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AMERICAN RESOURCES & DEVELOPMENT CO
Form 10QSB
November 19, 2001

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

FORM 10-QSB

Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 2001;

or

Transition Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934

For transition period from _____ to _____

American Resources & Development Company

(Exact name of registrant as specified in its charter)

UTAH

87-0401400

(State or other jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

2035 N.E. 181st
Gresham, OR

97230

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (503) 492-1500

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

As of November 13, 2001, the Registrant had outstanding 4,421,817 shares of
Common Stock.

Transitional Small Business Disclosure Format (check one): Yes No

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Item 1: Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets - September 30,
2001 and March 31, 2001

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Condensed Consolidated Statements of Operations - Six
months ended September 30, 2001 and 2000 and Three

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY Consolidated Balance Sheet

ASSETS

		September 30, 2001
CURRENT ASSETS		
Cash and cash equivalents	\$	4,235
Accounts receivable, net (Note 1)		1,164,849
Inventory (Note 1)		736,751
Prepaid and other current assets		9,060
		1,914,895
PROPERTY AND EQUIPMENT (NOTE 1)		
Furniture, fixtures and equipment		472,981
Capital leases		1,359,241
		1,832,222
Less: accumulated depreciation		(1,004,952)
		827,270

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Net Property and Equipment	827,270	

OTHER ASSETS		
Deposits	100,679	

Total Other Assets	100,679	

TOTAL ASSETS	\$ 2,842,844	\$
	=====	=====

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

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Balance Sheet (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	September 30, 2001	

CURRENT LIABILITIES		
Accounts payable	\$ 2,114,048	\$
Accrued expenses and other current liabilities	1,101,183	
Line of credit (Note 3)	904,880	
Current portion of notes payable (Note 4)	442,227	
Current portion of notes payable, related parties (Note 5)	1,168,257	
Current portion of capital lease obligations (Note 6)	159,238	

Total Current Liabilities	5,889,833	

LONG-TERM DEBT		
Reserve for discontinued operations (Note 2)	835,215	
Notes payable (Note 4)	194,584	
Notes payable, related parties (Note 5)	186,169	
Capital lease obligations (Note 6)	189,478	

Total Long-Term Debt	1,405,446	

Total Liabilities	7,295,279	

COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, par value \$0.001 per share: 10,000,000 shares authorized; issued and outstanding: 94,953		

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Series B shares, 150,000 Series C shares	245
Common stock, par value \$0.001 per share: 125,000,000 shares authorized; issued and outstanding: 7,404,752 shares issued and 4,421,817 outstanding. (Note 9)	4,422
Additional paid-in capital	7,854,408
Accumulated deficit	(12,311,510)

Total Stockholders' Equity (Deficit)	(4,452,435)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 2,842,844 \$
	=====

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

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Statements of Operations

	For the Six Months Ended September 30,	
	2001	2000
	-----	-----
NET SALES	\$ 3,781,727	\$ 2,700,297
COST OF SALES	3,172,517	2,233,624
	-----	-----
GROSS PROFIT	609,210	466,673
	-----	-----
GENERAL AND ADMINISTRATIVE EXPENSES		
Depreciation and amortization	2,400	6,417
General expenses	637,557	829,930
	-----	-----
Total General and Administrative Expenses	639,957	836,347
	-----	-----
GAIN (LOSS) FROM OPERATIONS	(30,747)	(369,674)
	-----	-----
OTHER INCOME AND (EXPENSES)		
Other income and expenses	6,521	10,032
Interest expense	(245,342)	(312,173)
	-----	-----
Total Other Income and (Expenses)	(238,821)	(302,141)

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	-----	-----
GAIN (LOSS) BEFORE INCOME TAXES	(269,568)	(671,815)
	-----	-----
INCOME TAXES	-	-
	-----	-----
NET INCOME (LOSS)	\$ (269,568)	\$ (671,815)
	=====	=====
OTHER COMPREHENSIVE GAIN (LOSS)		
Gain (loss) on valuation of marketable securities	\$ -	\$ -
Total Other Comprehensive Gain (Loss)	-	-
	-----	-----
NET COMPREHENSIVE GAIN (LOSS)	\$ (269,568)	\$ (671,815)
	=====	=====

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

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Statements of Operations (Continued)

	For the Six Months Ended September 30,	
	-----	-----
	2000	2000
	-----	-----
BASIC LOSS PER SHARE OF COMMON STOCK - CONTINUING OPERATIONS	\$ (0.06)	\$ (0.17)
	=====	=====
BASIC LOSS PER SHARE OF COMMON STOCK - DISCONTINUED OPERATIONS	\$ -	\$ -
	=====	=====

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

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Statements of Stockholders' Equity
September 30, 2001 and 2000

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	Common Stock		Preferred Stock		Other Comprehen Loss
	Shares	Amount	Shares	Amount	
Balance, April 1, 1999	3,174,286	3,174	244,953	245	(435,
Stock issued for Quade acquisition (Note 2)	451,667	452	-	-	
Stock issued for consulting services	250,000	250	-	-	
Expense recognized for vested options	-	-	-	-	
Recognition of loss on valuation of marketable securities	-	-	-	-	435,
Net loss for the year ended March 31, 2000	-	-	-	-	
Balance, March 31, 2000	3,875,953	3,876	244,953	245	
Stock issued for consulting services	192,777	193	-	-	
Stock issued for interest on debt	140,087	140	-	-	
Stock exchanged for debt with related parties	140,000	140	-	-	
Stock issued to employees under Employee Stock Plan	73,000	73	-	-	
Expense recognized for vested options	-	-	-	-	
Net loss for the year ended March 31, 2001					
Balance, March 31, 2001	4,421,817	\$ 4,422	244,953	\$ 245	\$
Expense recognized for vested options	-	-	-	-	
Net loss for the six months ended September 30, 2001					
Balance at September 30, 2001	4,421,817	\$ 4,422	244,953	\$ 245	\$

The accompanying notes are an integral part of these consolidated

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financial statements.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Statements of Cash Flows

	For the Six Months Ended September 30,	
	2001	2000
	-----	-----
OPERATING ACTIVITIES		
Net income (loss)	\$ (269,568)	\$ (671,815)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	126,712	140,307
Common stock issued for services and interest	8,773	118,669
Changes in operating assets and liabilities:		
(Increase) decrease in inventory	(566,686)	54,482
(Increase) decrease in accounts receivable	(555,393)	65,301
(Increase) decrease in other current assets	(11,299)	(9,815)
Increase (decrease) in accounts payable	736,588	419,240
Increase (decrease) in other current liabilities	242,687	243,340
	-----	-----
Net Cash Provided (Used) by Operating Activities	(288,186)	359,709
	-----	-----
INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	-	2,485
Purchases of property and equipment	(11,027)	(10,662)
	-----	-----
Net Cash Provided (Used) by Investing Activities	(11,027)	(8,177)
	-----	-----
FINANCING ACTIVITIES		
Payments on capital lease obligations	(177,791)	(159,319)
Proceeds (payments) from notes payable	(59,000)	(10,151)
Borrowings (payments) from related party debt	(24,512)	46,700
Net borrowings (payments) on factoring line of credit	540,992	(227,940)
	-----	-----
Net Cash Provided (Used) by Financing Activities	279,689	(350,710)
	-----	-----
INCREASE (DECREASE) IN CASH	(19,524)	822
CASH, BEGINNING OF PERIOD	23,759	8,914
	-----	-----
CASH, END OF PERIOD	\$ 4,235	\$ 9,736
	=====	=====

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

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Consolidated Statements of Cash Flows (Continued)

	For the Six Months Ended September 30,	
	2001	2000
CASH PAID FOR		
Interest	\$ 107,549	\$ 123,060
Income taxes	\$ -	\$ -
NON-CASH FINANCING ACTIVITIES		
Common stock issued for services	\$ 8,773	\$ 118,669
Equipment purchased through capital lease obligation	\$ 81,342	\$ -

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

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
September 30, 2001 and 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

a. Quarterly Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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. The accompanying consolidated unaudited condensed financial statements have been prepared in accordance with the instructions to Form 10-QSB but do not include all of the information and footnotes required by generally accepted accounting principles and should, therefore, be read in conjunction with the Company's fiscal 2001 financial statements in Form 10-KSB. These statements do include all normal recurring adjustments which the Company believes necessary for a fair presentation of the statements. The interim operating results are not necessarily indicative of the results for a full year. Effective for fiscal quarters ending after March 15, 2000, the Securities and Exchange Commission adopted a rule requiring companies' independent auditors review the companies' financial information prior to the companies filing their Quarterly Reports on Form 10-QSB with the Commission. The Company's September 30, 2001 Form 10-QSB was not reviewed prior to submission to the Commission. A Form 8-K will be filed when the review is completed by the independent auditors.

b. Principles of Consolidation

The accompanying consolidated financial statements include American Resources and Development Company and its subsidiaries, Pacific Printing and Embroidery L.L.C. (PPW) and Fan-Tastic, Inc. (FTI).

c. Estimates

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

d. Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

e. Concentrations of Risk

The Company maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits.

In the normal course of business, the Company extends credit to its customers.

f. Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. Inventory consists of items available for resale.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
September 30, 2001 and 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Property and Equipment

Property, equipment and capital leases are recorded at cost and are depreciated or amortized over the estimated useful life of the related assets, generally three to seven years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period.

The costs of maintenance and repairs are charged to income as incurred. Renewals and betterments are capitalized and depreciated over their estimated useful lives.

h. Accounts Receivable

Accounts receivable are shown net of the allowance for returns and bad debts of \$90,585 at September 30, 2001.

i. Financial Instruments

Statement of Financial Accounting Standards No. 107, " Disclosures about Fair Value of Financial Instruments" requires disclosure of the fair value of financial instruments held by the Company. SFAS 107 defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate fair value:

The carrying amount of cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature.

j. Income Taxes

Income taxes consist of Federal Income and State Franchise taxes. The Company has elected a March 31 fiscal year-end for both book and income tax purposes.

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No.109 (SFAS No. 109), "Accounting for Income Taxes," which requires the asset and liability method of accounting for tax deferrals.

k. Basic Loss Per Common Share

Basic loss per common share is computed based on the weighted average number of common shares outstanding during the period. The common stock equivalents are antidilutive and, accordingly, are not used in the net loss per common share computation. Fully diluted loss per share is the same as the basic loss per share because of the antidilutive nature of common stock equivalents.

Basic net loss from continuing operations per common share and diluted net loss from continuing operations per common share amounts, calculated in accordance with SFAS 128, were \$.01 and \$(.12) for the three months ended September 30, 2001 and 2000, respectively. Basic net (loss) income from discontinued operations per common share and diluted net loss from discontinued operations per common share were \$0.00 and \$0.00, respectively. Weighted average common shares outstanding were 4,421,817 and 4,008,730 for the three months ended September 30, 2001 and 2000, respectively.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
September 30, 2001 and 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Revenue Recognition

Revenue for contract screen printing, embroidery and product sales are recognized when the goods have been shipped. Franchise fees are recognized as revenue when all material services relating to the sale have been substantially performed by FTI. Material services relating to the franchise sale include assistance in the selection of a site and franchisee training.

m. Goodwill

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The Company recognizes goodwill from the excess of the purchase price of its acquisitions over the fair value of the net assets acquired.

The Company evaluates the recoverability of goodwill and reviews the amortization period on an annual basis. Several factors are used to evaluate goodwill, including but not limited to: management's plans for future operations, recent operating results and projected, undiscounted cash flows.

o. Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

NOTE 2 -MERGERS AND ACQUISITIONS

Golf Ventures, Inc.

In November 1997, Golf Ventures, Inc., a former Company subsidiary, merged with U.S. Golf Communities. U.S. Golf Communities was the controlling company in this merger and subsequent to the merger the combined company's name changed to Golf Communities of America (GCA). This merger resulted in a less than 20% American Resources' ownership in GVI. Therefore, subsequent to the merger, the Company's investment in GVI is reflected as an investment in accordance with Financial Accounting Standards Board Statement No. 121.

The Company has a reserve for discontinued operations of \$835,215 at September 30, 2001

Pacific Print and Embroidery, LLC (aka Pacific Print Works)

In May 1998, the Company acquired 83% of the outstanding shares of Pacific Print Works (PPW). The acquisition was accounted for by the purchase method of accounting, and accordingly, the purchase price was allocated to assets acquired and liabilities assumed based on their fair market value at the date of acquisition. Liabilities assumed in excess of assets acquired was \$629,252 and 213,472 shares of the Company's common stock were issued to PPW shareholders with a guaranteed share value of \$5.00 resulting in goodwill of \$1,686,411. In addition, depending on PPW's performance from April 1, 1998 through March 31, 2001, additional shares of the Company's common stock would be issued to the Sellers if minimum earnings levels were met. Based on the \$5.00 guarantee and the Company's share value from October 1998 through March 1999, the Company is obligated to issue additional shares of common stock to the Sellers. An amendment to the PPW Stock Purchase Agreement is being evaluated by the Company and the Sellers in which the Company would issue another 1,100,000 shares of the Company's common stock to the Sellers and any additional earnings requirements by PPW or per share value guarantee by the Company would be eliminated.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
September 30, 2001 and 2000

NOTE 3 -LINE OF CREDIT

In November 1998, the Company entered into an accounts receivable financing agreement to sell, with recourse, up to \$1 million of

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receivables, net of a 15% collection reserve. The Company is charged .065% daily for all receivables sold and uncollected under this financing agreement. At September 30 and March 31, 2001, the Company had a payable of \$904,880 and \$363,888, respectively, for net funds advanced from this accounts receivable line of credit. The Company received \$3,656,750 and 2,242,992 from the sale of receivables for the six months ended September 30, 2001 and 2000 and recognized \$36,600 and \$60,386 in interest expense from the discount of selling these receivables, respectively.

NOTE 4 - NOTES PAYABLE

Notes payable are comprised of the following:

Note payable, unsecured, bearing interest at 12%, payable in monthly installments of \$7,000, including interest. Due on demand. \$

Convertible subordinated debentures, originally due September 30, 1996 bearing interest at 12% per annum. Interest payable quarterly.

Note payable to debtholder of PPW, unsecured. Modified in August 2000. Modified agreement requires payments of \$102,500 through February 2002 without interest. Additional principal payments of \$147,084 will be required if payments are not made timely plus 9% interest. A gain on the modification of debt for \$137,084 will be recorded when there is no risk of default on this debt.

Note payable to shareholder of PPW for purchase of 7% of PPW shares, unsecured. Note requires monthly payments of \$3,000 from July 2001, increasing to \$5,000 in July 2002 with a final \$9,000 payment July 2003. The note is non-interest bearing but will accrue interest at 9% from inception if the Company is non-timely on payments.

Note payable to former shareholder of PPW, unsecured. Interest rate of 10%. Due on demand, unsecured.

Subtotal

Less current portion

Long-term portion \$

Maturities of long-term debt are as follows:

September 30, 2002 \$

September 30, 2003 \$

NOTE 5 - NOTES PAYABLE, RELATED PARTIES

Note payable to Miltex Industries, secured by 2,934,193 shares of the Company's common stock. Interest at 15% with monthly principal and interest payments of \$11,000 with a final balloon payment December 31, 2001. Note is in default.

Note payable to a shareholder, secured by GCA stock. Interest payable monthly at 13.5% with interest and principal payments of \$5,000 per month. Due October 31, 2001. Note is in default

Notes payable to a Company owned by a shareholder. Interest payable at 72% with interest and principal payments due currently.

Notes payable to shareholders (includes officers and directors of the Company). Interest rates average 10.5%. Unsecured, due on demand, but not expected to be repaid until 2003.

Subtotal

Less current portion

Long-term portion

Maturities of notes payable, related parties are as follows:

September 30, 2002

September 30, 2003

NOTE 6 - CAPITAL LEASES

Property and equipment payments under capital leases as of March 31, 2001 is summarized as follows:

Year End
 March 31,
 2002
 2003
 2004
 2005

Total minimum lease payments
 Less interest and taxes

Present value of net minimum lease payments
 Less current portion

Long-term portion of capital lease obligations

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
 Notes to the Consolidated Financial Statements
 September 30, 2001 and 2000

NOTE 6 - CAPITAL LEASES (Continued)

The Company recorded depreciation expense on capitalized lease equipment of \$210,689 and \$232,589 for the years ended March 31, 2001 and 2000, respectively.

NOTE 7 - INCOME TAXES

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Other temporary differences are created by the use of the equity method for reporting investments in subsidiaries. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Income tax benefit for the year ending March, 31, 2001 differs from the amount computed at the federal statutory rates as follows:

Income tax Benefit at statutory rate	\$	46,200
Valuation allowance		(46,200)

	\$	-
		=====

Deferred tax assets for the year ending March 31, 2001 are comprised of the following:

Net Operating Loss Carryforward	\$	1,318,000
Valuation allowance		(1,318,000)

	\$	-
		=====

At March 31, 2001, the Company had a net operating loss carryforward of approximately \$4,700,000 that may be offset against future taxable income through 2021. These losses will start to expire in the year 2014 and not included in this carryforward is about \$1,600,000 in carryforwards net operating losses created from Golf Ventures, Inc. that most likely will not be allowed to be offset by any future operations of the Company. No tax benefit has been reported in the financial statements because the Company believes there is a 50% or greater chance the carryforward will expire unused. Accordingly, the potential tax benefits or the loss carryforward are offset by a valuation allowance of the same amount.

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NOTE 8 - PREFERRED STOCK

The shareholders of the Company have authorized 10,000,000 shares of preferred stock with a par value of \$0.001. The terms of the preferred stock are to be determined when issued by the board of directors of the Company.

SERIES B:

At March 31, 2000, there are 94,953 shares of series B preferred stock issued and outstanding. The holders of these series B preferred shares are entitled to an annual cumulative cash dividend of not less than sixty cents per share.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
September 30, 2001 and 2000

NOTE 8 - PREFERRED STOCK (Continued)

At March 31, 2001, there is a total of \$466,533 of accrued and unpaid dividends related to the series B preferred stock which have been included in the accompanying consolidated financial statements. These series B preferred shares were convertible into shares of the Company's common stock which conversion option expired March 31, 1995.

NOTE 9 - COMMON STOCK ISSUED BUT NOT OUTSTANDING

The Company has issued 160,820 shares of common stock which had been offered to the holders of the Series B preferred stock and the debentures. The shares have not been accepted by the holders of those investments as of the date of the consolidated financial statements. Additionally, the Company has issued 2,934,193 shares of common stock as collateral for the note payable to Banque SCS (Note 5).

NOTE 10 - STOCK OPTIONS

In March 2001 and August 1997, the Company's Board of Directors approved the 2001 and 1997 American Resources and Development Company Stock Option Plans, respectively (Option Plans). Under the Option Plans, 1,500,000 shares of the Company's common stock are reserved for issuance to Directors and employees. Options are granted at a price and with vesting terms as determined by the Board of Directors.

In August 1999 and January 2001, the Board of Directors granted options to purchase 696,291 and 599,723 shares of common stock at \$0.25. The options issued in August 1999 are currently vested. The options issued in January 2001 vest over four years. The options were issued to various employees, officers and directors of the Company for past services, risk associated with various debt incurred by officers for the Company and guarantees by officers of Company debt, and for future services. No compensation expense was recognized, as the option price was greater than the fair market value of the stock at the date of the option grant.

In December 1997, the Board of Directors granted options to purchase 39,000 shares of stock at \$2.00. These options are exercisable

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beginning March 31, 1998, are exercisable over staggered periods and expire after ten years. No compensation expense was recognized as the option price was greater than the fair market value of the stock at the date of the option grant.

In October 1997, the Board of Directors granted options to purchase 140,000 shares of stock at \$2.00. These options are exercisable beginning March 31, 1998, over staggered periods and expire after ten years. Compensation expense of \$1,458 per month will be recognized for 40,000 of the options issued over a 4 year vesting period. In July 1998, the Board of Directors changed the terms of the 100,000 options vesting over 10 years. 25,000 of these options were fully vested and the remainder of the options were canceled. As a result, compensation expense of \$52,498 was recognized for the year ended March 31, 1998 for the vesting of these options.

Pro forma net income and net income per common share was determined as if the Company had accounted for its employee stock options under the fair value method of Statement of Financial Accounting Standards No. 123.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY Notes to the Consolidated Financial Statements September 30, 2001 and 2000

NOTE 10 - STOCK OPTIONS (Continued)

Pro forma expense in year 1 would be \$77,660, and \$75,335, 28,579, \$22,933 in years 2, 3, and 4, respectively, with an increase in pro forma expenses per share of \$0.02 in year 1, \$0.02 in year 2 and \$0.01 in years 3 and 4.

On January 22, 1999, the Company granted options to a consultant to purchase up to 160,000 shares of the Company's common stock. The consultant is to provide various investor and public relations services through January 21, 2000 and the Company is recognizing an expense of \$6,000 over the term of the services based upon the value of the options as calculated from an option pricing model. The options expire in December 31, 2001, are not transferrable and are exercisable at any time at the following rates:

40,000 shares	at	\$0.50 per share;
40,000 shares	at	\$1.00 per share;
40,000 shares	at	\$2.00 per share;
40,000 shares	at	\$3.00 per share.

For the pro forma disclosures, the options' estimated fair value was amortized over their expected ten-year life. The fair value for these options was estimated at the date of grant using an option pricing model which was designed to estimate the fair value of options which, unlike employee stock options, can be traded at any time and are fully transferable. In addition, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options. The following weighted-average assumptions were used to estimate the fair value of these options:

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	March 31, 2001

Expected dividend yield	0%
Expected stock price volatility	70%
Risk-free interest rate	6.5%
Expected life of options (in years)	10

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Office Lease

The Company leases office and warehouse space in Portland, Oregon. Lease commitments for the years ended March 31, 2002 through March 31, 2003 are \$318,832 and \$49,366, respectively.

Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

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AMERICAN RESOURCES AND DEVELOPMENT COMPANY
Notes to the Consolidated Financial Statements
September 30, 2001 and 2000

NOTE 12 - GOING CONCERN

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. In order to carry out its operating plans, the Company will need to obtain additional funding from outside sources. The Company has received funds from a private placement and debt funding and plans to continue making private stock and debt placements. There is no assurance that the Company will be able to obtain sufficient funds from other sources as needed or that such funds, if available, will be obtainable on terms satisfactory to the Company.

NOTE 13 - BUSINESS SEGMENTS

Effective March 31, 1999, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company conducts its operations principally in the contract screen printing and embroidery industry with Pacific Print works, Inc. and the retail franchise industry with Fan-Tastic, Inc.

Certain financial information concerning the Company's operations in different industries is as follows:

For the Six Months Ended September 30,	Pacific Print Works	Fan-Tastic	Co Una
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Net sales	2001	\$ 3,670,641	\$ 111,086	\$
	2000	2,610,953	89,344	
Operating income (loss) applicable to industry segment	2001	85,730	(35,039)	
	2000	(57,087)	(126,932)	
General corporate expenses not allocated to industry segments	2001			
	2000			
Interest expense	2001	(168,701)	(19,935)	
	2000	(198,842)	(24,442)	
Other income (expenses)	2001	6,521	-	
	2000	(968)	-	
Assets	2001	\$ 2,793,989	\$ 45,804	
Depreciation and amortization	2001	126,312	400	
	2000	135,890	3,936	
Property and equipment acquisitions	2001	92,369	-	
	2000	10,662	-	

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Item 2. Management's Discussion and Analysis or Plan of Operations

Forward Looking Statements

The statements in this report concerning certain expected future expenses as a percentage of net sales, future financing and working capital requirements and availability constitute forward - looking statements that are subject to risks and uncertainties. These risks could cause actual results or activities to differ materially from those expected. Factors that could adversely affect cost of sales and general expenses as a percentage of net sales include, but are not limited to, increased competitive factors, changes in consumer preferences, as well as an inability to increase sales. Other factors could include a failure to adequately fund operations. In addition, unfavorable business conditions, or changes in the general economy could have adverse effects. Factors that could materially affect future financing requirements include, but are not limited to, the ability to obtain additional financing on acceptable terms. Factors that could materially affect future working capital requirements include, but are not limited to, the factors listed above and the industry factors and general business conditions noted above.

The following table sets forth, for the periods indicated, selected Company income statement data expressed as a percentage of net sales.

	Three Months		Six Months	
	Ended September 30,		Ended September 30,	
	2001	2000	2001	2000
	----	----	----	----
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	81.0%	96.2%	83.9%	82.7%
Gross profit	19.0%	3.8%	16.1%	17.3%
General expenses	12.4%	27.5%	16.9%	30.7%

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Depreciation and amortization	0.0%	0.2%	0.1%	0.2%
Loss from operations	6.6%	-23.9%	-0.8%	-13.7%
Other income and expenses	0.1%	-0.1%	0.2%	0.4%
Interest expense	-4.4%	-11.0%	-6.5%	-11.6%
Gain (Loss) before income taxes	2.4%	-34.9%	-7.1%	-24.9%
Income taxes	0.0%	0.0%	0.0%	0.0%
Net Income (loss)	2.4%	-34.9%	-7.1%	-24.9%

For the three months ended September 30, 2001 ("second quarter fiscal 2002"), compared to the three months ended September 30, 2000 ("second quarter fiscal 2001"):

Sales for the three months ended September 30, 2001 were \$2,501,575 as compared to \$1,338,775 for the three months ended September 30, 2000. Pacific Print Works ("PPW") sales for the second quarter fiscal 2002 were \$2,434,822 compared to \$1,300,605 for second quarter fiscal 2001. Production sales, primarily from screenprinting, embroidery and finishing, were \$907,445 in second quarter fiscal 2002 as compared to \$855,222 in second quarter fiscal 2001. Second quarter fiscal 2002 PPW sales included \$1,527,377 for garment sales as compared to \$445,133 for the second quarter fiscal 2001. Certain customers request "package sales" which include the sale of the garment, primarily T-shirts, with the screenprint and/or embroidery. The increase in garment sales in second quarter fiscal 2002 came from the sale of patriotic design T-shirts and other garments. The increase in garment sales is expected to continue as many of PPW's other large customers have expressed an interest in purchasing package sales from PPW.

Gross profit for the three months ended September 30, 2002 was \$476,416 as compared to \$51,395 for the three months ended September 30, 2000. The increase in gross profit was primarily due to an increase in garments sales for PPW with a higher gross margin.

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General expenses for the second quarter fiscal 2002 were \$309,049 as compared to \$368,038 for the first quarter fiscal 2001. The decrease was primarily attributable to a reduction of \$54,000 in Fan-Tastic general expenses related to closing the last of Fan-Tastic retail stores September 2001.

Depreciation and amortization expenses included in total general expenses for the second quarter fiscal 2002 was \$1,100 as compared to \$2,908 for the second quarter fiscal 2001. PPW had depreciation of \$61,699 and \$69,602 for the second quarter fiscal 2002 and 2001, respectively, which was included in cost of sales.

The Company's gain from operations for the second quarter fiscal 2002 was \$166,267 compared to a loss of \$319,551 for the second quarter fiscal 2001. The improvement in operations is primarily due to the increase in package sales as discussed above.

Interest expense for second quarter fiscal 2002 was \$109,480 compared to \$146,622 for the second quarter fiscal 2001. The decline in interest expense was primarily due to a reduction of \$8,300 in interest from the accounts receivable factor due to an improved interest rate on the accounts receivable factor arrangement, and a reduction in capitalized lease interest expense due to the decreasing capitalized lease payable balance and elimination of interest from a note payable to a PPW debtholder due to a modification in the debt terms in August 2000. The Company is accruing but not paying \$20,000 of monthly interest on \$187,000 in debentures, and debt to Miltex Industries and debt with various shareholders.

For the six months ended September 30, 2001 ("YTD fiscal 2002"), compared to the six months ended September 30, 1999 ("YTD fiscal 2001"):

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Sales for the six months ended September 30, 2001 were \$3,781,727 compared to \$2,700,297 for the six months ended September 30, 2000. Pacific Print Works ("PPW") sales YTD fiscal 2002 were \$3,670,641 compared to \$2,610,953 for the YTD fiscal 2001 sales. PPW production sales, primarily from screenprinting, embroidery and finishing, were \$2,046,358 YTD fiscal 2002 as compared to \$2,124,000 YTD fiscal 2001. YTD fiscal 2002 PPW sales included \$1,629,283 for garment sales as compared to \$486,597 for the YTD fiscal 2001. Certain customers request "package sales" which include the sale of the garment, primarily T-shirts, with the screenprint and/or embroidery. The increase in garment sales for YTD fiscal 2002 came from the sale of patriotic design T-shirts and other garments. The increase in garment sales is expected to continue as many of PPW's other large customers have expressed an interest in purchasing package sales from PPW.

Gross profit increased and the gross profit as a percentage of sales decreased for YTD fiscal 2002 as compared to the YTD fiscal 2001, \$609,210 and 16.1% compared to \$466,673 and 17.3%. The increase in gross profit margin was primarily due to an increase in garments sales for PPW with a higher gross margin.

General and administrative expenses for the YTD fiscal 2002 were \$637,557 as compared to \$829,930 for the YTD fiscal 2000. The decrease in general and administrative expenses is primarily due to \$110,000 in investor relation expenses incurred in the first quarter fiscal 2001 as compared to none in YTD fiscal 2002 and a reduction of \$88,000 in Fan-Tastic general expenses related to closing the last of Fan-Tastic retail stores September 2001.

The loss from operations before other income and expenses for the YTD fiscal 2002 was a loss of \$30,747 as opposed to a loss of \$369,674 for the YTD fiscal 2001. The improvement in operations was due to the increase in gross profit and a decline in general expenses as discussed above.

Interest expense for the YTD fiscal 2002 was \$245,342 compared to \$312,173 for the prior year. The decline in interest expense was primarily due to a reduction of \$27,000 in interest from the accounts receivable factor due to an improved interest rate on the accounts receivable factor arrangement, and a reduction in capitalized lease interest expense due to the decreasing capitalized lease payable balance and elimination of interest from a note payable to a PPW debtholder due to a modification in the debt terms in August 2000. The Company is accruing but not paying \$20,000 of monthly interest on \$187,000 in debentures, and debt to Miltex Industries and debt with various shareholders.

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For the three months ended September 30, 2000 ("second quarter fiscal 2001"), compared to the three months ended September 30, 1999 ("second quarter fiscal 2000"):

Sales for the three months ended September 30, 2000 were \$1,338,775 compared to \$941,000 for the three months ended September 30, 1999. Pacific Print Works ("PPW") sales for the second quarter fiscal 2001 were \$1,300,605 compared to \$851,386 for the second quarter fiscal 2000. The \$449,219 increase in PPW's revenue was primarily due to a \$412,000 increase in sales to a customer in the second quarter fiscal 2001 compared to the second quarter fiscal 2000. Sales in the second quarter fiscal 2001 included T-shirt garments of \$445,000 in addition to screen printing revenue.

Gross profit and the gross profit as a percentage of sales declined for the second quarter fiscal 2001 as compared to the second quarter fiscal 2000, \$51,395 and 3.8% compared to \$214,463 and 22.8%. The decline in gross profit was

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primarily due to an increase in production salaries and wages, an increase in costs of garments sold to customers of \$430,000 with a profit of \$9,000 on these garments, an increase in materials for garment finishing, screen and freight costs and an increase in rent costs. Production salaries and wages increased \$34,000 due to an increase of 5% in production volume and a pay increase to the top three production management employees. Materials used for garment finishing and screens increased \$25,000 due to the increase in production. Rent costs increased by \$39,000 because PPW required extra space due to the increase in revenue (i.e., \$1,338,775 for second quarter fiscal 2001 compared to \$941,000 for second quarter fiscal 2000.)

General and administrative expenses for the first quarter fiscal 2001 were \$368,038 as compared to \$386,065 for the second quarter fiscal 2000.

The gain (loss) from operations before other income and expenses for the second quarter fiscal 2001 was a loss of \$319,551 as opposed to a loss of \$178,208 for the second quarter fiscal 2000.

Interest expense for the second quarter fiscal 2001 was \$146,622 compared to \$132,311 for the prior year.

For the six months ended September 30, 2000 ("YTD fiscal 2001"), compared to the six months ended September 30, 1999 ("YTD fiscal 2000"):

Sales for the six months ended September 30, 2000 were \$2,700,297 compared to \$2,069,089 for the six months ended September 30, 1999. Pacific Print Works ("PPW") sales YTD fiscal 2001 were \$2,610,953 compared to \$1,886,860 for the YTD fiscal 2000 sales. The \$724,093 increase in PPW's revenue was primarily due to a \$412,000 and \$366,000 increase in sales to PPW's two largest customers YTD fiscal 2001 compared to YTD fiscal 2000. The increase to these customers is largely due to PPW's high density printing capabilities in addition to the overall quality of the printing and related services.

Gross profit and the gross profit as a percentage of sales declined slightly for YTD fiscal 2001 as compared to the YTD fiscal 2000, \$466,673 and 17.3% compared to \$507,204 and 24.5%. The decline in gross profit margin was primarily due to an increase in production salaries and wages, an increase in costs of garments sold to customers of \$346,000 with a profit of \$16,000 on these garments, an increase in materials for garment finishing, screen and freight costs and an increase in rent costs. Rent costs increased by \$78,000 because PPW required extra space due to the increase in revenue (i.e., \$2.7 million for the six months ended September 30, 2000 compared to \$2.1 million for the six months ended September 30, 1999.)

General and administrative expenses for the YTD fiscal 2001 were \$829,930 as compared to \$713,395 for the YTD fiscal 2000. The increase in general and administrative expenses is primarily due to \$110,000 in investor relation expenses incurred in the first quarter fiscal 2001.

The gain (loss) from operations before other income and expenses for the YTD fiscal 2001 was a loss of \$369,674 as opposed to a loss of \$221,809 for the YTD fiscal 2000.

Interest expense for the YTD fiscal 2001 was \$312,173 compared to \$278,417 for the prior year.

The Company had a \$869,336 gain from the sale of its 50% ownership in USPA Ltd. in the YTD fiscal 2000 without any similar gain for YTD fiscal 2001.

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LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2001, the Company had total assets of \$2,842,844, total liabilities of \$7,295,279 and total stockholders' deficit of \$4,452,435 compared with total assets of \$1,763,333, total liabilities of \$5,954,973 and total stockholders deficit of \$4,191,640 at March 31, 2001. The changes in assets, liabilities and stockholders equity is due primarily to losses from operations and interest expense. At September 30, 2001 the Company's current ratio of current assets to current liabilities was approximately .33. The Company will seek to convert certain debt to equity which will improve its current ratio.

Management intends to improve its overall financial structure and provide operating capital through private placement of the Company's common stock and seeking the conversion of debt and preferred stock to common stock. There is no assurance that the Company will be able to obtain sufficient funds from other sources as needed or that such funds, if available, will be obtainable on terms satisfactory to the Company.

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Effective for fiscal quarters ending after March 15, 2000, the Securities and Exchange Commission adopted a rule requiring companies' independent auditors review the companies' financial information prior to the companies filing their Quarterly Reports on Form 10-QSB with the Commission. The Company's September 30, 2001 Form 10-QSB was not reviewed prior to submission to the Commission. A Form 8-K will be filed when the review is completed by the independent auditors.

Item 6. Exhibits and Reports on Form 8-K

Not applicable.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

AMERICAN RESOURCES AND
DEVELOPMENT COMPANY
(Registrant)

/s/ B. Willes Papenfuss

B. Willes Papenfuss

President, Chief Executive
Officer and Director
(Principal Executive
Officer)

November 13, 2001

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/s/ Timothy M. Papenfuss

Timothy M. Papenfuss

Secretary / Treasurer and
Director (Chief Financial
Officer, Chief Accounting
Officer and Controller)

November 13, 2001

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