AMERICAN FINANCIAL HOLDING INC /DE
Form 8-K/A
October 04, 2001

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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

AUGUST 10, 2001
Date of Report
(Date of earliest event reported)

AMERICAN FINANCIAL HOLDING, INC.
(Exact name of registrant as specified in its charter)

Delaware	0-12666
(State or other jurisdiction of incorporation)	(Commission File Number)

2500 Wilcrest, Suite 540
Houston, Texas 77042
(Address of principal executive offices, including zip code)

(713) 780-4754
(Registrant's telephone number, including area code)

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ITEM 1. CHANGES IN CONTROL OF REGISTRANT.

Not applicable to this filing.

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

Not applicable to this filing

ITEM 3. BANKRUPTCY OR RECEIVERSHIP.

Not applicable to this filing.

ITEM 4. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANTS.

Not applicable to this filing.

ITEM 5. OTHER EVENTS.

Not applicable to this filing.

ITEM 6. RESIGNATION OF REGISTRANT'S DIRECTORS.

Not applicable to this filing.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED.

INDEPENDENT AUDITORS' REPORT

To the Shareholders
Isolagen Technologies, Inc.

We have audited the accompanying balance sheets of Isolagen Technologies, Inc. (a development stage enterprise) as of December 31, 2000 and 1999, and the related statements of operations, shareholders' equity and cash flows for the years then ended and, cumulatively, for the period from December 28, 1995 (date of inception) to December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

/s/ Pannell Kerr Forster of Texas, P.C.

Houston, Texas
September 7, 2001

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Isolagen Technologies, Inc.

Balance Sheets

	December 31, 2000	December 31, 1999
Assets		
Current assets		
Cash and cash equivalents	$ 2,574	$ 60,9
Accounts receivable, net of allowance for doubtful accounts of $6,734 and $12,000 in 2000 and 1999, respectively	2,355	13,0
Inventory	--	14,6
Total current assets	4,929	88,7
Property and equipment, net	31,947	48,2
Other assets	25,420	29,7
Total assets	$ 62,296	$ 166,7
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 148,263	$ 149,0
Accrued expenses	226,833	85,3
Notes payable to shareholders	105,667	105,6
Current portion of convertible debt	600,000	400,0
Deferred revenue	360,000	
Total current liabilities	1,440,763	740,0
Convertible debt, less current portion	850,000	850,0
Total liabilities	2,290,763	1,590,0
Commitments and contingencies		

Shareholders' equity (deficit)		
Common stock, $.01 par value; 10,000,000 shares authorized	1,021	9
Additional paid-in capital	453,339	451,4
Accumulated deficit during development stage	(2,632,547)	(1,825,4
Treasury stock, at cost	(50,280)	(50,2
Total shareholders' equity (deficit)	(2,228,467)	(1,423,3
Total liabilities and shareholder's equity (deficit)	$ 62,296	$ 166,7

The accompanying notes are an integral part of these statements.

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Isolagen Technologies, Inc.

Statements of Operations

	December 31,	
	2000	1999
Revenues		
Sales	$ 6,584	$ 121,931
License fees	40,000	-
Total revenues	46,584	121,931
Cost of sales	10,846	84,862
Gross profit	35,738	37,069
Selling, general and administrative expenses	728,379	1,265,534
Operating loss	(692,641)	(1,228,465)
Other income (expense)		
Interest income	4,891	5,902
Interest expense	(119,326)	(84,215)
Net loss	$ (807,076)	$ (1,306,778)

Per share information		
Net loss per common share - basic and diluted	$ (7.97)	$ (13.71)
Weighted average number of basic and diluted common shares outstanding	101,262	95,323

The accompanying notes are an integral part of these statements.

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Isolagen Technologies, Inc.

Statements of Operations

	Six Months
	2001
	(unaudited)
Revenues	
Sales	$ 7,743
License fees	40,000
Total revenues	47,743
Cost of sales	4,330
Gross profit (loss)	43,413
Selling, general and administrative expenses	264,299
Operating loss	(220,886)
Other income (expense)	
Interest income	8
Interest expense	(68,909)
Net loss	$ (289,787)
Per share information	
Net loss per common share - basic and diluted	$ (2.84)
Weighted average number of basic and diluted common shares outstanding	102,013

The accompanying notes are an integral part of these statements.

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Isolagen Technologies, Inc.

Statements of Shareholders' Equity

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit During Development Stage	Nu of
Issuance of common stock for cash on December 28, 1995	82,000	$ 820	$ --	$ --	
Issuance of common stock for cash on November 7, 1996	400	4	49,996	--	
Issuance of common stock for cash on November 29, 1996	80	1	9,999	--	
Issuance of common stock for cash on December 19, 1996	240	2	29,998	--	
Issuance of common stock for cash on December 26, 1996	400	4	49,996	--	
Net loss	--	--	--	(270,468)	
Balance, December 31, 1996	83,120	831	139,989	(270,468)	
Issuance of common stock for cash on December 27, 1997	760	8	94,992	--	
Stock issued for services on September 1, 1997	400	4	36,256	--	
Common stock issued for services on December 28, 1997	10,305	103	10,152	--	
Net loss	--	--	--	(52,550)	
Balance, December 31, 1997	94,585	946	281,389	(323,018)	

The accompanying notes are an integral part of these statements.

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Isolagen Technologies, Inc.

Statements of Shareholders' Equity (Continued)

	Common Stock		Additional	Accumulated Deficit	
	Number of Shares	Amount	Paid-In Capital	During Development Stage	Num of S
Issuance of common stock for cash on August 23, 1998	160	2	20,065	--	
Repurchase of common stock on September 29, 1998	--	--	--	--	
Net loss	--	--	--	(195,675)	
Balance, December 31, 1998	94,745	948	301,454	(518,693)	
Issuance of common stock for cash on September 10, 1999	1,884	19	149,981	--	
Net loss	--	--	--	(1,306,778)	
Balance, December 31, 1999	96,629	967	451,435	(1,825,471)	
Common stock issued for cash on January 18, 2000	1,923	19	1,904	--	
Common stock issued for services on March 1, 2000	2,465	25	--	--	
Common stock issued for services on April 4, 2000	996	10	--	--	
Net loss	--	--	--	(807,076)	
Balance, December 31, 2000	102,013	$1,021	$ 453,339	$(2,632,547)	

The accompanying notes are an integral part of these statements.

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Isolagen Technologies, Inc.

Statements of Shareholders' Equity (Continued)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit During Development Stage	Tr
	Number of Shares	Amount			Number of Shar
Balance, December 31, 2000	102,013	$1,021	$453,339	$ (2,632,547)	2,4
Net loss	--	--	--	(289,787)	
Balance, June 30, 2001 (unaudited)	102,013	$1,021	$453,339	$ (2,922,334)	2,4

The accompanying notes are an integral part of these statements.

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Isolagen Technologies, Inc.

Statements of Cash Flows

	Year Ended December 31,	
	2000	1999
Cash flows from operating activities		
Net loss	$ (807,076)	$ (1,306,778)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	16,333	16,574
Common stock issued for services	35	--
Change in operating assets and liabilities:		
Decrease in accounts receivable	10,717	122,796
Decrease (increase) in inventory	14,646	(14,646)
Decrease (increase) in other assets	4,291	(2,646)
Increase (decrease) in accounts payable	(763)	128,996
Increase in accrued expenses	141,474	62,903
Increase in deferred revenue	360,000	--
Net cash used in operating activities	(260,343)	(992,801)

Cash flows from investing activities

Purchase of property and equipment	--	(7,749)
Cash flows from financing activities		
Proceeds from convertible debt	200,000	450,000
Proceeds from notes payable to shareholders	--	--
Proceeds from the issuance of common stock	1,923	150,000
Repurchase of common stock	--	--
Net cash provided by financing activities	201,923	600,000
Net decrease in cash and cash equivalents	(58,420)	(400,550)
Cash and cash equivalents, beginning of period	60,994	461,544
Cash and cash equivalents, end of period	$ 2,574	$ 60,994
Supplemental cash flow information:		
Cash paid for interest	$ 68,843	$ 60,092

The accompanying notes are an integral part of these statements.

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Isolagen Technologies, Inc.

Statements of Cash Flows

	Six Months
	2001
	(unaudited)
Cash flows from operating activities	
Net loss	$ (289,787)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	8,138
Common stock issued for services	--
Change in operating assets and liabilities:	
Decrease in accounts receivable	121
Increase in inventory	--
Decrease (increase) in other assets	(653)
Increase in accounts payable	36,798
Increase in accrued expenses	252,809
Decrease in deferred revenue	(40,000)
Net cash used in operating activities	(32,574)

Cash flows from financing activities	
Proceeds from convertible debt	--
Proceeds from notes payable to shareholders	30,000
Proceeds from the issuance of common stock	--
Net cash provided by financing activities	30,000
Net decrease in cash and cash equivalents	(2,574)
Cash and cash equivalents, beginning of period	2,574
Cash and cash equivalents, end of period	$ --
Supplemental cash flow information:	
Cash paid for interest	$ --

The accompanying notes are an integral part of these statements.

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Isolagen Technologies, Inc.

Notes to Financial Statements

December 31, 2000

NOTE 1 - BASIS OF PRESENTATION, BUSINESS AND ORGANIZATION

Isolagen Technologies, Inc. ("Isolagen" or the "Company") is a Delaware corporation incorporated on December 28, 1995. Isolagen was organized to research, develop and market products and services related to a living system of cultured and expanded autologous fibroblasts with an exacellar matrix that replenishes the dermis and subcutaneous tissues (hereinafter referred to as the "Technologies"). During 1999, all commercial sales of the Company's products and services were suspended until completion of a formal approval process by the Food and Drug Administration ("FDA").

Through December 31, 2000, the Company has been primarily engaged in developing its initial product technology, recruiting personnel and raising capital. In the course of its development activities, the Company has sustained losses and expects such losses to continue through at least 2001. The Company will finance its operations primarily through its existing cash, future financing and revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information

The financial statements as of June 30, 2001 and for the six months ended June 30, 2001 and 2000 are unaudited. In the opinion of the

Company's management, such unaudited financial statements include all adjustments necessary, which include only normal recurring items, to present fairly the information set forth therein. Results for interim periods are not necessarily indicative of the results that may be expected for any other interim period of a full year.

Statement of cash flows

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk

The Company maintains its cash with a major U.S. domestic bank. The amounts held in this bank exceed the insured limit of $100,000 from time to time. The terms of these deposits are on demand to minimize risk. The Company has not incurred losses related to these deposits.

The Company is subject to risks common to companies in the development stage including, but not limited to, development of new products, development of markets and distribution channels, dependence on key personnel, and the ability to obtain additional capital as needed to fund its product plans. The Company has a limited operating history and has yet to generate any significant revenues from customers. To date, the Company has been funded by private debt and equity financings. The Company's ultimate success is dependent upon its ability to raise additional capital and to successfully develop and market its products.

The products developed by the Company require approvals from the United States FDA or other international regulatory agencies prior to commercial sales. There can be no assurance that all of the Company's products will receive the necessary approvals. If the Company was denied such approvals or such approvals were delayed, it may have a materially adverse impact on the Company.

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Isolagen Technologies, Inc.

Notes to Financial Statements

December 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment, consisting primarily of lab equipment, computer equipment, office furniture and fixtures is carried at cost less accumulated depreciation. Depreciation for financial reporting purposes is provided by the straight-line method over the estimated useful lives of three to five years subject to half year convention. The cost of repairs and maintenance is charged against income as incurred.

Inventory

At December 31, 1999, inventory consisted of skin creams and related products sold to consumers. During 2000, the Company recorded an obsolence reserve equal to the total ending inventory balance of $17,271 due to uncertainty regarding shelf-life.

Earnings per share data

Basic earnings (loss) per share is calculated based on the weighted average common shares outstanding during the period. Diluted earnings per share also gives effect to the dilutive effect of stock options warrants and convertible preferred stock (calculated based on the treasury stock method). The Company does not present diluted earnings per share for years on which it incurred net losses as the effect of potentially dilutive shares from convertible debt is antidilutive.

Income taxes

An asset and liability approach is used for financial accounting and reporting for income taxes. Deferred income taxes arise from temporary differences between income tax and financial reporting and principally relate to recognition of revenue and expenses in different periods for financial and tax accounting purposes and are measured using currently enacted tax rates and laws. In addition, a deferred tax asset can be generated by net operating loss carryforwards ("NOLs"). If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

Revenue recognition

The Company recognizes license and other upfront fees on a ratable basis over the term of the respective agreement. Milestone payments are recognized upon successful completion of a performance milestone event. Any amounts received in advance of performance are recorded as deferred revenue.

Research and development expenses

Research and development include direct costs, research-related overhead, and costs associated with sponsored research which are charged to operations as incurred.

ISOLAGEN TECHNOLOGIES, Inc.

Notes to Financial Statements

December 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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 estimates.

Recent accounting pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations" ("SFAS No. 141"), which establishes financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. SFAS No. 141 requires that all business combinations be accounted for using one method, the purchase method. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 is expected to have no material impact on financial reporting and related disclosures of the Company.

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which establishes financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition, and after they have been initially recognized in the financial statements. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001. The Company will adopt SFAS No. 142 during the first quarter of fiscal 2002, and is in the process of evaluating the impact of implementation on the financial position of the Company.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of:

	December 31,	
	2000	1999
Lab Equipment	$ 52,454	$ 52,454
Computer Equipment	6,326	6,326
Office Equipment	25,516	25,516
	84,296	84,296
Less: Accumulated depreciation	(52,349)	(36,016)
Property and equipment, net	$ 31,947	$ 48,280

NOTE 4 - NOTES PAYABLE TO SHAREHOLDERS

The Company has unsecured notes payable to two shareholders. The notes bear interest at 7.5% and are due on demand.

ISOLAGEN TECHNOLOGIES, Inc.

Notes to Financial Statements

December 31, 2000

NOTE 5 - CONVERTIBLE DEBT

Convertible debt consists of the following:

	December 2000
Convertible notes payable to individuals, interest ranging from 7.5% to 10% due in quarterly installments, convertible to 1% of the Company's outstanding common stock per $100,000 of principal converted, principal and all accrued interest due at maturity on August 31, 2003.	$ 850,000
Convertible notes payable to individuals, interest at 7.5% due in quarterly installments, convertible to 1% of the Company's outstanding common stock per $100,000 of principal converted, due on demand.	600,000
	1,450,000
Less: current maturities	(600,000)
Convertible debt, less current maturities	$ 850,000

NOTE 6 - FEDERAL INCOME TAXES

The components of the Company's deferred tax assets at December 31, 2000 and 1999 are as follows:

	December 2000
Deferred tax assets:	
Loss carryforwards	$ 887,114
Deferred tax liabilities:	
Deferred revenue	122,400

	764,714
Less: Valuation allowance	(764,714)
	$ --

As of December 31, 2000, the Company has generated NOLs of $2,609,159 available to reduce future income taxes. These carryforwards begin to expire in 2017. A change in ownership, as defined by federal income tax regulations, could significantly limit the Company's ability to utilize its carryforwards. Additionally, because federal tax laws limit the time during which the NOLs may be applied against future taxes, the Company may not be able to take full advantage of the NOLs to reduce future income taxes if it fails to generate taxable income prior to expiration of the NOLs. As the Company has had cumulative losses and there is no assurance of future taxable income, valuation allowances have been recorded to fully offset the deferred tax asset at December 31, 2000 and 1999. The valuation allowance increased $147,345 during 2000 due to the Company's current period net loss.

ISOLAGEN TECHNOLOGIES, Inc.

Notes to Financial Statements

December 31, 2000

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases office space, office furniture and fixtures and equipment under noncancelable operating lease arrangements for various periods ranging up to five years. Future minimum lease payments are as follows:

Year Ending December 31,	
2001	$ 105,850
2002	108,542
2003	64,963
Total future minimum lease payments	$ 279,355

Lease rental expenses were approximately $105,000 and $99,000 for the years ended December 31, 2000 and 1999, respectively.

License agreement

Effective July 1, 2000, the Company granted exclusive rights to develop and market its Technologies and products within Japan. Should the development efforts result in a marketable product, the Company will receive royalties based on product sales. Upon execution of the license agreement, the Company received an initial up-front fee of $400,000 which was deferred and will be recognized on a ratable basis over the five year term of the agreement. For the year ended December 31, 2000, the Company recognized $40,000 of contract revenues pursuant to this agreement.

Litigation

The Company is involved in a legal dispute with one of its vendors. The full amount of disputed invoices is included in accounts payable at December 31, 2000. In the opinion of management, resolution of the dispute should not have a material adverse impact on the financial condition of the Company.

NOTE 8 - RELATED PARTIES

The Company has notes payable and convertible debt due to officers and shareholders. Interest of $15,188 and $15,000 was paid to shareholders during 2000 and 1999, respectively.

ISOLAGEN TECHNOLOGIES, Inc.

Notes to Financial Statements

December 31, 2000

NOTE 9 - SUBSEQUENT EVENTS

Acquisition and merger

On August 10, 2001, the Company completed an acquisition agreement and plan of merger with American Financial Holdings, Inc. ("AFH") and Gemini IV, Inc. ("Gemini"). This merger was initiated in December 2000.

AFH was a non-operating, public shell company with limited assets. Consequently, the substance of the merger transaction was a capital transaction rather than a business combination. The transaction was equivalent to the issuance of stock by AFH for the net assets of the Company and Gemini, accompanied by a recapitalization and private placement of common stock of AFH. The accounting is identical to that resulting from a reverse acquisition, except that no goodwill or other intangibles are recorded.

Subsequent to the merger, the Company continued as a wholly-owned subsidiary of AFH. Proceeds from the recapitalization and private placement totaling $2,020,000 are sufficient to meet the Company's short-term cash requirements.

Operating lease

In September 2001, the Company terminated its lease for office space and initiated relocation of its primary offices to Houston, Texas.

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(b) PRO FORMA FINANCIAL INFORMATION.

Pro Forma Financial Information of American Financial Holding, Inc. is not required under Regulation S-X.

(c) EXHIBITS.

Not applicable to this filing.

ITEM 8. CHANGE IN FISCAL YEAR.

Not applicable to this filing.

ITEM 9. REGULATION FD DISCLOSURE.

Not applicable to this filing.

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SIGNATURES

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 hereunto duly authorized.

AMERICAN FINANCIAL HOLDING, INC.

By: /s/ Michael Macaluso
Dated: October 3, 2001
Michael Macaluso, Chief Executive Officer
(Principal Executive Officer)