Subsequent to August 19, 1999, Mr. Cameron elected to replace his remaining interest in the Straight Note, including accrued interest, with the Convertible Note and then simultaneously converted the Convertible Note into 19,762,786 shares of ATR's common stock. All other Straight Note holders have since replaced their Straight Notes, including accrued interest, with Convertible Notes and converted such Convertible Notes into an aggregate of 7,998,411 shares of the Company's common stock.

#### 4. WebMD Corp. Agreement

In September 1999, the Company entered into an agreement with WebMD Corp. to develop a web-based portal through which individual uninsured and under insured Patients can procure healthcare services. The agreement required a prepaid service fee to be paid to WebMD of \$250,000 upon a promotional announcement on WebMD's Internet portal, and a sharing of revenues when operational. Currently both parties are reevaluating this agreement, given changed directions and priorities of each company. The agreement has not formally been modified or terminated, nor has either party proposed any specific

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changes. However, neither party is currently devoting any substantial resources to this project. Accordingly, the prepaid service fee was written off in fiscal year 2001 and is included as a component of product development costs in the statement of operations.

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

### 5. Income Taxes

Significant components of the Company's deferred tax assets and liabilities for federal and state income taxes as of June 30, 2002 and 2001 are as follows:

	June 30,	
	2002	2001
Net operating loss carry forwards	\$ 18,043,000	\$ 14,603,000
Research credits	123,000	123,000
Common stock options	2,818,000	2,539,000
Common stock warrants	789,000	789,000
Other - net	362,000	(572,000)
Total deferred tax assets	22,135,000	17,482,000
Valuation allowance for deferred tax assets	(22,135,000)	(17,482,000)
Net deferred tax assets	\$ -	\$ -

The Company's valuation allowance as of June 30, 2002 and 2001 was \$22,135,000 and \$17,482,000 respectively, resulting in a net change in the valuation allowance of \$4,653,000 and \$2,893,000 in the fiscal years ended June 30, 2001 and 2000, respectively.

As of June 30, 2002 the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$46,119,000 million and \$26,245,000 million, respectively. The federal net operating loss carryforwards expire in 2004 through 2022 and the state net operating loss carryforwards expire in 2002 through 2022. The Company also has approximately \$98,000 and \$25,000 of research and development tax credit carryforwards for federal and state income tax purposes, respectively. The federal research and development tax credit carryforwards expire in 2005.

In connection with the Company's initial public offering in August 1992, a change of ownership (as defined in Section 382 of the Internal Revenue Code of 1986, as amended) occurred. As a result, the Company's net operating loss carryforwards generated through August 20, 1992 (approximately \$1,900,000) are subject to an annual limitation in the amount of approximately \$300,000.

In 1993, a controlling interest of the Company's stock was purchased, resulting in a second annual limitation in the amount of approximately \$398,000 on the Company's ability to utilize net operating loss carryforwards generated between August 11, 1992 and September 13, 1993 (approximately \$7,700,000).

In accordance with provisions of the Internal Revenue Code Section 382,

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additional portions of the net operating loss carryforwards may be disallowed as a result of additional changes in ownership of the Company.

### Alternative Technology Resources, Inc. Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

The Company expects that the aforementioned annual limitations will result in net operating loss carryovers which will not be utilized prior to the expiration of the carryover period.

#### 6. Commitments and Contingencies

The Company may from time to time become a party to various legal proceedings arising in the ordinary course of its business. The Company is not currently subject to any legal proceedings.

The Company signed agreements effective in January 2001 with an application services provider to license, support and run software to process medical bills submitted to the Company's Healthcare Exchange. The agreements are for a period of 66 months. They required payment of an initial base license fee of \$250,000, which is being amortized over 66 months, and data center set up, training and implementation fees of about \$145,000, which were expensed. The agreements require monthly minimum payments currently of about \$35,000 and additional fees that are transaction based if volumes exceed levels included in the monthly minimums.

In November 1995, the Company entered into a lease agreement for its facility in Sacramento, California under a one-year lease with Mr. Cameron. The lease has been extended to January 31, 2004. Payments under this facilities lease are approximately \$141,330 per year. At June 30, 2002, \$527,896 of rent owed for fiscal years 1996 through 2002 is included in the balance of accounts payable and accrued interest payable to stockholders. Rental expense for all operating leases was approximately \$230,897, \$196,390 and \$189,121, for fiscal years June 30, 2002, 2001 and 2000, respectively, including approximately \$148,302, \$139,272 and \$114,285 related to the lease of the office facilities from Mr. Cameron.

Minimum annual payments for all non-cancelable operating leases and amounts due to an application services provider are as follows:

2003	\$ 604,100
2004	\$ 528,500
2005	\$ 445,717
2006	\$ 416,398
2007	\$ 8,220
Thereafter	\$ 3,888

#### 7. Stockholders' Equity (Deficit)

##### Series D Preferred Stock

In June 1994, existing stockholders purchased 204,167 shares of Series D Convertible Preferred Stock for \$1,225,002. ATR's Series D Preferred Stock carried a cumulative dividend of \$0.60 per share per year, until the Series D



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preferred stock was exchanged for common stock on September 11, 2000. On September 11, 2000, in connection with the exchange of 204,167 shares Series D preferred stock, for 408,334 shares of common stock based on a per share price

### Alternative Technology Resources, Inc. Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

of \$3.00 per share, the Company declared accrued dividends of \$759,110 in the aggregate. Of the \$759,110 in accrued dividends, two of the Series D preferred stockholders agreed to accept 158,638 shares of common stock for \$475,915 in accrued dividends based on a \$3.00 per share value. The benefit accruing to the Series D Preferred stockholders recorded in the quarter ended September 30, 2000 was approximately \$316,702 in compensation expense and \$862,000 in preferred stock dividends. As of June 30, 2002, cumulative unpaid, dividends were \$283,195.

#### Common Stock

The Company's Healthcare Exchange development efforts will require substantial funds. On January 9, 2002, the Board of Directors of the Company unanimously approved a private placement of up to \$12,000,000 of the Company's common stock at a purchase price of \$2.25 per share. The shares of common stock issued in the private placement are restricted securities. Further pursuant to the private placement, in the event that within one year from the final closing the Company sells shares of common stock, or securities exercisable or convertible into common stock, at a price less than \$2.25 per share, the Company will issue additional shares to these investors in an amount such that the overall purchase price will be equal to the lower, subsequent sales price. The forgoing shall exclude common stock that may be issued in connection with a merger, as a dividend, pursuant to the exercise of outstanding options, warrants and other convertible securities and pursuant to options subsequently issued to employees. Proceeds to date, net of offering costs, are approximately \$2,742,519. Proceeds were used for further development and operation of the Healthcare Exchange. The Company's Chairman and Chief Financial Officer purchased 222,222 shares of the Company's common stock in the private placement. Because the purchase price of such stock was less than the public trading price on the date of purchase, the Company recorded compensation expense of \$138,583 in fiscal year 2002.

The Company received \$9,560,345 in a private placement of its common stock at a price of \$3.00 in fiscal year 2001, and in fiscal year 2000 received \$3,712,348 in a private placement of its common stock at an average price of \$3.42 per share.

#### Warrants

Warrant activity during the periods indicated is as follows:

	Number of Shares	Range of Exercise Prices	Weighted Average Exercise Price
Balance at June 30, 1999	559,800	\$0.01-\$25.00	\$0.94
Exercised	(20,000)	\$0.75	\$0.75

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Balance at June 30, 2000	539,800	\$0.01-\$25.00	\$0.95
Expired/Canceled	(40,000)	\$0.01	\$0.01
Balance at June 30, 2001	499,800	\$0.01-\$25.00	\$1.02
Exercised	(284,200)	\$0.75	\$0.75
Balance at June 30, 2002	215,600	\$0.01-\$25.00	\$1.38

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

At June 30, 2002, the weighted-average remaining contractual life of outstanding warrants was 4.9 years. All warrants are immediately exercisable for common stock at June 30, 2002.

Stock Option/Stock Issuance Plans

The 1993 Stock Option/Stock Issuance Plan (the "1993 Plan"), pursuant to which key employees (including officers) and consultants of the Company and the non-employee members of the Board of Directors may acquire an equity interest in the Company, was adopted by the Board of Directors on August 31, 1993 and became effective at that time. The 1993 Plan provided that up to 400,000 shares of common stock could be issued over the ten-year term of the 1993 Plan. As of June 30, 2002, shares available for future issuance under this plan were 31,173.

The 1997 Stock Option Plan (the "1997 Plan"), pursuant to which key employees (including officers) and consultants of the Company and the non-employee members of the Board of Directors may acquire an equity interest in the Company, was adopted by the Board of Directors on November 18, 1997 and became effective at that time. An aggregate of 3,000,000 shares of common stock may be issued over the five-year term of the 1997 plan. Subject to the oversight and review of the Board of Directors, the 1997 Plan shall generally be administered by the Company's Compensation Committee consisting of at least two non-employee directors as appointed by the Board of Directors. The grant date, the number of shares covered by an option and the terms and conditions for exercise of options shall be determined by the Committee, subject to the 1997 Plan requirements. The Board of Directors shall determine the grant date, the number of shares covered by an option and the terms and conditions for exercise of options to be granted to members of the Committee. As of June 30, 2002, shares available for future issuance under this plan were 329,279. This five-year plan will expire November 18, 2002.

Option activity for the 1993 and the 1997 Plans during the periods indicated is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at June 30, 1999	594,919	\$0.98
Granted	880,000	\$2.72
Exercised	(269,919)	\$0.65
Cancelled	(25,000)	\$0.25

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Balance at June 30, 2000	1,180,000	\$2.36
Granted	920,600	\$2.77
Exercised	(49,933)	\$0.25
Cancelled	(317,500)	\$4.04
	-----	
Balance at June 30, 2001	1,733,167	\$2.33
Granted	1,234,053	\$1.83

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

Exercised	(51,585)	\$0.45
Cancelled	(326,432)	\$2.60
	-----	
Balance at June 30, 2002	2,589,203	\$2.60
	=====	

The following table summarizes information about stock options outstanding under the 1993 and the 1997 Plans at June 30, 2002:

Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	Weighted Average Exercise Price
\$ 0.01-1.95	1,028,369	\$0.58	7	894,479	\$0.58
\$ 2.00-3.85	1,233,334	\$2.50	9	255,834	\$2.50
\$ 4.00-6.63	312,500	\$4.81	8	208,333	\$4.81
\$ 7.19	5,000	\$7.19	8	3,333	\$7.19
\$ 13.10	10,000	\$13.10	2	10,000	\$13.10
	-----			-----	
	2,589,203	\$2.07		1,371,979	\$2.07
	=====			=====	

At June 30, 2001 and 2000 the number and weighted average exercise price of options exercisable were 745,022 and \$1.88 and 485,000 and \$1.77, respectively.

In addition to options granted pursuant to the 1993 and 1997 Stock Option/Stock Issuance Plans, the Company has granted options outside of these plans. In fiscal year 1994, the Company granted to its former Chief Executive Officer and director stock options to purchase 400,000 shares of common stock exercisable at \$0.10 per share. Of these options, 370,000 remain outstanding and

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are fully vested as of June 30, 2002. These options expire on August 10, 2003.

During fiscal year 2000, in accordance with an employment agreement, the Company granted the current Chief Executive Officer stock options to purchase 7,000,000 shares of common stock at \$3.00 per share, the fair market value of the Company's common stock on the date of grant. The options vest ratably over 5 years and expire on April 14, 2010. As of June 30, 2002, 2,800,000 options have vested, and 7,000,000 remain outstanding. Also, on August 1, 2000, Mr. Cameron entered into an agreement with the Company's current Chief Executive Officer to grant him the option to purchase 6,000,000 shares of the Company's common stock from Mr. Cameron at a purchase price of \$3.625 per share, the fair market value of the Company's stock on that date. As of June 30, 2002, these options are fully vested and 6,000,000 remain outstanding.

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

Non-cash stock based compensation expense was \$787,611 for fiscal year 2002 and \$1,931,036 for fiscal year 2001. No such expense was incurred in fiscal year 2000. Costs incurred in fiscal year 2002 primarily represent \$637,528 recorded in connection with the grant of options to employees with an exercise less than the public trading price on the date of grant and \$138,583 recorded in connection with the purchase of 222,222 shares of the Company's common stock by the Company's Chairman and Chief Financial Officer because the purchase price of such stock was less than the public trading price on the date of purchase.

SFAS No. 123 requires presentation of pro forma information regarding net loss and loss per share as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value of ATR options was estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions for fiscal years 2002, 2001 and 2000: dividend yield of 0%, an expected life of five years, a risk-free interest rate of 5.0%, and expected volatility of 1.168, 1.271 and 0.959.

The Black-Scholes model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. It requires the input of highly subjective assumptions, the quality of which cannot be judged except by hindsight. The Company's pro forma information is as follows:

	Years Ended June 30,		
	2002	2001	
Net loss applicable to common stockholders:			
As reported	\$ (9,815,906)	\$ (9,800,897)	\$ (
Pro forma	\$ (13,815,109)	\$ (14,153,429)	\$ (
Basic and diluted net loss per share:			
As reported	\$ (0.16)	\$ (0.17)	\$
Pro forma	\$ (0.23)	\$ (0.24)	\$

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Future pro forma results may be materially different from amounts reported as future years will include the effects of additional stock option grants.

The weighted average fair value of options granted during the fiscal years June 30, 2002, 2001 and 2000 whose exercise price equals the market price of the stock on the grant date was \$1.95, \$2.30 and \$2.58 respectively. The weighted-average fair value of options granted in fiscal year 2002 whose exercise price was less than the market price of the stock on the date of grant was \$2.03. For fiscal years 2001 and 2000, all options were granted with exercise prices equal to the market price on the date of grant.

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

### Stock Reserved for Issuance

As of June 30, 2002, the Company has reserved a total of 11,404,268 shares of common stock pursuant to outstanding warrants, options, convertible notes payable to stockholders, and future issuance of options to employees and non-employee directors.

Common Shares Reserved for Issuance	
Options	10,319,655
Warrants	215,600
Notes (including accrued interest)	869,013
Total	11,404,268

### 8. Subsequent Event

The Company has received short-term unsecured financing in the form of a convertible note of \$1,000,000 as of July 26, 2002 from a lender. This note bears interest at 8% and is payable at the earliest of July 25, 2003 or when the Company, in a proposed Private Placement of Common Stock offering, raises \$8,000,000. All or a portion of the convertible note may be converted into shares of common stock at the lower of \$2.25 per share or the subscription per share price of the proposed Private Placement of Common Stock. In consideration for the loan the Company will issue three warrants. The Company will issue to the lender one warrant to purchase 100,000 shares of common stock. The lender will also receive a second warrant to purchase 100,000 shares of common stock that may only be exercisable if the Company does not repay the convertible note within 180 days of the agreement. The lender will also receive a third warrant to purchase 100,000 shares of common stock that may be exercisable if the Company does not repay the convertible note within one year of the agreement. Each of the warrants will have an exercise price equal to the lower of \$2.14 or the subscription per share price of the proposed Private Placement of Common Stock. When, and if, exercisable, the lender may exercise these warrants through July 26, 2009.

### 9. Quarterly Results of Operations (Unaudited)

The following table presents the Company's unaudited quarterly statement of

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operations data for the four quarters of fiscal 2002 and fiscal 2001. The Company believes that this information has been prepared on the same basis as its audited consolidated financial statements and that all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the selected quarterly information. The Company's quarterly results of operations for these periods are not necessarily indicative of future results of operations.

Alternative Technology Resources, Inc.  
Notes to Financial Statements (continued)

Years Ended June 30, 2002, 2001 and 2000

	2002		
	September 30	December 31	
Healthcare Exchange revenue	\$ 108,218	\$ 253,876	\$
Healthcare Exchange gross profit (loss)	(116,570)	(96,337)	
Contract Programming revenue	-	-	
Contract Programming gross profit	-	-	
Selling, marketing and product development costs	(1,505,195)	(1,546,462)	
General and administrative expenses	(505,834)	(600,045)	
Loss from operations	(2,127,599)	(2,242,844)	
Total other income (expense)	(106,384)	(105,364)	
Net loss	(2,233,983)	(2,348,208)	
Preferred stock dividends in arrears	-	-	
Net loss applicable to common stockholders	(2,233,983)	(2,348,208)	
Basic and diluted net loss per share	\$ (0.04)	\$ (0.04)	\$
Shares used in per share calculation	59,401,860	59,421,866	6

	2001		
	September 30	December 31	
Healthcare Exchange revenue	\$ -	\$ -	\$
Healthcare Exchange gross profit (loss)	-	-	
Contract Programming revenue	178,019	47,812	
Contract Programming gross profit	42,217	1,160	
Product development costs	(1,057,426)	(1,238,497)	
General and administrative expenses	(2,141,486)	(490,072)	
Loss from operations	(3,156,695)	(1,727,409)	
Total other income (expense)	(50,935)	79,980	
Net loss	(3,207,631)	(1,647,429)	
Preferred stock dividends in arrears	(886,142)	-	
Net loss applicable to common stockholders	(4,093,773)	(1,647,429)	
Basic and diluted net loss per share	\$ (0.07)	\$ (0.03)	\$
Shares used in per share calculation	56,695,586	59,329,251	5

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Exhibit 23.1

## Consent of Ernst & Young LLP, Independent Auditors

We consent to the incorporation by reference in the Registration Statements listed below of our report dated August 16, 2002, with respect to the financial statements of Alternative Technology Resources, Inc. included in the Annual Report (Form 10-K) for the year ended June 30, 2002.

- Form S-8 No. 33-80300 pertaining to the 3Net Systems, Inc. 1993 Stock Option/Issuance Plan
- Form S-8 No. 33-84576 pertaining to the Nonstatutory Stock Option Agreement by and between 3Net Systems, Inc. and Russell J. Harrison
- Form S-3 No. 33-86962 pertaining to 3Net Systems, Inc. common stock being offered by selling stockholders
- Form S-8 No. 333-90021 pertaining to the Alternative Technology Resources, Inc. 1997 Stock Option Plan, Non-Statutory Stock Option for Edward Lammerding.

/s/ Ernst & Young LLP

Sacramento, California  
September 23, 2002

Exhibit 99.1

## CERTIFICATION

I, Jeffrey McCormick, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Alternative Technology Resources, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 20, 2002

/s/ JEFFREY MCCORMICK

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Jeffrey McCormick, Chief Executive Officer

CERTIFICATION

I, James W. Cameron, Jr., Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Alternative Technology Resources, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 20, 2002

/S/ JAMES W. CAMERON

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James W. Cameron, Jr., Chief Financial Officer