

HAPS USA, INC.  
Form 10QSB  
May 17, 2005

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2005

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

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

Commission file number: 0-32195

**HAPS USA, Inc.**

**f/k/a American Hospital Resources, Inc.**

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

**Utah**

**87-0319410**

(State or other jurisdiction of

(IRS Employer Identification No.)

incorporation or organization)

**5231-A Kuaiwi Place**

Edgar Filing: HAPS USA, INC. - Form 10QSB

**Honolulu, Hawaii 96821**

(Address of principal executive offices)

**808-595-8847**

(Issuer's telephone number)

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING  
THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:  
17,621,364 shares of common stock, no par value

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



FORM 10-QSB

AMERICAN HOSPITAL RESOURCES, INC.

INDEX

	Page
PART I. Financial Information	
Item 1. Unaudited Condensed Financial Statements	3
Unaudited Condensed Balance Sheets March 31, 2005 and December 31, 2004	4
Unaudited Condensed Statements of Operations for the three months ended March 31, 2005 and March 31, 2004	5
Unaudited Condensed Statements of Cash Flows for the three months ended March 31, 2005 and March 31, 2004	6-7
Notes to Unaudited Condensed Financial Statements	8-21
Item 2. Management's Discussion and Analysis of Financial Condition or Plan of Operation	22
Item 3. Controls and Procedures	24
PART II. Other Information	

Item 2. Changes in Securities	24
Item 4. Submission of Matters to a Vote of Security Holders	28
Item 6. Exhibits and Reports on Form 8-K	28
Signatures	28

(Inapplicable items have been omitted)

**PART I.**

**Financial Information**

**Item 1. Unaudited Condensed Financial Statements**

In the opinion of management, the accompanying unaudited financial statements included in this Form 10-QSB reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

**AMERICAN HOSPITAL RESOURCES, INC.**  
**UNAUDITED CONDENSED BALANCE SHEETS**

**ASSETS**

March 31,

December 31,

2005

2004

\_\_\_\_\_

\_\_\_\_\_

**CURRENT ASSETS:**

Cash

\$ 10,806

\$ 2,120

Total Current Assets

10,806

2,120

**OTHER ASSETS:**

Deferred loan costs

313

1,329

\$ 11,119

\$ 3,449

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

**CURRENT LIABILITIES:**

Accounts payable

\$ 133,808

\$ 165,892

Dividends payable

-

196,884

Accrued interest

28,822

23,571

Convertible notes payable, net of discounts totaling

\$3,042 and \$12,817, respectively

209,903

200,128

Total Current Liabilities

372,533

586,475



**COMMITMENTS AND CONTINGENCIES** [See Note 9]

\_\_\_\_\_ -

\_\_\_\_\_ -

Total Liabilities

372,533

586,475

**STOCKHOLDERS' EQUITY (DEFICIT):**

Preferred stock, no par value, 150,000,000 shares authorized:

Class A convertible preferred stock, 6,000,000

shares designated, 2,297,648 and 2,247,648

shares issued and outstanding, respectively

3,591,285

3,441,285

Class B convertible preferred stock, 5,000,000

shares designated, no shares issued and

outstanding

-

-

Class C convertible preferred stock, 1,200,000

shares designated, no shares and 28,867 shares

issued and outstanding, respectively

-

143,496

Common stock, no par value, 750,000,000 shares

authorized, 17,621,364 and 14,740,576 shares

issued and outstanding, respectively

8,170,599

6,803,447

Additional paid-in capital

1,019,441

1,217,441

Retained earnings (deficit)

(13,142,739)

(12,188,695)

Total Stockholders' Equity (Deficit)

(361,414)

(583,026)

\$ 11,119

\$ 3,449

Note: The Balance Sheet at December 31, 2004 was taken from the audited financial statements at that date and condensed.

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

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF OPERATIONS**

For the Three Months

Ended March 31,

\_\_\_\_\_

2005

2004

\_\_\_\_\_

\_\_\_\_\_

**REVENUES**

\$

-

\$

-

**EXPENSES:**

General and administrative

938,002

743,202

**LOSS BEFORE OTHER EXPENSE**

(938,002)

(743,202)

**OTHER EXPENSE:**

Interest expense

(16,042)

(52,110)

**LOSS BEFORE INCOME TAXES**

(954,044)

(795,312)

**CURRENT TAX EXPENSE**

-

-

**DEFERRED TAX EXPENSE**

-

-

**NET LOSS**

\$

(954,044)

\$ (795,312)

**BENEFICIAL CONVERSION FEATURE OF PREFERRED  
STOCK EQUIVALENT TO A DIVIDEND**

-

(14,189)

**DIVIDEND REQUIREMENTS OF PREFERRED STOCK**

          -

      (35,133)

**NET LOSS AVAILABLE TO COMMON SHAREHOLDERS**

\$       (954,044)

\$       (844,634)

**LOSS PER COMMON SHARE:**

\$           (.06)

\$           (.07)

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

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**

For the Three Months

Ended March 31,

\_\_\_\_\_

2005

2004

\_\_\_\_\_

\_\_\_\_\_

**Cash Flows from Operating Activities:**

Net loss

\$

(954,044)

\$

(795,312)

Adjustments to reconcile net loss to net cash used by

operating activities:

Amortization of deferred loan costs

1,016

4,529

Amortization of discounts on notes payable

9,775

43,461

Non-cash services for stock

871,200

729,618

Changes in assets and liabilities:

(Increase) in prepaid expense

-

(15,000)

(Decrease) in accounts payable

(14,084)

(25,880)

Increase in accrued interest

5,251

4,120

Net Cash (Used) by Operating Activities

(80,886)

(54,464)

**Cash Flows from Investing Activities**

-

-

Net Cash Provided (Used) by Investing Activities

-

-

**Cash Flows from Financing Activities:**

Payments for deferred loan costs

-

(6,252)

Proceeds allocated to beneficial conversion feature of  
notes payable

-

60,000

Payments of stock offering costs

-

(1,563)

Proceeds from sale of Class A preferred stock

-

15,000

Proceeds from sale of common stock

93,000

1,000

Payments of preferred stock dividends

           (3,428)

           (7,447)

Net Cash Provided by Financing Activities

           89,572

           60,738



**Net Increase in Cash**

8,686

6,274

**Cash at Beginning of the Period**

2,120

5

**Cash at End of the Period**

\$ 10,806

\$ 6,279

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the period for:

Interest

\$

-

\$

-

Income taxes

\$

-

\$

-

*[Continued]*

**AMERICAN HOSPITAL RESOURCES, INC.**

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**

*[Continued]*

**Supplemental Schedule of Non-cash Investing and Financing Activities:**

For the three months ended March 31, 2005:

The Company amortized \$9,775 of discounts on notes payable and \$1,016 of deferred loan costs as interest expense.

In January 2005, the Company issued 36,000 shares of common stock to pay accounts payable of \$18,000.

In January 2005, the Company issued 495,000 shares of common stock to cancel 550,000 warrants to purchase common stock.

In January and February 2005, the Company issued a total of 1,370,000 shares of common stock for services totaling \$721,200.

In February 2005, the Company issued 50,000 shares of Class A preferred stock for services valued at \$150,000.

In February 2005, the Company issued a total of 463,453 shares of common stock to pay accrued dividends totaling \$189,859.

Edgar Filing: HAPS USA, INC. - Form 10QSB

In February and March 2005, shareholders of the Company converted a total of 28,867 shares of Class C preferred stock into a total of 144,335 shares of common stock.

For the three months ended March 31, 2004:

The Company amortized \$43,461 of discounts on notes payable and \$4,529 of deferred loan costs as interest expense.

The Company recorded dividends payable of \$35,133 for the dividend requirements of its preferred stock.

In February 2004, the Company issued 110,000 shares of Class A preferred stock for services valued at \$253,000.

In February 2004, the Company issued 1,100,000 shares of common stock to pay accounts payable of \$29,382 and for services valued at \$476,618.

In February and March 2004, the Company sold convertible notes payable totaling \$60,000 and recorded discounts totaling \$60,000 for the beneficial conversion features of the notes.

In March 2004, the Company issued 8,108 shares of Class A preferred stock with a beneficial conversion feature of \$14,189 which has been accounted for as a dividend on the day of issue.

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



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - American Hospital Resources, Inc. ( the Company ) was organized under the laws of the State of Utah on May 9, 1972 as High-Line Investment & Development Company. In 1977, the Company changed its name to Gayle Industries, Inc. In 1978, the Company merged into Swing Bike. In 1979, the Company changed its name to Horizon Energy Corporation. In 1992, the Company changed its name to Millennium Entertainment Corp. In 1993, the Company changed its name to New Horizon Education, Inc. In 1993, the Company also organized a wholly owned subsidiary with the sole purpose of merging with Ruff Network Marketing, Inc. In 1997, the Company sold its wholly owned subsidiary to Phoenix Ink, LLC. On June 17, 2002, the Company changed its name to American Hospital Resources, Inc. In May 2005, the Company changed its name to HAPS USA, Inc., [*See Note 10*]. The Company plans to manage foreign casinos. The Company plans to acquire businesses already operating as casinos in foreign countries. The Company has, at the present time, not paid any cash dividends on its common stock and any dividends that may be paid in the future on its common stock will depend upon the financial requirements of the Company and other relevant factors.

**Condensed Financial Statements** - The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at March 31, 2005 and 2004 and for the periods then ended have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2004 audited financial statements. The results of operations for the periods ended March 31, 2005 and 2004 are not necessarily indicative of the operating results for the full year.

**Cash and Cash Equivalents** - The Company considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

**Property and Equipment** - Property and equipment are stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company periodically reviews its property and equipment for impairment. Depreciation expense for the three months ended March 31, 2005 and 2004 was \$0 and \$0, respectively.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]**

**Stock Offering Costs** - Costs related to proposed stock offerings are deferred and will be offset against the proceeds of the offering. In the event a stock offering is unsuccessful, the costs related to the offering are written off to expense.

**Revenue Recognition** - The Company plans to generate revenue from management of foreign casinos.

**Stock-Based Compensation** - The Company has two stock-based employee compensation plans [See Note 9]. The Company accounts for its plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations. The following table illustrates the effect on net income and loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, to the Company's stock-based employee compensation.

For the Three Months

Ended March 31,

---

2005

2004

---

Net loss, as reported

\$

(954,044)



\$

(795,312)

Add: Stock-based employee compensation

expense included in reported net loss

-

-

Deduct: Total stock-based employee

compensation expense determined under

fair value based method

-

-

---

---

Pro forma net loss

\$

(954,044)

\$

(795,312)

---

---

Loss per common share, as reported

\$

(.06)

\$

(.07)

Loss per common share, pro forma

\$

(.06)

\$

(.07)

**Income Taxes** - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes [See Note 5].

**Loss Per Share** - The computation of loss per share of common stock is based on the weighted average number of shares outstanding during the periods presented, in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share [See Note 8].

**Accounting Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated by management.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]**

**Recently Enacted Accounting Standards** - Statement of Financial Accounting Standards ( SFAS ) No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 , SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions an amendment of FASB Statements No. 66 and 67 , SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 , and SFAS No. 123 (revised 2004), Share-based Payment , were recently issued. SFAS No. 151, 152, and 153 have no current applicability to the Company or their effect on the financial statements would not have been significant. If SFAS No. 123 (revised 2004) had been applied to all periods presented, it would have had the same effects as disclosed above under the caption Stock-Based Compensation.

**Restatement** - The financial statements have been restated for all periods presented to reflect the Company s amended articles of incorporation which were filed with the State of Utah in May 2005 [See Note 3, 4 and 10].

**NOTE 2 - CONVERTIBLE NOTES PAYABLE**

The Company has the following one-year 10% convertible notes payable at:

March 31

December 31,

2005

2004

\_\_\_\_\_

\$10,000 note payable due August 2004, convertible into

common stock at \$.29 per share, secured by

100,000 shares of the Company's common stock,

currently in default

\$10,000

\$10,000

\$20,000 note payable due September 2004, convertible

into common stock at \$.265 per share, secured by 200,000

shares of the Company's common stock, currently in default

20,000

20,000

\$10,000 note payable due September 2004, convertible into

common stock at \$.38 per share, secured by 100,000 shares

of the Company's common stock, currently in default

10,000

10,000

\$24,000 note payable due September 2004, convertible into

common stock at \$.36 per share, secured by 250,000 shares

of the Company's common stock, currently in default

24,000

24,000

\$10,000 note payable due September 2004, convertible into  
common stock at \$.37 per share, secured by 100,000 shares

of the Company's common stock, currently in default

10,000

10,000

\$11,000 note payable due September 2004, convertible into  
common stock at \$.485 per share, secured by 150,000 shares

of the Company's common stock, currently in default

11,000

11,000

\$21,345 note payable due October 2004, convertible into  
common stock at \$.435 per share, secured by 213,345 shares

of the Company's common stock, currently in default

21,345

21,345

\$10,000 note payable due October 2004, convertible into  
common stock at \$.42 per share, secured by 100,000 shares

of the Company's common stock, currently in default

10,000

10,000

\$10,000 note payable due October 2004, convertible into

common stock at \$.45 per share, secured by 100,000 shares

of the Company's common stock, currently in default

10,000

10,000

[Continued]

10

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 2 - CONVERTIBLE NOTES PAYABLE [Continued]**

March 31

December 31,

2005

2004

---

\$10,000 note payable due October 2004, convertible into  
common stock at \$.40 per share, secured by 100,000 shares  
of the Company's common stock, currently in default

10,000

10,000

\$5,000 note payable due November 2004, convertible into  
common stock at \$.375 per share, secured by 100,000 shares  
of the Company's common stock, currently in default

5,000

5,000

\$2,500 note payable due December 2004, convertible into

common stock at \$.18 per share, secured by 100,000 shares

of the Company's common stock, currently in default

2,500

2,500

\$10,000 note payable due February 2005, convertible into  
common stock at \$.23 per share, secured by 100,000 shares

of the Company's common stock, currently in default,

net of discounts of \$0 and \$833, respectively.

10,000

9,167

\$10,000 note payable due February 2005, convertible into  
common stock at \$.27 per share, secured by 100,000 shares

of the Company's common stock, currently in default,

net of discounts of \$0 and \$833, respectively.

10,000

9,167

\$10,000 note payable due February 2005, convertible into  
common stock at \$.325 per share, secured by 100,000 shares

of the Company's common stock, currently in default,

net of discounts of \$0 and \$833, respectively.



10,000

9,167

\$16,000 note payable due March 2005, convertible into common stock at \$.51 per share, secured by 160,000 shares of the Company's common stock, currently in default, net of discounts of \$0 and \$2,667, respectively.

16,000

13,333

\$10,000 note payable due March 2005, convertible into common stock at \$.425 per share, secured by 100,000 shares of the Company's common stock, currently in default, net of discounts of \$0 and \$1,667, respectively.

10,000

8,333

\$4,000 note payable due March 2005, convertible into common stock at \$.50 per share, secured by 40,000 shares of the Company's common stock, currently in default, net of discounts of \$0 and \$667, respectively.

4,000

3,333

\$9,000 note payable maturing in August 2005, convertible into

common stock at \$.15 per share, secured by 90,000 shares  
of the Company's common stock, net of discounts of \$3,000  
and \$5,250, respectively.

6,000

3,750

\$100 note payable maturing in September 2005, convertible into  
common stock at \$.11 per share, secured by 1,000 shares  
of the Company's common stock, net of discounts of \$42  
and \$67, respectively.

58

33

---

209,903

200,128

Less current portion

(209,903)

(200,128)

---

Total

-

\$

-

---



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 2 - CONVERTIBLE NOTES PAYABLE [Continued]**

The Company has sold convertible notes payable totaling \$212,945 and recorded discounts totaling \$212,945 due to the beneficial conversion feature of the notes. The discounts are being amortized over the term of the respective note. During the three months ended March 31, 2005 and 2004, the Company amortized \$9,775 and \$43,461, respectively, of the discounts on notes payable as interest expense.

The Company has paid a total of \$22,178 to consultants for negotiating the notes payable. These costs have been deferred and are being amortized over the term of the respective notes. During the three months ended March 31, 2005 and 2004, the Company amortized \$1,016 and \$4,529, respectively, of the deferred loan costs as interest expense.

For the three months ended March 31, 2005 and 2004, interest expense on notes payable amounted to \$16,042 and \$52,110, respectively.

**NOTE 3 - PREFERRED STOCK**

In May 2005, the Company amended its articles of incorporation to authorize 150,000,000 shares of preferred stock, no par value, with such rights, preferences and designations and to be issued in such classes and series as determined by the Company's Board of Directors [See Note 10]. Previously, the Company had authorized 10,000,000 shares of preferred stock. In December 2002, the Company's Board of Directors designated 5,000,000 shares as Class A and 5,000,000 shares as Class B. In June 2003, the Company's Board of Directors modified the preferred stock distributions to designate 2,600,000 shares as Class A, 5,000,000 shares as Class B and 1,200,000 as Class C. In February 2005, the Company increased the number of shares designated as Class A to 6,000,000. The Class C preferred stock dividends rank senior to the Class A and B preferred stock dividends in liquidation preference and the Class B preferred stock dividends rank senior to the Class A preferred stock dividends in liquidation preference. In liquidation, Class A, B and C preferred stock have no preferential rights to any distributions other than payment of accrued dividends.

**Class A Preferred Stock** - Class A preferred stock is only available to the Company's management, directors and existing shareholders. Each share of Class A preferred stock has the voting rights of five shares of common stock and is convertible at the shareholder's option into five shares of common stock. If shares of the Class A preferred stock were required to be converted as part of a sale or merger of the Company, then each share of Class A preferred stock was convertible into 5.5 shares of common stock. Each share of Class A preferred stock was entitled to receive a \$.0575 annual dividend payable monthly. The total annual dividend for all shares of Class A preferred stock was limited to 50% of the Company's earnings before interest, taxes, depreciation and amortization for the year and the monthly payments were adjusted accordingly. Through June 30, 2003, the Company had negative earnings before interest, taxes, depreciation and amortization; therefore, no dividends were due on the Class A preferred stock through June 30, 2003. In June 2003, the Company's Board of Directors modified the mandatory conversion and dividend provisions of the Class A preferred stock. Effective July 1, 2003, if there was a merger, reorganization, re-capitalization or similar event in which the Company was not the surviving entity, then each share of Class A preferred stock would have been converted into 5.5 shares of common stock. Effective July 1, 2003, each share of Class A preferred stock was entitled to receive a cumulative \$.0575 annual dividend payable monthly with no limitation based on earnings. In February 2005, the Company eliminated the dividend provision of the Class A preferred stock effective December 31, 2004 and eliminated the provision for 5.5 shares of common stock to be issued for each share of Class A preferred stock if there was a merger, reorganization, re-capitalization or similar event. At March 31, 2005 and December 31, 2004, the Company owed \$0 and \$189,859, respectively, in dividends payable on Class A preferred stock.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 3 - PREFERRED STOCK [Continued]**

In February 2005, the Company issued 50,000 shares of its previously authorized but unissued Class A preferred stock for services valued at \$150,000 or \$3.00 per share.

In March 2004, the Company issued 8,108 shares of its previously authorized but unissued Class A preferred stock to a shareholder for cash of \$15,000, or approximately \$1.85 per share. Due to the beneficial conversion feature of the shares, the Company recorded a dividend of \$14,189 upon the issuance of the shares. Stock offering costs of \$1,563 were netted against the proceeds.

In February 2004, the Company issued 110,000 shares of its previously authorized but unissued Class A preferred stock for services valued at \$253,000, or \$2.30 per share.

**Class B Preferred Stock** - Class B preferred stock is only available to parties who sell a business to the Company. Each share of Class B preferred stock has no voting rights and is convertible into five shares of common stock. Each share of Class B preferred stock is entitled to receive a cumulative 6% annual dividend payable quarterly based on the purchase price paid to the Company or the consideration received by the Company. Class B preferred stock may not be transferred without the express written consent of the Company. At March 31, 2005 and December 31, 2004, no shares of Class B preferred stock had been issued.

**Class C Preferred Stock** - Each share of Class C preferred stock has no voting rights and is entitled to receive a cumulative \$.475 annual dividend payable quarterly. Each share of Class C preferred stock is convertible at the shareholder's option into five shares of common stock after a two-year waiting period following issuance. If there is a merger, reorganization, recapitalization or similar event in which the Company is not the surviving entity, then each share of Class C preferred stock will be converted into five shares of common stock. Class C preferred stock may not be transferred without the express written consent of the Company. At March 31, 2005 and December 31, 2004, the Company owed \$0 and \$7,025, respectively, in dividends payable on Class C preferred stock.

In February and March 2005, shareholders of the Company converted a total of 28,867 shares of Class C preferred stock into a total of 144,335 shares of common stock.

**NOTE 4 - COMMON STOCK, OPTIONS AND WARRANTS**

**Common Stock** In May 2005, the Company amended its articles of incorporation to authorize 750,000,000 shares of common stock with no par value [*See Note 10*]. Previously the Company had authorized 100,000,000 shares of common stock.

In February and March 2005, the Company issued a total of 144,335 shares of its previously authorized but unissued common stock upon the conversion of a total of 28,867 shares of Class C preferred stock.

In February 2005, the Company issued 320,000 shares of its previously authorized but unissued common stock for services rendered valued at \$192,000, or \$.60 per share.

In February 2005, the Company issued 1,000,000 shares of its previously authorized but unissued common stock for services rendered valued at \$510,000, or \$.51 per share.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 4 - COMMON STOCK, OPTIONS AND WARRANTS [Continued]**

In February 2005, the Company issued a total of 463,453 shares of its previously authorized but unissued common stock to pay accrued Class A preferred stock dividends totaling \$189,859, or approximately \$.41 per share.

In January and February 2005, the Company issued a total of 372,000 shares of its previously authorized but unissued common stock for cash totaling \$93,000, or \$.25 per share.

In January 2005, the Company issued 36,000 shares of its previously authorized but unissued common stock to pay accounts payable of \$18,000, or \$.50 per share.

In January 2005, the Company issued 10,000 shares of its previously authorized but unissued common stock for services rendered valued at \$4,000, or \$.40 per share.

In January 2005, the Company issued 495,000 shares of its previously authorized but unissued common stock to cancel 550,000 warrants to purchase common stock.

In January 2005, the Company issued 40,000 shares of its previously authorized but unissued common stock for services rendered valued at \$15,200, or \$.38 per share.

In December 2004, the Company issued 2,131,249 shares of its previously authorized but unissued common stock to pay liabilities of \$85,250, or \$.04 per share.

In December 2004, the Company issued 20,000 shares of its previously authorized but unissued common stock for cash of \$7,000 or \$.35 per share.



In November and December 2004, the Company issued 90,000 and 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$36,000 and \$18,000, respectively, or \$.40 and \$.60 per share, respectively.

In September 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$6,300, or \$.21 per share.

In August 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$9,600, or \$.32 per share.

In March 2004, the Company issued 20,000 shares of its previously authorized but unissued common stock for cash of \$1,000, or \$.05 per share, upon the exercise of options.

In February 2004, the Company issued 1,100,000 shares of its previously authorized but unissued common stock to pay accounts payable of \$29,382 and for services valued at \$476,618, or \$.46 per share.

**Proposed Stock Offering** - The Company was proposing to sell up to \$10,000,000 of its previously authorized but unissued common stock through an Equity Line of Credit Agreement [*See Note 9*]. The Company had recorded \$1,084,609 in deferred stock offering costs which were to be offset against the proceeds of the offering. In September 2004, the Company abandoned its plan for a stock offering and expensed the deferred stock offerings of \$1,084,609 as general and administrative expense.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 4 - COMMON STOCK, OPTIONS AND WARRANTS [Continued]**

**Stock Options** - In November 2002, the Company granted 2,000,000 options to purchase common stock at \$.50 per share for services rendered valued at \$882,400. The options vested immediately and are exercisable for three years. At March 31, 2005, none of these options had been exercised, forfeited or cancelled.

In March 2002, the Company granted 20,000 options to purchase common stock at \$.05 per share to attract new directors to Company. The options vested immediately and were exercisable for two years. In March 2004, all 20,000 options were exercised.

A summary of the status of the options is presented below.

For the Three Months ended March 31,

---

2005

2004

---

---

Weighted

Weighted

Average

Average

Exercise

Exercise

Shares

Price

Shares

Price

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Outstanding at beginning of period

2,000,000

\$

.50

2,020,000

\$ .50

Granted

-

-

-

-

Exercised

-

-

20,000

.05

Forfeited

-

-

-

-

Expired

-

-

-

-

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Outstanding at end of period

2,000,000

\$

.50

2,000,000

\$

.50

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Weighted average fair value of options

granted during the period

-  
\$  
-  
-  
\$

-

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

A summary of the status of the options outstanding at March 31, 2005 is presented below:

Options Outstanding

Options Exercisable

\_\_\_\_\_  
\_\_\_\_\_

Range of  
Weighted-Average  
Weighted-Average  
Weighted-Average  
Exercise  
Number  
Remaining  
Exercise  
Number

Exercise

Prices

Outstanding

Contractual Life

Price

Exercisable

Price

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\$ .50

2,000,000

0.6 years

\$ .50

2,000,000

\$ .50

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Incentive Stock Bonus Plan** - On December 31, 2002, the Company's Board of Directors adopted the Incentive Stock Bonus Plan (the Plan). The Plan provides for the granting of 5-year warrants to purchase shares of common stock to

directors, senior management and certain key employees. Awards under the Plan will be granted as determined by the Company's Board of Directors.

In December 2004, the Company granted 150,000 warrants to purchase common stock from the 2004 Stock Bonus Pool to directors for services rendered valued at \$45,000. The warrants vested immediately and were exercisable at \$.25 per share for five years.

In December 2003, the Company's Board of Directors authorized the 2004 Stock Bonus Pool which consisted of 1,000,000 warrants to purchase common stock at \$.25 per share. Further, the Company granted 200,000 warrants to purchase common stock from the 2004 Stock Bonus Pool to directors for services rendered valued at \$4,000. The warrants vested immediately and were exercisable at \$.25 per share for five years.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 4 - COMMON STOCK, OPTIONS AND WARRANTS [Continued]**

In December 2002, the Company's Board of Directors authorized the 2003 Stock Bonus Pool which consisted of 1,000,000 warrants to purchase common stock at \$.25 per share. Further, the Company granted 300,000 warrants to purchase common stock from the 2003 Stock Bonus Pool to directors and NIPSI personnel for services rendered valued at \$19,577. The warrants vested immediately and were exercisable at \$.25 per share for five years.

In February 2004, the Company obtained a court order to cancel 75,000 of the warrants [See Note 9]. In January 2005, the Company issued 495,000 shares of common stock to cancel 550,000 of the warrants [See above]. In January 2005, the Company cancelled the remaining 25,000 warrants. At March 31, 2005, there were no warrants outstanding under the Company's Incentive Stock Bonus Plan.

A summary of the status of the warrants granted under the Company's Incentive Stock Bonus Plan is presented below.

For the Three Months ended March 31,

---

2005

2004

---

---

Weighted

Weighted

Average

Average



Exercise

Exercise

Shares

Price

Shares

Price

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Outstanding at beginning of period

575,000

\$

.25

425,000

\$ .25

Granted

-

\$

-

-

\$

-

Exercised

-

\$

-

-

\$

-

Forfeited

575,000

\$

.25

-

\$ .25

Expired

-

\$

-

-

\$

-

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Outstanding at end of period

-

\$

-

425,000

\$

.25

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Weighted average fair value of warrants

granted during the period

-

\$

-

-

\$

-

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

The fair value of each warrant granted is estimated on the date granted using the Black-Scholes option pricing model, with the following assumptions used for the grants on December 15, 2004: risk-free interest rate of 3.48%, expected dividend yield of zero, expected lives of 5 years and expected volatility of 199%.

**NOTE 5 INCOME TAXES**

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes . SFAS No. 109 requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. At March 31, 2005, the Company

has available unused net operating and capital loss carryforwards of approximately \$3,989,000 and \$294,000, respectively, which may be applied against future taxable income and which expire in various years through 2025 and 2008, respectively. If certain substantial changes in the Company's ownership should occur, there may be an annual limitation on the amount of net operating loss carryforwards which can be utilized.

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 5 INCOME TAXES [Continued]**

At March 31, 2005 and December 31, 2004, respectively, the total of all deferred tax assets is approximately \$1,706,000 and \$1,251,000 and the total of all deferred tax liabilities is \$0 and \$0. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined.

Because of the uncertainty surrounding the realization of the loss carryforwards, the Company has established a valuation allowance of approximately \$1,706,000 and \$1,251,000 at March 31, 2005 and December 31, 2004, respectively. The change in the valuation allowance for the Three Months ended March 31, 2005 is approximately \$455,000.

The temporary differences, tax credits and carryforwards gave rise to the following deferred tax asset (liability) at:

March 31

December 31,

2005

2004

\_\_\_\_\_

\_\_\_\_\_

Net operating loss carryover

\$1,589,178

\$ 1,134,162

Capital loss carryover

117,253

117,253

\_\_\_\_\_  
\_\_\_\_\_

Total deferred tax asset

\$ 1,706,431

\$ 1,251,415

\_\_\_\_\_  
\_\_\_\_\_

The components of income tax expense from continuing operations consisted of the following for the three months ended:

March 31,

March 31,

2005

2004

\_\_\_\_\_  
\_\_\_\_\_

Current income tax expense:

Federal

\$

-

\$

-

State

-

-

\_\_\_\_\_

---

Current tax expense

\$

-

\$

-

---

---

Deferred tax expense (benefit) arising from:

Net operating loss carryover

(455,017)

(307,064)

Valuation allowance

455,017

307,064

---

---

Net deferred tax expense

\$

-

\$

-

Deferred income tax expense results primarily from the reversal of temporary timing differences between tax and financial statement income.



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 5 INCOME TAXES [Continued]**

The reconciliation of income tax expense from continuing operations computed at the U.S. federal statutory tax rate to the Company's effective rate is as follows for the three months ended:

March 31,

March 31,

2005

2004

\_\_\_\_\_

\_\_\_\_\_

Computed tax at the expected

federal statutory rate

34.00%

34.00%

State income taxes, net of federal benefit

5.83

5.83

Conversion of Stock Options

8.27

-

Other

(.41)

(1.22)

Valuation allowance

(47.69)

(38.61)

---

---

Effective income tax rates

0.00%

0.00%

---

---

#### **NOTE 6 - GOING CONCERN**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern.

However, the Company has incurred significant losses and has not yet been successful in establishing profitable operations. Further, the Company has current liabilities in excess of current assets. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through sales of its stock or through a possible acquisition of another company. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

#### **NOTE 7 - RELATED PARTY TRANSACTIONS**

**Note Payable** - In September 2004, the Company sold a note payable for \$100 to its Chief Executive Officer [*See Note 2*].

**Stock Issuances** In February 2005, the Company issued a total of 463,453 shares of common stock to pay accrued Class A preferred stock dividends totaling \$189,859 [*See Note 4*].

In January 2005, the Company issued 495,000 shares of common stock to directors of the Company to cancel 550,000 warrants to purchase common stock [*See Note 4*].

In March 2004, the Company issued 8,108 shares of Class A preferred stock to a shareholder of the Company for cash of \$15,000 [*See Note 3*].

**Exercise of Options** - In March 2004, the Company issued 20,000 shares of common stock to the directors upon the exercise of options [*See Note 4*].

**Warrants** - In December 2004, the Company granted 150,000 warrants to purchase common stock to directors of the Company for services rendered valued at \$45,000 [*See Note 4*].

**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 7 - RELATED PARTY TRANSACTIONS [Continued]**

**Management Compensation** During the three months ended March 31, 2005 and 2004, respectively, the Company did not pay any cash compensation to any officer or director of the Company.

**Office Space** - The Company rents office space from its Chief Executive Officer on an as-needed, month-to-month basis. Total rents to the Chief Executive Officer amounted to \$3,250 and \$500 for the three months ended March 31, 2005 and 2004, respectively.

**NOTE 8 - LOSS PER SHARE**

The following data show the amounts used in computing loss per share for the periods:

For the Three Months Ended

March 31,

\_\_\_\_\_

2005

2004

\_\_\_\_\_

\_\_\_\_\_

Net loss available to common shareholders (numerator)

(954,044)

(844,634)

Weighted average number of common shares  
outstanding used in loss per common share for the  
period (denominator)

16,594,489

11,802,953

---

---

At March 31, 2005, the Company had 2,000,000 outstanding options, notes payable convertible into 718,461 shares, 2,304,345 shares issuable as collateral on notes payable and preferred stock convertible into 11,488,240 shares of common stock which were not used in the computation of dilutive loss per share because their effect would be anti-dilutive. At March 31, 2004, the Company had 2,000,000 outstanding options, 425,000 outstanding warrants, notes payable convertible into 588,346 shares, 2,213,345 shares issuable as collateral on notes payable and preferred stock convertible into 11,382,575 shares of common stock which were not used in the computation of dilutive loss per share because their effect would be anti-dilutive. Dilutive loss per share was not presented, as the Company had no common stock equivalent shares for all periods presented that would effect the computation of diluted loss per share.

#### **NOTE 9 - COMMITMENTS AND CONTINGENCIES**

**Potential Stock Issuances** - The Company has signed notes payable totaling \$212,945 which call for the Company to issue 2,304,345 shares of common stock as collateral; however, none of the shares had been issued at March 31, 2005.

**Agreement of Purchase and Sale of Stock** In February 2005, the Company signed an Agreement of Purchase and Sale of Stock with HAPS USA, Inc. (a Delaware Corporation) ( HAPS ) and the shareholders of HAPS. The agreement calls for the Company to issue 116,595,760 shares of restricted convertible preferred stock for 100% of the outstanding shares of HAPS. Each share of preferred stock will be convertible into 5 shares of common stock after 3 years from the time of issuance and each share of preferred stock will have the voting rights of 5 shares of common stock. If this proposed acquisition closes, the Company has agreed to issue up to 460,669 shares of Class A preferred stock and 930,000 shares of common stock to settle liabilities and pay for services related to the proposed acquisition. Final consummation of the proposed acquisition is not guaranteed.



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 9 - COMMITMENTS AND CONTINGENCIES [Continued]**

**Advertising and Promotional Services Agreement** - In August 2004, the Company signed a one-year agreement with Hobson, Lorenze, Bowersock & Associates ( HLB ). The agreement called for the Company to issue up to 500,000 shares of common stock and up to 50,000 shares of Class A preferred stock for HLB 's assistance in raising capital. The shares were to be issued as follows: 30,000 shares of common stock each month, 100,000 shares of common stock if HLB assisted in raising at least \$100,000 and all the remaining shares of common and preferred stock if HLB assisted in raising at least \$1,100,000. In October 2004, the Company amended its agreement with HLB so that the Company will issue 600,000 shares of common stock and 50,000 shares of Class A preferred stock for HLB 's assistance in raising capital. The shares were to be issued as follows: 50,000 shares of common stock each month, 100,000 shares of common stock if HLB assisted in raising at least \$100,000 and 50,000 shares of Class A preferred stock during the last month of the agreement. In February 2005, the Company issued a final installment of 70,000 shares of common stock and cancelled the agreement. During the three months ended March 31, 2005 and 2004, the services rendered by HLB under this agreement amounted to \$42,000 and \$0, respectively.

**Consulting Agreements** - In April 2002, the Company signed three-year consulting agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. (collectively Consultants ). The agreements call for the Company to pay \$10,000 per month for consulting services. During the three months ended March 31, 2005 and 2004, the services rendered by Consultants under these agreements amounted to \$30,000 and \$0, respectively.

**Equity Line of Credit Agreement** - In November 2002, the Company signed an Equity Line of Credit Agreement with Cornell Capital Partners, LP ( Cornell ). The agreement called for the Company to sell up to \$10,000,000 of common stock to Cornell at 95% of the closing bid price for the five preceding trading days. The agreement required that the shares of common stock be registered with the Securities and Exchange Commission and that the shares be sold in intervals over a two-year period commencing after such registration was effective. The agreement also stated that, at the time of each stock sale transaction, the Company would pay \$500 in legal fees and pay Cornell 7% of the proceeds received. In 2003, the Company issued 1,200,000 shares of common stock as payment of a commitment fee of \$290,000 and paid \$10,000 in legal fees which were classified as deferred stock offering costs. The Company also paid \$757,000 to consultants who negotiated the agreement which were also classified as deferred stock offering costs [See Below]. In September 2004 the Company abandoned its plan for a stock offering and expensed the deferred stock offering costs of \$1,084,609 as general and administrative expense.

**Finder Agreements** - In April 2002, the Company signed three-year finder agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. (collectively Consultants ). The agreements call for the Company to

pay finders fees of 10% of the first \$3,000,000, 8% of the next \$3,000,000, 6% of the next \$3,000,000, and 4% of any additional funding provided through the efforts of Consultants. In December 2002, the Company signed a \$10,000,000 Equity Line of Credit Agreement which was negotiated by Consultants and the Company recorded stock offering costs of \$757,000 which were classified as deferred stock offering costs [*See above*]. From August 2003 through August 2004, the Company signed notes payable with proceeds totaling \$212,845 which were negotiated by Consultants and the Company recorded loan costs totaling \$22,178 which have been deferred and are being amortized over the lives of the related notes [*See Note 2*]. In March 2004, the Company sold 8,108 shares of Class A preferred stock for cash of \$15,000 which was negotiated by Consultants and the Company recorded stock offering costs of \$1,563 which were offset against the proceeds [*See Note 3*].



**AMERICAN HOSPITAL RESOURCES, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 9 - COMMITMENTS AND CONTINGENCIES [Continued]**

In March 2004, the Company signed an agreement with GunnAllen Financial ( GAF ) wherein the Company agreed to pay GAF 1-7% of any proceeds received by the Company depending upon the nature of the financing. The agreement also provided for the issuance of warrants to GAF with similar terms as those issued in financing transactions.

**Judgment and Share Cancellation** - In February 2004, a shareholder of the Company filed a written stipulation for final judgment in which the shareholder sought to have certificates representing the following shares cancelled for lack of consideration: 6,250,000 shares of common stock for an anticipated financing agreement, 600,000 shares of Class B preferred stock for a proposed acquisition of RX Solutions, Inc., 1,000,000 shares of common stock for a proposed acquisition of Coastalmed Inc. and Coastalmed of Panama City, Inc. and 671,824 shares of common stock and 78,760 shares of Class A preferred stock for the acquisition of American Hospital Resources, Inc. (a Delaware corporation). The shareholder also sought to cancel a Purchase and Sale Agreement with Gaelic Capital Group and to cancel 75,000 warrants to purchase common stock which had been issued to the Company's former Chief Executive Officer. In February 2004, the court entered a judgment against the Company and ordered that the Company cancel all the shares, the agreement and all the warrants listed in the filing. As a result of these proceedings, the Company cancelled certificates representing 7,921,824 shares of common stock, certificates representing 78,760 shares of Class A preferred stock, certificates representing 600,000 shares of Class B preferred stock and 75,000 warrants to purchase common stock, and the Company was released as a defendant. The financial statements reflect the stock, agreement and warrants as having been cancelled in 2003.

**Management Agreement** - In March 2004, the Company signed a Management Agreement with Judah Feigenbaum ( JF ) to act as an agent of the Company through July 15, 2004. The agreement called for the Company to pay \$24,000 plus 3% of the consideration of any pharmacy acquisitions completed through March 2005. During the three months ended March 31, 2005 and 2004, respectively, the services rendered by JF under the agreement amounted to \$0 and \$0.

**NOTE 10 - SUBSEQUENT EVENTS**

**Amended Articles of Incorporation** In May 2005, the Company filed amended articles of incorporation with the State of Utah increasing the number of authorized shares of preferred stock to 150,000,000 and the number of authorized shares of common stock to 750,000,000 and changing the name of the Company to HAPS USA, Inc. The

financial statements have been restated for all periods presented to reflect the increases in authorized shares.

## **ITEM 2. Management's Discussion and Analysis of Financial Condition or Plan of Operations**

### **Safe Harbor for Forward-Looking Statements**

When used in this report, the words may, will, expect, anticipate, continue, estimate, project, intend, and other similar expressions are intended to identify forward-looking statements within the meaning of Section 27a of the Securities Act of 1933 and Section 21e of the Securities Exchange Act of 1934 regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, operating results, and financial position.

Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such factors are discussed under the Item 2.

Management's Discussion and Analysis of Financial Condition or Plan of Operations, and also include general economic factors and conditions that may directly or indirectly impact the Company's financial condition or results of operations.

### **Description of Business**

American Hospital Resources, Inc. or AMHR, originally incorporated in the State of Utah on May 9, 1972, under the name High-Line Investment & Development Company. In 1977, we changed our name to Gayle Industries, Inc. In 1978 we merged into our subsidiary, Swing Bike, and retained the Swing Bike name. In 1979 we changed our name from Swing Bike to Horizon Energy Corp., and in 1992 we changed our name to Millennium Entertainment Corp.

In 1993 we changed our name to New Horizon Education, Inc. and implemented a business plan focusing on marketing computer education programs. Later that year, we formed a new subsidiary, Sunset Horizon, Inc. for the purpose of merging with Ruff Network Marketing, Inc. The subsidiary owned the marketing rights to the computer education programs and Ruff Network Marketing, Inc. provided the marketing network. We were not successful in our marketing activities and in 1995 we sold our assets and suspended operations. In 1997 we sold our subsidiary and remained essentially dormant from 1998 through 2000.

In 2001, we brought our SEC filings current and began seeking business opportunities. In June of 2002, we finalized an Agreement and Plan of Reorganization with American Hospital Resources, Inc (AHR). Under the Agreement, American Hospital Resources Inc. became our wholly owned subsidiary and we changed our name to American Hospital Resources, Inc. We also authorized a class of 10,000,000 shares of Preferred Stock at no par value and changed our business strategy to focus on providing health care services and management. On December 22, 2003, we discontinued our hospital management consulting business. The Company's board of directors determined that the Company had not realized the expected benefits from the acquisition of AHR subsidiary and made the determination

to seek to dispose of the AHR subsidiary. As a result, the Company repurchased 2,131,249 shares of common stock for \$85,250 and obtained a court order to cancel the remaining 1,065,624 shares. AHR has since discontinued operations and has been voided by the State of Delaware. All operations of AHR subsidiary have been reclassified to discontinued operations. Our common stock is quoted on the OTCBB under the symbol AMHR.

We were unsuccessful in our attempt to enter the health care services industry and did not generate any revenues during the past two fiscal years ended December 31. We are now considered a blank check company. Management believes it is in the best interest of the Company and its shareholders to simultaneously seek, investigate, and if warranted, acquire an interest in a different business opportunity. We are not restricting our search to any particular industry or geographical area. We may therefore engage in essentially any business in any industry. Our management has unrestricted discretion in seeking and participating in a business opportunity, subject to the availability of such opportunities, economic conditions and other factors.

## **Potential Acquisition**

The Company entered into an Agreement of Purchase and Sale of Stock with HAPS USA, Inc., a Delaware corporation ( HAPS ) and the shareholders of HAPS whereby the Company would acquire all of the issued and outstanding stock of HAPS making HAPS a wholly owned subsidiary of the Company. HAPS is the parent company of Hikari Systems CO., Ltds., a Japanese company. The transaction requires the Company to increase its authorized capital shares as detailed above and change the Company s name. The Company will issue 116,595,760 shares of Preferred Stock with a new designation to the shareholders of HAPS in exchange for all of the issued and outstanding stock of HAPS. Each share of preferred stock will be convertible into 5 shares of common stock after 3 years from the time of issuance and each share of preferred stock will have the voting rights of 5 shares of common stock. If this proposed acquisition closes, the Company has agreed to issue up to 460,669 shares of Class A preferred stock and 930,000 shares of common stock to settle liabilities and pay for services related to the proposed acquisition.

Subsequent to the date of this report and in anticipation of completing the HAPS acquisition, the Company amended its Articles of Incorporation on May 10, 2005 to increase the capitalization of the Company to 750,000,000 shares of Common Stock, no par value and 150,000,000 shares of Preferred Stock, no par value with rights, preferences and designations of the Preferred Stock to be determined by the Board of Directors. The Company also changed its name of HAPS USA, Inc.

Hikari Systems Co., Ltd. is one the leading operators within the Japanese Pachinko Industry. Hikari has six operating locations. The Pachinko market is undergoing a period of consolidation and modernization. With its state of the art information technology (IT) infrastructure, Hikari is already taking advantage of the opportunity to increase customer loyalty, increase market share and the competitiveness of its locations. Hikari plans to build upon its success expanding in two main geographic areas. These areas have highly positive market characteristics and demographics for the Pachinko Industry. With the opening of each new establishment greater economies of scale for operations will be achieved.

The acquisition of HAPS USA, Inc. is contingent upon certain terms and conditions including the increase in authorized capital. Although closing of the HAPS USA acquisition is anticipated to occur during the second quarter of 2005, there is no assurance or guarantee this transaction will be completed.

## **Three Month Periods Ended March 31, 2005 and 2004**

We had no revenues for the three months ended March 31, 2005 or 2004. Our general and administrative expenses were \$938,002 for the three months ended March 31, 2005 compared to \$743,202 for the same period of 2004. For the three months ended March 31, 2005, we had \$16,042 in interest expense compared to \$52,110 for the same period

in 2004. Our net loss for the three months ended March 31, 2005 were \$954,044 compared to \$795,312 for the three months ended March 31, 2004.

### **Liquidity and Capital Resources**

At March 31, 2005, total current assets consisted of \$10,806 in cash on hand compared to \$2,120 in cash on hand at December 31, 2004. Also at March 31, 2005, we had \$313 in deferred loan costs compared to \$1,329 in deferred loan costs at December 31, 2004.

At March 31, 2005, we had total liabilities of \$372,533 compared to \$586,475 at December 31, 2004. Our current liabilities include \$133,808 in accounts payable, \$28,822 in accrued interest and \$209,903 in convertible notes payable. The decrease is mainly attributable to no dividends payable on our preferred stock and a decrease in our accounts payable.

In February 2005, the Company eliminated the dividend provision of the Class A preferred stock effective December 31, 2004 and eliminated the provision for 5.5 shares of common stock to be issued for each share of Class A preferred stock if there was a merger, reorganization, re-capitalization or similar event.

During the next twelve months we hope to reduce liabilities and bring current our outstanding debts. In addition to our operating expenses, we will also have legal and auditing expenses relating to our public reports. Management hopes to identify and acquire appropriate on-going business in order to generate revenue to cover operating expenses.

In particular, we anticipate completing the HAPS USA transaction during the second quarter of 2005. However, should it become necessary to raise additional capital, we may consider securing loans from officers and directors, selling additional stock or entering into debt financing. We have no material commitments for capital expenditures for the next twelve months.

### **Item 3. Controls and Procedures**

(a)

Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the chief executive officer/chief financial officer, carried out an evaluation of the effectiveness of the Company's "disclosure, controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(3) and 15-d-15(3) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based upon that evaluation, the chief executive officer/chief financial officer concluded that, as of the Evaluation Date, the Company's disclosure, controls and procedures are effective, providing material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b)

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal controls over financial reporting, known to the chief executive officer or the chief financial officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 2. Changes in Securities and Use of Proceeds**

Edgar Filing: HAPS USA, INC. - Form 10QSB

Unless otherwise noted, the following stock issues were offered in a private transaction without registration in reliance on the exemption provided by Section 4(2) of the Securities Act. No broker was involved and no commissions were paid in the transaction.

In February 2005, the Company issued 50,000 shares of its previously authorized but unissued Class A preferred stock for services valued at \$150,000 or \$3.00 per share.

In February and March 2005, the Company issued a total of 144,335 shares of its previously authorized but unissued common stock upon the conversion of a total of 28,867 shares of Class C preferred stock.

In February 2005, the Company issued 320,000 shares of its previously authorized but unissued common stock for services rendered valued at \$192,000, or \$.60 per share.

In February 2005, the Company issued 1,000,000 shares of its previously authorized but unissued common stock for services rendered valued at \$510,000, or \$.51 per share.

In February 2005, the Company issued a total of 463,453 shares of its previously authorized but unissued common stock to pay accrued Class A preferred stock dividends totaling \$189,859, or approximately \$.41 per share.



In January and February 2005, the Company issued a total of 372,000 shares of its previously authorized but unissued common stock for cash totaling \$93,000, or \$.25 per share.

In January 2005, the Company issued 36,000 shares of its previously authorized but unissued common stock to pay accounts payable of \$18,000, or \$.50 per share.

In January 2005, the Company issued 10,000 shares of its previously authorized but unissued common stock for services rendered valued at \$4,000, or \$.40 per share.

In January 2005, the Company issued 495,000 shares of its previously authorized but unissued common stock to cancel 550,000 warrants to purchase common stock.

In January 2005, the Company issued 40,000 shares of its previously authorized but unissued common stock for services rendered valued at \$15,200, or \$.38 per share.

In December 2004 the Company issued a total of 30,000 shares of common stock for services valued at a total of \$18,000.

In December 2004 the Company reissued stock it had previously canceled for a total of 2,131,249 shares of common stock valued at a total of \$85,250 payment off a liability.

In December 2004 the Company issued a total of 20,000 shares of common stock for cash of \$7,000.

In November 2004, the Company issued a total of 90,000 shares of common stock for services valued at a total of \$36,000.

In September 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$6,300, or \$.21 per share.

In August 2004 the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at \$9,600 or \$.32 per share.

In March, 2004, the Company issued 8,108 shares of Class A preferred stock for cash of \$15,000 with a beneficial conversion feature of \$14,189 which has been accounted for as a dividend on the day of issue.

In March 2004, the Company issued 20,000 shares of its common stock for \$1,000 cash upon the exercise of outstanding options.

In February 2004, the Company issued 1,100,000 shares of its common stock to pay accounts payable of \$29,382 and for services valued at \$476,618. Of the 1,100,000 shares issued, 250,000 of the shares were registered on Form S-8.

In February 2004, the Company issued 110,000 shares of Class A preferred stock for services valued at \$253,000.

In December 2003, the Company cancelled 1,065,624 shares of its common stock due to a court order. In December 2003, the Company repurchased and cancelled 2,131,249 shares of the Company's issued and outstanding common stock for \$85,250, or \$.04 per share.

In December 2003, the Company issued 2,537,150 shares of its previously authorized but unissued common stock upon the conversion of 353,750 shares of Class A preferred stock and 153,680 shares of Class C preferred stock.

In October 2003, the Company issued 1,200,000 shares of common stock to pay a liability of \$290,000 or approximately \$.2417 per share.

In September 2003, the Company issued 173,747 shares of Class C preferred stock to a third party in exchange for payment of liabilities totaling \$868,735 which were owed to shareholders of the Company.

In June and July, 2003, the Company issued 8,800 shares of Class C preferred stock for \$44,000 cash.

In May 2003, shareholders of the Company converted 505,010 shares of Class A preferred stock into 2,525,050 shares of common stock.

From April through June 2003, the Company issued a total of 388,300 shares of Class A preferred stock with beneficial conversion features totaling \$324,775 which have been accounted for as dividends on the day of issue.

In April and May 2003, the Company issued 570,000 shares of common stock for services valued at \$131,000.

In February 2003, the Company issued 40,000 shares of common stock for \$10,000 cash.

### **Option and Warrants**

All Securities are issued without registration in reliance on the exemption provided by Section 4(2) and/or Rule 506, Regulation D of the Securities Act. No broker was involved and no commissions were paid in any transaction.

In December 2004 the Company granted 150,000 warrants to purchase common stock from the 2004 Stock Bonus Pool as payment of \$45,000 to officers and directors for compensation. The warrants vested immediately and are exercisable at \$0.25 per share for a period of five years. As of December 31, 2004, none of these warrants had been exercised, forfeited or cancelled. These warrants have been cancelled in exchange for shares of restricted common stock of the Company.

In December 2003, the Board of Directors authorized the 2004 Stock Bonus Pool which consists of 1,000,000 warrants to purchase common stock at \$0.25 per share. The Company granted 200,000 warrants to purchase common stock from the 2004 Stock Bonus Pool to officers and directors for services rendered valued at \$4,000. As of December 31, 2004, none of these warrants had been exercised, forfeited or cancelled. These warrants have been cancelled in exchange for shares of restricted common stock of the Company.

### **Convertible Notes**

All Securities are issued without registration in reliance on the exemption provided by Section 4(2) and/or Rule 506, Regulation D of the Securities Act. No broker was involved and no commissions were paid in any transaction.

The Company has the following one-year 10% convertible notes payable:

\$10,000 note payable due August 2004, convertible into common stock at \$.29 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$20,000 note payable due September 2004, convertible into common stock at \$.265 per share, secured by 200,000 shares of the Company's common stock, currently in default.

\$10,000 note payable due September 2004, convertible into common stock at \$.38 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$24,000 note payable due September 2004, convertible into common stock at \$.36 per share, secured by 250,000 shares of the Company's common stock, currently in default.

\$10,000 note payable due September 2004, convertible into common stock at \$.37 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$11,000 note payable due September 2004, convertible into common stock at \$.485 per share, secured by 150,000 shares of the Company's common stock, currently in default.

\$21,345 note payable due October 2004, convertible into common stock at \$.435 per share, secured by 213,345 shares of the Company's common stock, currently in default.

\$10,000 note payable due October 2004, convertible into common stock at \$.42 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$10,000 note payable due October 2004, convertible into common stock at \$.45 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$10,000 note payable due October 2004, convertible into common stock at \$.40 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$5,000 note payable due November 2004, convertible into common stock at \$.375 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$2,500 note payable due December 2004, convertible into common stock at \$.18 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$10,000 note payable maturing in February 2005, convertible into common stock at \$.23 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$10,000 note payable maturing in February 2005, convertible into common stock at \$.27 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$10,000 note payable maturing in February 2005, convertible into common stock at \$.325 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$16,000 note payable maturing in March 2005, convertible into common stock at \$.51 per share, secured by 160,000 shares of the Company's common stock, currently in default.

\$10,000 note payable maturing in March 2005, convertible into common stock at \$.425 per share, secured by 100,000 shares of the Company's common stock, currently in default.

\$4,000 note payable maturing in March 2005, convertible into common stock at \$.50 per share, secured by 40,000 shares of the Company's common stock, currently in default.

\$9,000 note payable maturing in August 2005, convertible into common stock at at \$.15 per share, secured by 90,000 shares of the Company's common stock, net of discount of \$3,000.

\$100 note payable maturing in September 2005, convertible into common stock at at \$.11 per share, secured by 1,000 shares of the Company's common stock, net of discount of \$42.

The holders of all of the above convertible notes have negotiated a settlement for restricted common and Preferred A stock of the Company to be issued upon the closing of the HAPS acquisition.



**ITEM 4. Submission of Matters to a Vote of Security Holders**

On or about December 15, 2004, shareholders of the Company approved a name change of the Company to HAPS USA, Inc., or such similar name as is available in the state of Utah and increased the capitalization of the Company to 750,000,000 shares of Common Stock, no par value and 150,000,000 shares of Preferred Stock, no par value with rights, preferences and designations to be determined by the Board of Directors. The approval was via written consent of a majority of shareholders representing 52.8% of the issued and outstanding shares eligible to vote. The approved actions were effective 20 days following mailing of a Definitive Information Statement that was mailed to shareholders on or about April 18, 2005.

In February 2005, by unanimous approval of the Class A preferred stockholders, the Company eliminated the dividend provision of the Class A preferred stock effective December 31, 2004 and eliminated the provision for 5.5 shares of common stock to be issued for each share of Class A preferred stock if there was a merger, reorganization, re-capitalization or similar event.

**Item 6. Exhibits and Reports on Form 8-K**

The Company did not file any reports on Form 8-K during the last ninety days of the period covered by this report.

**Exhibits:**

<b>Exhibit Number</b>	<b>Title</b>	<b>Location</b>
31.1	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached
32.1	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached

**SIGNATURES**



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

American Hospital Resources, Inc.

Date: May 16, 2005

/s/Mark Buck

Mark Buck

Chief Executive Officer

Chief Financial Officer