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On February 6, 2007, Ron Logue, Chief Executive Officer of State Street Corporation, gave a presentation to investors at the Investor and Analyst Forum in New York, New York. The following is a corrected transcript of that presentation.

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Ronald Logue: the Chairman and CEO of State Street, and again, let me say welcome.

I guess probably the first I would say is that I hope you appreciate the buying opportunity I presented to you yesterday. You know, life is full of ironies. It was four years ago, actually in this same room at the same investor forum when we announced our purchase of the Deutsche Bank Global Security Service business. I remember that transaction being met with some level of skepticism, but four years later I think that transaction is looking pretty good right now.

To be precise, when we announced the Deutsche deal on November 5, 2002, our stock was selling for $44.50. Two days later, it was selling for $42.59, a 5% decline. We will talk about our latest transaction today, the purchase of Investors Financial, but as we have been planning this session, we will also talk about our business in general which we believe irrespective of this latest transaction, holds a lot of promise.

Joining me today on the platform from right to left, Vice Chairman Bill Hunt, who is President and CEO of State Street Global Advisors; Vice Chairman Jay Hooley, who is in charge of Global Investor Servicing; and sitting next today is Ed Resch, our Chief Financial Officer.

In the audience also is David Gutschenritter, our Assistant Treasurer responsible for our investment portfolio, as well as our capital planning efforts; and Kelley MacDonald, who as many of you know, heads our Investor Relations group.

Today, I have selected Setting the Standard as the title of our presentation, for reasons that I hope will be clear to you in about an hour as Bill, Jay and Ed join me in presenting our progress to date and our outlook for the future. Of course, after our announcement of the transaction between State Street and Investors Financial, we will give you some detail on a transaction and its implications for State Street. I believe we have in the past and will in the future set the standard for the industry, and I believe this transaction will help us do that.

First, I will review briefly our performance against our goals in 2006 and then follow with an outlook for 2007. I will make a few initial comments about our recently announced proposed acquisition of Investors Financial as well. Bill and Jay will give you their view for each of their respective businesses on how we intend to leverage the global reach that we have established. Jay in particular will provide more detail on the strength of the proposed acquisition. Ed Resch will provide some insight regarding our financial performance, with particular emphasis on the structure of the proposed transaction and our balance sheet strategy. Then, I will finish with a summary of how State Street is setting the standard against our peers.

So we re going to move pretty quickly, and at the end, we ll save enough time for questions. As I m sure you know, I have to remind you that during this presentation, we may make forward-looking statements relating to the Corporation s financial goals and business environment, among other things, and that actual results may differ materially.

So now, let s take a look at our recent performance. Here, you can see as we reported, we exceeded all of our financial goals in 2006, significantly outperforming our EPS target, which was 10 to 15% growth over 2005 excluding the impact of the 2006 tax charges. We also exceeded our revenue goal of 8% to 12%, posting 15.2% growth, and then we slightly exceeded our return on equity goal, again, excluding the impact for tax charges.

You may remember, I listed four tactical objectives to support our financial goals, and here are our results. We achieved 290 basis points of operating leverage, comparing 2006 to 2005, and the fourth quarter marked our ninth consecutive quarter of positive operating leverage on a year-over-year basis. We grew our non-U.S. revenue to 43% of our total, which was up from 39% in 2005. Both Jay and Bill will talk more about their strategies to increase our non-U.S. revenue towards our goal of 50% of total revenue, which is still our goal.

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We have spoken often about our approach to managing the balance sheet, a project we begin in mid-2004, and the results are starting to show. Net interest revenue was up 22% compared to 2005, and our net interest margin grew to 125 basis points from 108 basis points in 2005. And Ed will provide more information on this in a few minutes.

Here, I have listed our 2006 financial performance and that of our peers as calculated from company reports and from First Call. As you can see, State Street led the group in terms of growth in revenue and earnings per share and had the smallest growth in expenses. Of course, from this chart, you can calculate our 290 basis points of positive operating leverage compared to the others. I hope we have proven that we do know how to grow revenue and we are learning how to control expenses. Now, we re adding these acquisitions, and I believe that after the GSS, the Global Securities Services integration, we have proven we know how to meet our objectives for consolidating an acquisition.

Let s take a look back five years to 2001. You can see that our Company s non-U.S. revenue was about 27% of the total and about 21% of our employees worked outside the United States. In the lower boxes, we provide some data as to the split amongst the four regions. Why five years? That s pre-Deutsche.

Today, that 27% has grown to 43% and our non-U.S. work force equals about 40% of the total. Again, in the lower boxes, we provide some data as to the split amongst the four regions we identify. During that time, you can see that non-U.S. revenue grew at almost twice the rate of that in the United States. As you can see in the United States boxes to the lower left, we actually have 2500 less employees in 2006 in the United States than we had in 2001, yet our revenue increased more than 25%. Some of this decline in headcount is due to improving our unit factor costs, and some is due to our offshore efforts, whether it s India or China or relocating job functions to Toronto. Nevertheless, we are extracting efficiency in the U.S. and growing extremely fast outside the US.

So, where are we going to go from here? What is next? As we announced in the fourth quarter press release, our long-term goals remain the same. At that time, we indicated that we expected to perform in the top half of the ranges for all three metrics shown here. Now, following the proposed acquisition of Investors Financial, we expect operating earnings per share growth of 12.5% to 15%, excluding the acquisition, and 8% to 10% including the acquisition, but excluding one-time charges. Revenue growth of 10% to 12% excluding the acquisition, but 16% to 18%, including the acquisition, and return on equity of 15.5% to 17% excluding the impact of the acquisition, but 12% to 15% including the acquisitions. Now to be clear, the goals are based on $3.46 in earnings per share on revenue of $6.4 million in 2006.

A little bit about the Investors Financial. Investors Financial is remarkably similar to State Street, just smaller. They have a reputation for excellent customer service and a similar customer base, all institutional and in similar markets. So we expect the consolidation to be comparatively easy. This acquisition enhances our leadership in several key growth markets, including mutual fund custody, servicing of hedge funds and offshore funds where Investors Financial has built an excellent reputation. There s

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custody assets of $2.2 trillion and revenue of over $800 million. It also extends our leadership in investment manager operations outsourcing since Investors Financial will add over $1 trillion in assets to our $3.6 trillion of assets for investment manager operations outsourcing.

The acquisition will bring us a whole new set of customers who are successful in growing and to whom we can cross-sell our global offerings. And as I talked about before, the consolidation will allow for efficiencies of operation and economies of scale as we bring these new customers onto our platforms. The transaction will be dilutive in 2007 and will neutral to earnings in 2008, excluding the onetime costs, which Jay and Ed will discuss later. It will, however, be accretive in 2008 on a cash EPS basis.

Now, to be crystal clear on our expectations, both for State Street and for the combined entity, I ve laid out our expectations prior to the transaction and our expectations after the close of the transaction, expected to be July 1, 2007. So on a pro forma basis, giving effect to this expected closing date, we now expect revenue to increase to between 16% to 18%, up from 10% to 12%, that being the top half of that range, and operating EPS, excluding the restructuring and merger and integration charges, to be between 8% and 10%, down from 12.5% to 15%, again, the top half of the original range. Our operating return on equity should now be between 12% to 15%, down from 15.5% to 17%. We expect to achieve near the middle of each of these revised ranges.

What I would like to do now is ask Bill Hunt, CEO of State Street Global Advisors, to come up and talk a little bit about his business, and he will turn it over to Jay Hooley, who in turn will turn it over to Ed. I will be back to wrap up, and then we will take some of your questions. Bill?

Bill Hunt: Thank you, Ron. I m going to get started and kick off this theme of leveraging our global reach. Over the last few years, this is something that we have begun to have some success with at SSgA, and as importantly looking forward, we think we have many of the key drivers in place to continue to reap the benefits of further leveraging.

To start, let s get quickly grounded again in terms of where SSgA stands today and in terms of our leverageable global presence. At year end, we had 1700 people. That is up 12% from last year. Roughly one-third of that team resides outside the United States. 25 offices, 11 full investment centers with now 24-hour trading capabilities across three continents. To complement that core organization, we have seven global alliance companies. These are the offspring of a strategic partnership with ABP, the large Dutch pension fund.

In addition to the organization itself, there are a few key pillars that are helping us to achieve some of the leverage that we ll get to very shortly. First off, we remain a global later in index management, closing the year with $691 billion in passive assets. It remains the core of our business, and through innovation and advances in technology, we re continuing deliver slow but steady margin growth from this core.

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Second, I think it s now safe to say that we are a proven active manager, albeit a unique one in that we are still largely quantitatively driven. We introduced 30 new return streams in 06 and the majority of them were in the active space. At the year end, we had just over $181 billion in active management. That number in and of itself would be a respectable achievement for any active investment house.

The third pillar is certainly the breadth of our capabilities. We have some 230 strategies offered in the market today with our existing customers. Last year, 64% of our new business came from the existing clients. Crossovers from passive to active or from equity to fixed-income are common and having a wide enough array of products and strategies in place already allows us to fill these needs very quickly, and importantly with little incremental expense.

Lastly our Advanced Resource Center plays a very pivotal role, staffed mostly by Ph.D.s and other various quantitative specialists. They are located in Boston, London and Sydney, they re a key component of keeping our current models fine-tuned and performance high. They provide a key research engine, and overall they re driving customized solutions across geographies much more quickly than ever before.

So all of that being said as a base, how are we doing taking all this forward and attempting to leverage this space into faster and into larger growth? Assets under management certainly tell some of the story. Last year, we grew by 21%, just slightly above the 10-year CAGR. We re certainly please to see continued growth in AUM. It expands our base in terms of clients and it is one of many helpful factors in again leveraging our reach. However, as some of you I hope will recall from last year s and previous presentations, AUM is not the primary focus for us. We have been shifting deliberately to a focus on growing out the profitability of the business, and not simply its scale.

To those ends, revenue from our non-U.S. businesses from active management, two areas where margins are generally higher, provide two of the best levers in capitalizing on our already strong base. The momentum for these two drivers looks good and we expect to continue to make steady progress on both fronts as we take it forward.

For non-U.S. the growth, while certainly strongest in Europe, is also spread across key markets for us in Asia. Some of you may have seen the recent award from the Social Security fund of China, which is just one very good example of that. On the active front, the growth has been led by international equities, but growth in active fixed income is also fairly strong.

So then the question becomes whether this is helping the bottom line in moving SSgA towards becoming a larger contributor to State Street. Let me take you back just a few more years so you can get a feel for the steady shift that has been continuing and that we expect to continue, albeit at perhaps a little bit slower pace year-on-year.

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This slide gives a very simple and straightforward indication of the advances made in terms of revenue, pre-tax income and margin from the end of 03 through the end of last year, all substantial moves forward. So some of the strategies that we re employing are clearly beginning to pay off. We re getting some leverage out of this global reach we spoke about earlier. The question then becomes is this trend line sustainable?

For that question, let me just take a break from the numbers and talk briefly about the focus at SSgA. I believe that this is one reason why we continue to succeed in leveraging what we ve built already to date. Together with maintaining our index leadership, virtually all of what we do falls into these eight strategic buckets. We call them, affectionately, our G8. Some of them overlap. Clearly, global expansion cuts across all of them and remains a top priority for us. But in some shape or form, all of them are contributing to the increase in profitability that we just saw. The point here is that the movement towards greater earnings is not only a pronounced one, but it s a focused effort that is also well diversified in terms of its sources across these strategic areas of focus.

I talked about global and active last year and a bit today and evidenced a few numbers for you. In closing, I would like to touch on two others that I believe will play an especially important role for us in 07.

The first is exchange traded funds ETFs. At the end of 06, we finished at $113 billion ETFs with SPDR alone, which buys $5.4 billion year-on-year and is still the world s largest and the most liquid ETF. This space is certainly getting more crowded. We talked last year about recommitting to this space. We re doing that in two major ways. We started a brand-new SPDR branding campaign and the initial results are encouraging. It s a bit to early to tell the full effect of that. I hope some of you had a chance to see some of the ads that we re running; they were out in the lobby display prior to this.

But we also continue on a path of a select innovation and product development. A couple of examples are listed here. Certainly, the GoLD ETF has been one of our most innovative products, and that reached $9 billion last year. In 06, we offered the first international REIT ETF, and several weeks ago in early 07, we just launched the first international infrastructure ETF.

Sticking a bit with the global theme, we also began cross-listing our ETFs. The SPDR, the sector SPDRs, were cross-listed in Latin America, and the GoLD ETF was cross-listed in Singapore with much success, and we expect to take this out and do more of this in 07 as well. So, again, we have made some inroads with 12 new ETF products in all in 06, but there will be a significant push on the back of the branding campaign and new innovation in 07.

The second one, the one I will close on and touch briefly on, is distribution diversification. With our deep asset-owner relationships, we are already pretty well positioned to capitalize on the shift from DB to DC, and we have begun down that path with a number of new products for what is a changing distribution channel. Age-based funds and life cycle funds are good examples of this. The separation of manufacturing

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and distribution is also continuing to open up many new subadvisory opportunities for us. We re increasingly called on to provide product to large distributors. Schwab and Wells Fargo are two names that represent a few of these types of clients, but there s a growing list of them.

As importantly, on the other side of the equation, we are increasingly seeing opportunities, potential opportunities, to out our own institutional distribution network to work in new ways. There are several high-demand areas, such as private equity and alternatives where it might take us a long significant time and cost to develop a full expertise. We see great potential in working with a partner to develop new revenue streams by satisfying client demands for needs that are not being met today at the high level of institutional quality that they would find with us and through our distribution at SSgA. So the partnering of the alliance question is one that we re exploring very, very actively in 07 and I think will help to even further leverage what is already outstanding reach.

That s a short roundup of how the investment management side is leveraging our reach today and going forward. I m going to turn it over now to Jay for his remarks on the asset servicing business. Thank you very much.

Jay Hooley: Thanks Bill. Thank you, Bill. Good afternoon. My welcome as well. For the next several minutes, I m going to cover really three different topics. I m going to begin the presentation by providing some additional insight into the acquisition of Investors Financial. I will show how it increases our leadership in the fast-growing segments of the global custody business and why we re very bullish in our ability to further expand the relationships with the 500 customers that we acquire with it. Next, I will review our positioning in the FX business and describe how Currenex will enhance our product offering and allow us to address some of the faster-growing segments of the FX business. And then finally, I want to touch briefly on the growth opportunities outside of the U.S., in particular highlighting comparatively how we stack up against our trust bank competitors. And you ll see that as a theme through this as I contrast our opportunities against the market and also contrast our positioning vis-a-vis the markets and vis-a-vis the other trust banks.

Let me begin with a quick profile of Investors Financial. As Ron mentioned, a Boston-based company, $2.2 trillion in assets under custody with a very strong orientation to its high growth as evidenced by their last three-year 18% compound annual growth rate. They have always focused on the high-growth subsegments of the business, including mutual funds, hedge funds, private equity, offshore funds and the middle office. They have done a pretty good job of building out their ancillary product areas, including FX, securities lending, transition management. To name a few, as you see in the last calendar year, they grew that segment or that subsegment of their business by 33%.

And finally and probably most importantly, they have amassed 500 different customers, including a very attractive 12 of the top 25 investment advisers globally.

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We are ideally situated to execute this transition in that we share the same customer service philosophy, the same service delivery model and we are both headquartered in Boston. This is really a story about combining two of the most successful firms at driving revenues in the most attractive segments of this business, namely mutual funds, hedge funds and offshore funds. It s also a story that will require new capabilities in the alternative servicing space, most notably private equity servicing. And finally, it s a story about acquiring an attractive book of customers that we can further expand by not only cross-selling more extensive product base, but extending them into Europe and Asia, something that IFIN was unable to accomplish.

The acquisition of Investors Financial positions us as the second-largest global custodian as measured by AUC, assets under custody. However, more importantly, much more importantly, we re the global custodian with the greatest exposure to the rapidly-growing European and Asian markets in the fastest-growing product segments. Although undersized in this list of global custodians, Investors Financial has developed the most comprehensive accounting and middle office capabilities of anyone on this chart, with the exception of us.

Let s first take a look at the mutual fund business, the U.S. mutual fund business, which by the way, is one of those growth stories I have been referencing. Last alone, the U.S. mutual fund industry assets under management grew by 15.5%, and over the last three years, the compound annual growth rate has been 11.5%. So the U.S. fund industry clearly continues to be a growth story. I have shown our current position as well as our pro forma position in this slide. I have also included the BONY-Mellon pro forma, just to be fair.

If you look at the left side of the chart, which is really as depiction of the pure custodians, settlement agents and the fund industry, you can see the lineup there, but the real story is on the right-hand side of the chart which shows our significant position in the provision of daily fund accounting and administration. The mutual fund market is moving rapidly through its outsourcing, bundled, custody, accounting and middle office as evidenced by our recent wins, which I will talk about in a minute, with Evergreen and Putnam.

Let s move from mutual funds now to the hedge fund industry. You are all well aware that the hedge fund industry has had historical and is projected to have prospective high-growth rates in the mid to high 20s. Since acquiring IFS in 2002, we have grown our market share from 6% to 13%, and by combining with Investors Financial, we move into the number-one position with $340 billion in assets under administration.

I might call your attention, if you don t notice already, to the position of some of our other trust bank competitors in this slide. Notably, I would ask you to look at the BONY-Mellon position, which is nine-deep in the league chart.

Let s move to another segment. Let s talk about the offshore fund business, which probably does not get written a lot about, but is a very important subset of this market. It s a high-growth segment, it s a market of $2.7 trillion that in the last three years has grown at 29% and is projected to grow at least at that rate going forward. This is the business that s most commonly known as the Luxembourg business, the Dublin or Ireland business, Guernsey and Jersey business. The market will continue to explode as growth in offshore products are increasingly being used to distribute fund products not only into the continental European markets, but more recently, into the Asian markets. So if you were to go to Singapore or Hong Kong and see what products are being sold, increasingly they are offshore products coming out of Dublin or Luxembourg. You can see we re the largest in this space and we will extend our lead with the addition of Investors Financial business.

And finally, the much-discussed investment operations outsourcing, or middle office business, which in my opinion is the next big product innovation in this business. The continued vitality of this business can be evidenced by the recent U.S. deals we have closed with Evergreen and Putnam. You may have seen Evergreen, $150 billion in assets under management, a long-term State Street customer who had moved into outsourcing the middle office or investment operations. Less known and what was made less public is the deal we struck earlier this year, we finalized earlier this year with Putnam Investments. Putnam was a small custody client that we acquired through the Deutsche Bank acquisition and Putnam made a decision to outsource $165 billion of assets which was scattered among a number of our competitive custodians. They outsourced not only the custody, but the accounting, administration and middle office. Hence, the trend in this business is very clear. It s bundled outsourcing that the market is going towards.

This service has a very high importance to investment managers, it creates a very strong two-way interdependent relationship and is a great enabler of cross-selling ancillary services. The survey that I have here, the data on this market is not great, but the survey that I have shows State Street with $2.8 trillion in assets, but with the addition of Putnam and Evergreen and growth within our base and the addition of $1.4 trillion which comes over with the Investors Financial base, we get to $5 trillion in this marketplace servicing middle, back and obviously the custody that goes with that, which it s pretty obvious, is a significant leadership step over any of the other global custodians.

Ed s going to talk a little bit more about the numbers side of the Investors Financial transaction, but I hope that this comparative analysis of mutual funds, hedge funds, offshore and investment ops businesses gives you a better sense of the value of the Investors Financial Services acquisition in further propelling our growth into the future.

Let me transition now. We also announced an acquisition earlier in January of a business named Currenex, and I want to give you a little bit more visibility on why this continues the trend of us investing in what we think of the higher growing subsegments of this market.

Let me first start out and give you some perspective on our positioning within the FX trading business. This chart is the result of a Euromoney survey that ranked FX providers to institutions. It s a qualitative ranking based on relative market share which polled banks, hedge funds and money managers based on five different criteria execution, transparency, pricing, speed and reporting. Note our ranking, which has moved from 10th place to 7th place over the course of last year, but also take note of the rankings of our trust bank peers in this very important survey of foreign exchange to institutions. The FX market trading volumes are growing rapidly. It s the largest, most liquid securities market in the world. Electronic trading within that is absolutely exploding. In the last three years at a CAGR of 104%, the electronic trading market has taken off. FX Connect, which is on the left part of this slide, is our electronic trading platform, which has become the leading execution platform in the investment management space, averaging some 30 billion in average trading volume.

On the right side of the slide, you can see Currenex. Currenex, which is the leading electronic execution platform for hedge funds, corporates and banks averages 22 billion in average trading daily volume. Currenex brings to us relationships with 165 different customers, mostly hedge funds. The Currenex acquisitions brings us the leading electronic platform which offers high-speed streaming prices, sophisticated order types and continuous instant liquidity, between FX Connect and Currenex, we bring together the most sophisticated technology platforms in the business with the broadest access to all of the key market segments.

Finally, I want to touch briefly, because it s so important to our overall strategy and theme on our continued success in generating growth in both Europe and Asia. And again, I thought I would start by level setting the relative positions of the trust banks in the non-U.S. markets. I have used the latest information contained in the 2005 10-Ks. 2006 weren t out yet, but I ve also included the BONY-Mellon pro forma, and I ve also included our results in the light blue shading of the slide for 2006. Pretty clear from these graphics that we have created a significantly differentiated position in the Asian and European markets, not only from a standpoint of revenue, 43%, but also in terms of profits and ever-important, the people on the ground, the number of employees we have in the non-U.S. markets.

Let s just talk for a few minutes, let me just break down Europe and Asia and just give you a sense of where the market is and where our positioning is and what from the the box on the left, you would find 85% of the assets are in seven countries. And those seven countries are where our 5600 people are. In all of the key countries, we have multiple hundreds of people on the ground doing this work for not only the local market, for the broad pan-European and global market.

Now let s next give you a sense of what we ve done in the last three years. So the market is deep, the market is growing. This slide on the left side shows and this is the four-year, excuse me 2003 to 2006 view. In the last four years, the European markets have grown their assets under management by 13%. I might add that that s an accelerating number for the course of those 14 years. If you look at State Street s revenue, it has grown by 30%. So, clearly, we re positioned in the right markets, growing at a pace that outstrips the pace of growth of assets in the marketplace.

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Now let me give you the same view on Asia. Asia is also a deep market, not quite as deep as Europe, but $12 trillion plus in assets. It has a different dimension to it in that it has a government subsegment as far as a vertical market. And this set of markets is even more concentrated in really three locations Japan, Australia and Hong Kong, none of which surprises you. Just to give you a sense of our positioning in those three markets, we are the only non-Japanese trust bank in Japan. We re the largest custodian in Australia with market share approaching 30% and we have a significant presence in Hong Kong as well. So again, we re positioned in the markets where the deep asset pools are.

So what has that meant to us over the last couple of years? Again full-year period look on the left, Asian market s growing at a 14% growth rate. And by the way, these underlying growth rates are I think they represent secular trends in the business. It s pension fund creation, it s savings plan creation, it s opening up of formerly closed country borders, but that market has grown at 14%, again, accelerating the later part of that four-year period. And our business or our revenue during that period is growing at 27%.

So, again, I think it s indicative of being in the markets, having been there for a period of time, having people on the ground, having products that are capable to deliver, having the relationships created and growing our business.

I m just going to close by saying that we are a growth company. We are continuing to refine our focus on the fastest-growing segments of the global investment markets. The acquisition of Investors Financial and Currenex represent tremendous opportunities to acquire attractive new customers, new capabilities in new market space that is growing at a much faster rate than the overall market. Thank you. Ed?

Edward Resch: Thank you, Jay, good afternoon everybody. This afternoon I am going to focus on the financial impact of our proposed acquisition of Investors Financial and near-term and long-term strategy as it relates our balance sheet management program. I will go into our thinking regarding the net interest margin for the next three years and I will conclude with a brief overview of our objectives that will support the achievement of our goals financially for 2007, including the two proposed acquisitions.

First, turning to the Investors Financial acquisition. We expect to pay approximately $4.5 billion in an all-stock transaction. We intend to issue about 62 million shares of State Street stock based on a fixed exchange ratio of 0.906 State Street shares for each share of Investors Financial in a tax-free exchange. The transaction is expected to be dilutive in 2007 and neutral in 2008 on and operating EPS basis. It will be accretive on a cash basis in 2008.

We expect to record merger and integration charges of between $250 and $270 million and capitalized restructuring charges of $375 to $405 million for a total between $625 million to $675 million. We intend to buy back $1 billion of our stock shortly after closing through the issuance of a combination of senior debt and trust preferred securities. And in connection with the buyback, we anticipate refinancing $500 million of our callable trust preferred securities.

Here you can see our expectations for dilution and accretion to earnings per share on an operating and a cash basis. Obviously, the difference between operating and cash is the level of customer intangibles that we re recording in this transaction. Customer intangibles are estimated to be $1.5 billion, which will be amortized over 18 years. We expect the proposed transaction to be dilutive in 2007 by about $0.14 per share, or 3.5%, and to be neutral to operating EPS in 2008. We expect it to be about $0.10 accretive to operating earnings per share in 2009, or about 2%. On a cash earnings-per-share basis, it will be positive in 2008 by about $0.12, or about 2.7%, and in 2009, it s accretive by $0.22.

As you know, the earnings impact is only part of the story of the long-term value creation for our shareholders. This transaction creates value on a number of levels. First, we re adding about $1 billion to our 2008 revenues. This will obviously have a positive impact on our growth rate. The opportunity to cross-sell additional products to Investors Financials high-quality client base provides us an opportunity for additional enhanced revenue. We estimate the cost synergies in the transaction drive long-term value creation for our shareholders of $40 per share above the stand-alone value for Investors Financial. These synergies are generated from State Street s previous and current investments, scale and the similar service model both firms employ. We believe that we share the value of these synergies equally with the shareholders of Investors Financial.

In addition, the internal rate of return projected to be generated from this transaction far exceeded our cost of capital. All of these elements were part of our consideration in establishing the value of Investors Financial and is reflected in what we believe is an appropriate premium that creates substantial value for our shareholders over time.

Obviously, cost savings are critical to the success of this deal. Here s a graph showing our expected cost savings. Approximately $345 to $365 million, or about 50% of the 2007 estimated cost space of Investors Financial, will be eliminated. These costs are outlined for you in the chart above. The largest component is the reduction in compensation and benefits which will account for about $200 million, which will mean a reduction of about 1700 people over 18 months. This is equal to about 40% of Investors Financial s headcount. Of course, we will eliminate duplicate systems, network costs and consultants, which will account for about $70 million in technology-related reductions and eliminate excess real estate which account for another $30 million in savings. For transaction processing, which is brokerage and sub-custody costs, we expect to remove about $27 million in costs. We expect to eliminate another $24 million in other expenses, which are travel, sales promotion, insurance, professional services, etc., and we expect to be about 20 to 25% complete by the end of 2007 and about 80 to 85% complete by the end of 2008.

So that you understand our confidence in approaching this transaction, let me remind you of the financial success we enjoyed following the acquisition of the Global Securities Servicing business from Deutsche Bank in 2003. Of course, this table does not reflect the strategic benefits we gained, including accelerating our growth outside of the United

States, which Jay has just touched on. As you may remember, in 2008, we announced the planned acquisition of Deutsche Bank s Global Securities Services Business and we set certain financial targets, which are displayed here. We set a target of retaining 90% of the available revenue and we retained 88%, a very competitive figure for a large acquisition in our industry. We estimate a pre-tax savings of $225 to $300 million, and we saved $300 million in two years. Our merger and integration costs were slightly under the high end of the range we set, $165 million versus a target of $170 million. We exceeded the goal we set for EPS accretion and dilution. We estimated $0.01 to $0.03 dilutive in 2003 and $0.01 to $0.03 accretive in 2004 and we recorded in $0.11 per share accretion over those two years. And, we reduced headcount in excess of the 1000 we had set as our target. And finally, the transaction s IRR again exceeded our cost of capital.

In the Investors Financial transaction, we have a dedicated team and a plan outlining the steps we need to take to retain the revenue and meet our expense synergy goals. We believe we have the experience to do this and we re confident in our ability to reach our financial objectives for this transaction.

Moving onto the balance sheet, Investors Financial has a similar philosophy in managing their balance sheet as State Street. Their balance sheet is utilized to support their clients needs with an investment portfolio that is of high credit quality, 98% AAA securities. We have spent significant time reviewing the portfolio and meeting with their management and are very comfortable in the positioning of their balance sheet vis-a-vis our own. Some key points to take away. Investors Financial investment portfolio was 63% floating-rate and 37% fixed-rate securities. It s exactly a mirror image of ours. We are 37% floaters, 63% fixed. But because Investors Financial s portfolio was one-sixth the size of State Street s, the combined portfolio mix does not substantially alter State Street s, so we will be at about 40% floaters and 60% fixed on a combined basis. The duration of Investors portfolio was 1.37 years, which is a little shorter than ours, which is 1.65 years, and on a combined basis, would be approximately 1.6 years. The portfolio consists of $8 billion of mortgage-backed securities, about 80%, and $5 billion of those are floating-rate securities. State Street s mortgage-backed securities are about 30% of our investment portfolio, so the combined entity overall would have about 40% of its investment portfolio in mortgage-backed. The mortgage-backed portfolio is structured and well seasoned, which reduces the convexity risk, which gives us further confidence in putting these two portfolios together.

So overall, due to the high credit quality, the structuring and the seasoned nature, coupled with the relative size of the portfolio, our conclusion is that this investment portfolio fits nicely with ours and no significant restructuring will be required as part of this transaction.

Here I ve presented our timetable for the transaction starting yesterday with the announcement of reaching a definitive agreement. We expect to receive regulatory approval by July and expect to receive Investors Financial s shareholder approval in April. Our targeted closing date is in July and we expect to have the consolidation substantially completed within 18 months following closing.

As I said on the fourth quarter call, we expect the net interest margin to be in the low 130s in 2007, probably between 130 and 135. The Investors Financial balance sheet is similar to ours and we don t believe the consolidation will change this outlook. The assumptions behind this are fed funds will remain at 5.25 throughout 2007, the short end of the curve, zero to three years, will be inverted to flat, and non-U.S. rates other than Australia are expected to adjust upwards from one to four times, depending on the jurisdiction you re talking about. And as you probably know, we can usually lag our deposit pricing a bit when these rate increases occur. We saw our free funds increase significantly in 2006, particularly in the fourth quarter. We expect these to return to more normal levels which is about $8 billion per quarter at year end, it was about $10 billion in the fourth quarter with some increase probably in the fourth quarter where we usually see more demand deposits. We expect to maintain our double-A long-term debt rating, which is important to us and we believe to our customers. And, finally, we do not expect any new pronouncements from tax or regulatory authorities, some of which we saw in 2006.

First, we expect continued expansion through 2009 in terms of our margin, barring any major business shifts or market disruptions. Many of you in this room have asked me over the past year, what is our margin now going to be that we ve adjusted our balance sheet strategy and are basically done with the repositioning? The answer to that question we believe is about 150 basis points over the next three years. Here re some of the factors driving that outlook. First, we will benefit as older fixed-rate securities in the portfolio mature and we roll them into higher yielding ones. Over the next three years, we see the short end of the curve possibly becoming a little bit more positively sloped and we expect continued growth in our non-U.S. dollar liabilities as our non-U.S. businesses continue to grow. Having said that, you will have to remember that we will not have the same net margin probably as many of the other trust banks will tend to usually compare us. We do not have a loan book which would allow us to earn more, and of course on the other hand, we don t have any loan loss provisions to worry about. As we move into the 2007 to 2009 period, please remember the assumptions that we listed here because if any of those change substantially, then obviously our outlook in terms of the margin over that time period could be changed.

We ve talked a lot over the last two years about the repositioning of our balance sheet and the establishment of a centralized treasury function at State Street, and in 2004, we began to reposition our balance sheet. Some of the fixed-rate assets that we purchased as we attempted to strike the right balance between current yield and future NIR and NIM expansion will be maturing over the next few years. As we all know, rates have generally risen, and as the portfolio matures, new investments will be made at higher rates, resulting in higher net interest margin, all else equal. Of course, this strategy will be better supported by a more favorable yield curve and a consistent mix of customer liabilities.

I hope you found this analysis helpful. Now I would like to talk about the Company on a more macro level and will conclude by giving you some of our objectives which, if achieved, we believe will enable us to reach our 2007 financial goals. First, we must execute the consolidation of Investors Financial successfully and meet our financial objectives, just as we did with the Global Securities Services acquisition in 2003. In addition, we need to leverage our new relationship with Currenex. We must continue our strong record of growing revenue, whether from new or existing customers. Ron, Jay and Bill described our growth overseas and also our initiatives to continue that growth. Given the opportunities they outlined, we should be able to increase the percentage of revenue from non-U.S. sources again next year as we strive for the 50% goal over the next few years.

Industry consolidation is upon us and we intend to benefit from that, whether from selling to those customers who are not satisfied with the performance of their current provider or from investment managers who decide to outsource their back or middle office functions to us. We feel we did a good job in 2006 controlling expenses in an environment that turned out to be better than we had originally expected. We need to continue the discipline of managing our expense growth against our expected revenue growth, never letting optimism rule the budgeting process. And finally, to the point I addressed today, we must continue to manage the balance sheet to optimize risk-adjusted returns, and we will do that.

Thank you very much. With that, I would like to turn the podium back to Ron.

Ronald Logue: Gentlemen, thank you very much. I m going to conclude with a view of our competitive differentiators that we believe have set a new standard for our industry. Here, I have listed the significant advantages which I believe we possess, many of which you heard here in detail this morning or this afternoon. First, the proposed acquisition of Investors Financial accelerates our growth in markets that are growing faster than the overall market as the data we showed you today illustrates. Our non-U.S. revenue has grown at 2.5 times the U.S. growth rate in the three years 2003-2006 that Jay and others have showed you. With the proposed acquisition of Investors Financial, our non-U.S. revenue will be about 39%, but with our increased ability to cross-sell and our expected non-U.S. growth, we will quickly be moving towards the 50% goal that we ve set for ourselves over the next few years.

So, what is the Investors Financial acquisition all about? It is about growing revenue faster than our peers. It is about being the leader in faster-growing segments of the market mutual funds, offshore markets, hedge funds. It is about rounding out our product suites, adding private equity servicing while leveraging scale by adding IFIN s volume onto our infrastructure. It is about acquiring customers who we do not have, it is about acquiring arguably the last pure play global custodian and it is about increasing the growth trajectory of this Company.

Now there is one message I would like to leave you with today. The people you see up here presenting to you are operating people. We know how to execute, we have proven it, we know value when we see it, and most importantly, most importantly, we know how to extract it for the benefit of our shareholders. And that is the message that I would like to

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leave you with today. And now I would like to open the floor for questions from any of us. Nancy? I think we have some microphones coming around.

+++ q-and-a

Unidentified Audience Member: The assumption yesterday that you put forth that revenue synergies would be equal to revenue losses seems overly Draconian. If you do better than that, where would you expect to do better than that, in what segment?

Ronald Logue: I would expect to do better than that in both categories. We chose 10%, which was the same goal that we set for ourselves with Deutsche Bank. We came close to meeting that goal. If I were a betting man, I would say we would be able to do better than the goal we set for ourselves, only because we know an awful lot of the customers; many of them are here in the US. I believe we will do very well in terms of cross-selling, extremely well. We have had three years of very, very good experience in cross-selling into the Deutsche Bank, and quite frankly, that has fueled a lot of the top-line growth. We do know how to do that, and we think if we re going to exceed that s where it will be.

Unidentified Audience Member: Would you expect, though, that it will be in hedge funds, private equity? Can you just sort of drill down a bit in that, in which segment of what IFIN does that you would expect to be better?

Ronald Logue: I was talking, really, about pure cross-sell, selling additional services to existing customers. I was not talking at all about the growth rates in hedge funds, private equity servicing or offshore funds. They are going to grow in and of themselves, I think, fairly substantially. I was talking in terms of revenue retention, just cross-selling to the existing customer base.

Jay Hooley: Can I just add something onto that? One other place that I think we might see some upside is we re acquiring customers many of whom have global footprints that have been serviced in the US by IFIN because of IFIN s natural constraints. So I could see, as we get close to those customers who have business in Europe and Asia, I could see us perhaps expanding the customer relationships geographically. So it s a dimension we don t think about when we think about cross-sell, but I think it s very relevant here.

When you saw the stat 12 of their top 25 customers are global customers, it would suggest that they have business in Europe and Asia that probably isn t satisfied by the current IFIN relationship.

Unidentified Audience Member: On what financial metric is the acquisition not expensive? Because, when you look at purchase price to assets under custody or purchase price to revenues, it looks expensive versus comparables. Ed, you mentioned $40 of additional value to IFIN shareholders from the present value of future cost savings. So if you could maybe elaborate on that? And on what metric does it not look expensive?

Edward Resch: I would say that the transaction does not look inexpensive on any metric, really; I agree with you. We are paying a very full price, but we think it s a reasonable price, given what we think it s going to do for the Company. Our analysis shows, our modeling shows, that this transaction in the base of the expense synergies creates about $40 a share in value. We are splitting that 50-50 between our shareholders and IFIN s. IFIN was trading at about $45 a share, give or take. $40 gets split. That s how we arrived at the $65 share price for the transaction.

If you like, I can go through some more details on how we did it, but it s basically a DCF calculation on the cost saves.

Unidentified Audience Member: So the present value of future cost savings is almost $3 billion of value?

Edward Resch: $2.5 billion.

Unidentified Audience Member: What cost of capital did you use for that?

Edward Resch: 12%.

Unidentified Audience Member: 12%?

Edward Resch: Right.

Unidentified Audience Member: We did the same thing and came up with Lake $1.5 million., billion.

Edward Resch: We used 12% cost of capital and 18% forward P/E. We used that because we felt very comfortable in the cost savings that we were going to get in this transaction.

Unidentified Audience Member: Ron and Jay, can you elaborate a little bit more on the cross-sell with the IFIN customer base? Maybe if you can frame maybe those large clients, how well they are penetrated in cross-sell, say, FX and securities lending relative to your large client base and how much more you think you can get out of them and how quickly, over the next, say 6 to 12 to 18 months or so?

Then, within your 07 8% to 10% EPS growth outlook, what is your FX and sec. lending revenue grow assumption relative to that 16% to 18% revenue growth? Are you expecting to grow FX and sec. lending at a faster rate than that, slower rate, something in that ? (multiple speakers)

Ronald Logue: Let me answer that at the end of the second question. At about the same rate on FX and securities lending. We are not necessarily increasing that dramatically right now.

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Jay Hooley: Let me take the first question, which is I think as far as cross-sell penetration, at a high level it looks like they have done a good job, as I mentioned. But it looks like there s probably some upside when we look at our cross-sell penetration of FX and securities lending to our customer base versus the equivalent on their side. But I think some of this will come in less obvious ways. I would point to, they have $156 billion in hedge funds that they administer. I m sure you have followed the Currenex equation there. Currenex is the leading electronic platform for the hedge fund marketplace, so our ability to take Currenex, cross-sell it to the IFIN hedge fund universe is just one of a handful of ways that I think we can bring product to the IFIN customers that they don t have access to today or they don t have access through a cross-sell vehicle.

So generally, we think there is some upside, but I think most of the upside will come through things like Currenex. And I go back to the same point I made before; the ability to give service across a global framework, Europe and Asia.

Unidentified Audience Member: How quickly can you put that on, in terms of being able to have IFIN s customers plugged into your FX and sec. lending systems?

Jay Hooley: I m sorry?

Unidentified Audience Member: How quickly can you bring that cross over right after the acquisition closes?

Ronald Logue: As far as the cost synergies?

Unidentified Audience Member: No, the actual cross-sell.

Jay Hooley: Day one. I mean that s the integration of those parts of the business, the consolidation happens very quickly, and I d say day one we are out selling.

Unidentified Audience Member: Just one last question on the insurance market. Clearly, that s a more longer-term goal because it s not as well penetrated as the collectives market and the pensions market. What is your market share right now? I think a slide, you showed about $7 trillion of European insurance assets.

Jay Hooley: Yes, it s a hard number to come by because the phenomenon of the insurance marketplace globally, including Europe, is that most of that servicing has historically been done in-house. So the custodian work gets outsourced, the accounting, the scheduled reporting that they require by domicile or jurisdiction, has historically been done in-house. The underlying trend, which I think we have spoken to this group about, that is changing that phenomenon, is with IFRS and other new accounting requirements coming into place, it is disrupting the internal ability of insurance companies to do their own reporting. So we re seeing a great deal of activity in the outsourcing of insurance accounting.

So, as far as a clear metric of what our market share is, we think it s quite high for what is outsourced what is outsourced in the insurance accounting space; a little bit lower than that in the pure company space.

I d also go back to your prior question and say, embedded in the 500 customers of IFIN are several insurance companies. We are, in the US and increasingly in Europe, the leading provider of insurance accounting outsourcing. So that s another, perhaps less obvious, cross-sell opportunity.

Unidentified Audience Member: Is there a significant amount of investment you need to make in your insurance process and platforms going forward, or do you feel that you are pretty well able to leverage that right now?

Jay Hooley: We re continuing to invest, as you would with any system. And the latest project that we have underway is really at the IFRS level, which is to provide IFRS accounting into our Princeton accounting system, which will make it viable across all countries. So nothing new that comes about as a result of this acquisition.

Unidentified Audience Member: Now that we are in day two since the announcement, any updates with respect to, I guess, initial reaction from licensed customers, I guess one kind of West Coast-based one in particular?

Ronald Logue: We have talked to many of the customers already, including the West Coast-based customer. What I would say about that customer is that we have to earn their trust just like we do every other customer. We don t take anything for granted. We expect to provide them the same level of service or better service that they have today. In our plan is a plan to keep their operation as it is today, in Sacramento. Over a period of time we will service them on the same platform, middle office outsourcing platform, that they are being serviced today with the same people. And, over a period of time, similar to every other customer, earn their trust in terms of delivering service.

Have we talked to them? Absolutely. Are we getting any adverse reaction from customers? No.

Unidentified Audience Member: Unrelated on I guess your fourth-quarter call, you talked about going after Bank of New York-Mellon kind of business, as that transaction closes. Does your transaction kind of change that approach, or are you going to have several people walled off working on that?

Ron Logue: Good question. The short answer is no. Let me tell you why. When you take a look at the book of business at Investors Financial, it s mostly asset managers. When you take a look at the book of business between Bank of New York and Mellon, it s mostly private and public pension plans, totally separate organizational unit. A month ago we put together a team to deal with that. They are in the process of dealing with those issues right now. It is literally separate from the consolidation effort that will take place at IFIN. So I see absolutely no interruption there whatsoever.

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Unidentified Audience Member: You said that this was one of the last or I don t know what your phraseology one of the last independent global

Ron Logue: Pure plays.

Unidentified Audience Member: pure plays. Was it the last one of significance, or are there like five more or something?

Ron Logue: Well, I guess it depends on how you define it. What I mean by that is the businesses that come with it are exactly the businesses that we have. There s no private banking, there s no stock transfer, there s no lending. There is no other kind of banking or other transaction processing businesses. I can t think of too many other banks that are in the custody business, if I can define it broadly, that are just in the businesses that we are taking.

Unidentified Audience Member: The second point, then, and not to underrate the importance of not taking anything for granted, but this looks like an infinitely easier acquisition than Deutsche Bank; is that correct?

Ron Logue: Sure; it s one system instead of seven that we re consolidating. It s one location instead of six. It s absolutely.

Unidentified Audience Member: The $1 billion you are buying back is there a timeframe over which you will buy it back, or is it an indefinite timeframe?

Ed Resch: Over the third quarter.

Unidentified Audience Member: You will do it in the third quarter? You are just going to buy in the market, or are you going to do a Dutch auction? What are you going to do? It s about 15 million shares; right?

Ed Resch: We are still looking at that, but we may do an ASR.

Unidentified Audience Member: I was wondering you referred to the success you d had in cross-selling to the Deutsche Bank customer base. I m wondering if, to some extent, that may have given an artificial boost to your international revenue growth so that the figure you have up there, 2.5 times the growth maybe that was a one-time thing that is not so sustainable and that your international revenue growth might slow now that maybe that well is starting to run dry?

Ronald Logue: Once you get it, you have it, you usually keep it. There s an inertia that takes place.

Unidentified Audience Member: I meant the growth more than the level.

Ronald Logue: No; when I look at it I think it s interesting how you define cross-sell revenue. Interesting phenomenon in some of the non-US cross-sell revenue. Some of the non-US cross-sell revenue would be what we would consider here traditional fundamental revenue. Example it s not foreign exchange or securities lending. It s literally winning custodial assets. Why do I say that? Because you may remember, one of the big pieces of Deutsche Bank s non-US operations was the WM Company, where they were providing a lot of performance measurement. They weren t the custodian; somebody else was the custodian. We have won a lot of that business where we weren t the custodian. We are calling that cross-sell revenue. That sustaining; that s not going anywhere. That s one example of that.

Unidentified Audience Member: But I was more concerned with the growth rate. So it seems like, in a way, that accelerated the growth rate to a level that might not be sustainable?

Ronald Logue: Well, to the extent that there s a lot of cross-border activity, that those growth rates continue, that there is regulatory change, that all of the fundamental underpinnings of the market continues to happen, I think I feel pretty comfortable that we re going to be able to continue to get a bigger share of that, and that growth rate will continue.

Unidentified Audience Member: Could I ask a question on the share repurchase, your accounting, including that in the benefits of the deal. It seems to me that some of that you could have done, anyway. So I m wondering how you think about that and what portion of the benefits you re attributing to the share repurchase that might have been otherwise doable, anyway.

Edward Resch: Well, we said that we do share repurchase on opportunistic basis. The commitment is we will buy back enough shares over the course of a year to offset dilution related to compensation. So this is clearly incremental to anything else we would have considered absent this transaction. So the full effect of the $1 billion share repurchase is in the modeling for this transaction.

Unidentified Audience Member: From both sides of the shop, does the PPA is it disruptive, or is it an opportunity?

Ronald Logue: PPA?

Unidentified Audience Member: Pension Protection Act.

Ronald Logue: Oh, oh. Probably an opportunity because any time there is I was figuring I was going to go for some incredible calculation here; sorry. Any time there is additional administration, usually regulatory administration that is required to be conducted on the part of the pension plan sponsors, any investment organization, that is a good thing for us. That usually means new products and services. Great examples of the fund administration business in the mutual fund world, all of the blue sky reporting in the insurance company world. The more difficult that administration becomes, usually through regulatory avenues, it creates new products and new revenue streams for us. We ve seen that happen for 20 years. So I would say it would be a benefit.

Unidentified Audience Member: I m thinking that, for a quant-type manager is could be extremely positive?

Bill Hunt: For the asset management side, we are already seeing a tremendous surge in what we call our LDI, liability driven investments, as the need to match liabilities against assets becomes much more focused and quantitative, if you will. Taking off from the global team, that product actually began for us in the UK. We have transferred that technology now to the US, primarily because of this act.

Unidentified Audience Member: You are laying off 1700 people. Can you provide any provision for them not to go to competitors for a period of time?

Ron Logue: Well first thing, it s going to be over a 24-month period, and there is going to be a lot of job changing that will take place as well. We have identified already, as you might imagine, what we would call the linchpins, the relationship people. We think a majority of the top management will stay, and we think that s a good thing five, six people. I feel pretty confident, just as we did in the Deutsche transaction, and as I m speaking to you today, the top management at Deutsche is still working for State Street today. I feel pretty confident that we re going to be able to maintain those key linchpin relationship people.

Why? Well, they are not moving. They are in Boston; they are not moving from Boston to New York, New York to Pittsburgh, things like that. They are staying in Boston. I think that s a big plus.

Unidentified Audience Member: I have a couple of questions on foreign business in comparison to US business. If you could just give an overview of the profitability of foreign business compared to US business?

Ron Logue: Generally speaking, the non-US business is more profitable because it is less automated. You don t have the things like the DTC s of the world; you are dealing through subcustodians. It s messier. So the pricing and the margins are better. To the extent that we can automate as much of that ourselves, we can t enjoy better margins. Because it s non-US, there are cross-border assets. So you are usually doing foreign exchange, where you may not be doing that in the US two good examples.

Unidentified Audience Member: Are there any other reasons why the proportion of revenues coming from foreign business is so much higher than the proportion of assets under custody that s in foreign locations?

Ron Logue: I think it s cross selling. What we re doing is there used to be a time when you would sell custody first; and then, once the organization got to know you, they may decide to let you do some accounting, they may decide to let you do some foreign exchange. Maybe you can do some securities lending.

That s changing. In the non-US markets, especially in Europe, it s a much more fragmented market. So asset managers, as an example, are buying products and services from four, five, six different vendors. When we come in with a consolidated product suite, we can easily show how it is more efficient to do that. So normally, the initial sale includes three, four or five products, not just one today.

Unidentified Audience Member: What proportion of IFIN s revenues and earnings are from what is called net of assets?

Jay Hooley: Alternatives?

Unidentified Audience Member: Yes.

Jay Hooley: The asset proportion is $156 billion out of $2.2 trillion. But as you are probably aware, the range of services that we provide to alternatives and therefore the fee per asset is a little bit higher in the alternative, so you can t do a straight percentage of asset to revenue. But it would be a little bit more than that $156 billion to $2.2 trillion.

Unidentified Audience Member: Just revisiting the whole issue of cost savings, if you exclude BGI, which you all said on the call yesterday was 18% of revenues, and the alternators, which you re going to keep and grow and utilize that, that 50% cost savings is more like a 65% or higher cost savings number? That s a pretty significant number. How do you get to that?

Jay Hooley: I think, if I hear your question, in the alternative space, we will consolidate platforms. So there will be one platform which will handle the consolidated $340 billion in alternatives. We also said, for BGI, that we would isolate the front end customer service unit that s California-based, servicing BGI. But certainly we will consolidate cash, custody and all back-end services. So you can t just take those two components, separate it and apply the cost-save against what s left. If that was the source of your question?

Unidentified Audience Member: Yes. And a follow-up question for Ed. On the 18-year average life that you have assumed for the intangible amortization, how did you get to that? That s a pretty big difference from Bank of New York-Mellon, were it s ten years. It s also, particularly given that you have got a chunk of assets which have a higher contribution to revenue, which alternative assets is fairly new and recent?

Edward Resch: Well, we have some experience in terms of alternative assets and customer relationships and how sticky those relationships are, and they are very sticky. What we did in terms of our due diligence was look at their customer base, get our experts involved there were a lot of firms, as I m sure you all know, that do purchase priced accounting allocation. We overlaid their customer base onto ours and determined that an 18-year amortization period was appropriate for their customer base. It was a straightforward analysis. I can t speak to Bank of New York-Mellon; I don t know why they chose 10, for whatever reason they did.

Unidentified Audience Member: They haven t really been around for 18 years. So that s a pretty long life (multiple speakers)

Edward Resch: Yes, but we have experience with the same types of customers as State Street for a much longer period of time than IFIN has been in existence.

Ronald Logue: I think we showed a statistic in the past; the top 50 or 100 customers have been with us for 23-24 years, something like that. There is some significant stickiness.

Unidentified Audience Member: Are you combining the ETF servicing and State Street with IFIN?

Ronald Logue: Combining? No.

Unidentified Audience Member: Are you combining the back office or the middle office?

Ronald Logue: No.

Unidentified Audience Member: You are not touching

Ronald Logue: Yes.

Unidentified Audience Member: the Barclays part? So, back to the prior question, then, you are looking at like 60% cost savings, once you strip out the 18% of revenues from Barclays to IFIN?

Ronald Logue: All of the BGI business is not being consolidated into the business. The custodial aspects, which are the commodity pieces, would be. As you know, that s not the way that ETF s work. So there is no consolidation of the ETF s at all.

Unidentified Audience Member: Just more generally, what percent of IFIN s expenses relate to the customer interfacing activities? Is it like 10% or 25? Take a guess.

Jay Hooley: 30% to 40%, if you count customer interface, as we do, as the fund account and the portfolio accounts that are interacting with their people that they are serving, with the customers they are serving.

As you may know, we are organized in terms of our processing, on a customer level. So we have customer fund groups and customer accounting groups very different than some other providers who are organized much more functionally and not specific groups assigned to specific customers.

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So the way that we think about it, I would say that IFIN s cost structure is 30% to 40% customer facing.

Unidentified Audience Member: So that means you re going to take out like three-fourths of the costs of the non-customer facing activities of IFIN? It just seems like a

Jay Hooley: We re going to take out all the administration, we re going to take out a lot of the technology that we don t need and put as we said, put the business on our platforms. Then the non-BGI, non customer facing cost saves are significant, absolutely. That s where we re going to gain the cost synergies in this transaction.

Ronald Logue: You have to remember it s an entire organization. It comes with all of the administrative capabilities that a whole bank comes with, unlike what Deutsche was all about. All that gets stripped out.

Unidentified Audience Member: Could you just speak to the middle office outsourcing activities of IFIN versus what you re doing? Middle office outsourcing is a very broad category of activities. What are the differences? Where are the cross-sell opportunities?

Ronald Logue: Middle office outsourcing has become a very a broad term that s difficult to express. But it s basically all the activities that take place in the investment operations of assets managers, not in the back office, which I m sure many of you understand. Many of those are customized; actually, most of those are customized, just as ours are. They are very unique to the way those organizations work, and they need to be very close to the portfolio managers. It s very, very different, very different from custody and accounting, totally different. Very different business. Just as we are doing a number of those, they are customized. They are customized to work to the way each of these investment operations of these asset managers work.

Unlike custody, which is pretty, commodotized and routinized you settle the trade, you don t settle the trade. You collect the income, you don t collect the income. You do the corporate action, you don t do the corporate action. It s pretty much end of story.

Middle office outsourcing is very, very different. And any organization that attempts to apply custodial type of processing discipline to middle office outsourcing is doomed to failure. It won t work. And we and IFIN have figured that out. That s what is happening at BGI, that s what s happening at PIMCO. That s what s happening with Scottish Widows. They are unique, different animals, all of them. I don t know if I answered that.

Unidentified Audience Member: Does that mean that there are activities in middle office outsourcing that they are performing that will be additive to give what you re doing? I m just trying to see where the fit is there.

Ronald Logue: Yes, there s a mixing and matching. It s not taking all the products of one organization. There are things that they want to do. The best way I can express it it s an assembly job as opposed to a production job. It s taking products and services that they

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want themselves and mixing and matching them with products and services that we may have and having some of them done by us, some of them done by them. The distinction is usually around what is critical for them to do.

Example it doesn t really matter who does the reconciliation of multiple custodians. They don t necessarily want to do that, so we will do that. Trade order entry, pre trade compliance those are different things. They maybe want to do those kinds of things. So it s a picking and choosing a mixing and matching of those things.

Unidentified Audience Member: On a different topic, on the SPDR s and your retail branding of the SPDR s, which I find very interesting is this sort of like drug companies, where you are trying to drive demand through making people aware of something? What is the reason for this new branding campaign on the SPDR s?

Ronald Logue: Bill, why don t you answer that?

Bill Hunt: The primary goal you might know we have several names around our ETFs over the last several years Street Tracks, SPDR s and others, Diamond a lot of confusion about who we are in the marketplace. So primarily, we are not going retail, but we re trying to condense the names down to the SPDR brand. Everything will be branded SPDR s going forward, across the world. We consolidate the brand.

Ronald Logue: That s brand recognition.

Bill Hunt: (multiple speakers) not to go retail. The push is just to get some recognition over the next couple months. It will be quite a big ad campaign in print and on media. It s not a retail push at all.

Unidentified Audience Member: I m wondering if you can give us a sense of, come a year from now, what the regulatory capitalization ratio is going to look like for State Street, given the fact that you re going to have the acquisition of IFIN, the share buyback and the implementation of Basel II regulations?

Edward Resch: All of our modeling that addresses a year out from closing indicates that we re going to be right in the middle of our target ranges for our tier one leverage and our tangible common ratio, which is 5.50% and 4.45%, respectively. In terms of Basel we don t believe this transaction will have any impact in terms of our capital requirements under Basel II.

Unidentified Audience Member: Are the rating agencies concerned at all with all these changes going on? Is there any concern about AA ratings of State Street?

Edward Resch: We ve spoken to the rating agencies about this transaction, and the rating agencies a lot of whom are here, are comfortable with this transaction. We don t expect any downward pressure on the rating because of the transaction.

Unidentified Audience Member: Is the optimism you have   I think it was Jay Hooley; I can t remember who   said about this middle office outsourcing, said I think this could be bigger than one had thought. Is that the result of a mindset change on the part of the customer, or is it a result more of the fact that you have actually figured out that, indeed, it is a customized business and you have figured out how to do that in a profitable way?

Jay Hooley: Well, we have figured out it is a customized business, and we re learning how to do it in a profitable way. Jay, do you want to add anything?

Jay Hooley: Yes. Let me just go two ways on that question. First, on the demand side, in the customer world they are grappling with products, derivatives, all of these complex instruments which are putting a lot of pressure on this middle office to invest systems, processes. So there s increasing pressure in the Investment Management world to find better solutions than spending money on systems to rebuild their middle office.

So the demand side clearly is   it continues to be very evident. I d say Ron s description of the customization really deals with the interfaces between the middle office and the front office. If I look at the middle office   and I ve had this conversation with several of you   there s about six or seven different, discrete functions   reconciliation, corporate actions, portfolio recordkeeping, data management   which, within that middle office, can be extracted and run on common systems, which is our approach. That s the enterprise suite, which we brought live third quarter last year.

So I think, if you draw a circle around those very distinct activities which sit in the middle office but look a little bit more like back office functions, that s what we re attacking with our infrastructure. So it s really   the customization is the integration back to the front office. In the case of any of the customers that we deal with, there s very entwined integration of data that flows back and forth between the front and middle office.

So I don t know if that helps, if that clarifies the question. So if I go back to the Investors Financial acquisition, they have about $1.4 trillion in assets they administer in the middle office. $1 trillion of that is BGI, as you have probably sorted out. The other $400 billion is clustered in a small handful of customers. I think the view is at the core of those six or seven activities that I just defined, that there s high overlap between what we see in IFIN s base and what we see in our base. What is different is the integration and the data that flows back and forth from middle to front. Does that help?

Unidentified Audience Member: Could you share with us, out of those 12 out of the top 25 investment advisers, were they ever customers of State Street they may have left years ago?

Ronald Logue: No, not that I know of. In some cases we are doing small pieces of some of those customers. In many cases we re probably doing some capital market s activity   trading partners, maybe transition management, foreign exchange, but not the custody and accounting. Can you think of any that   I can t think of any.

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Unidentified Audience Member: The second question on the growth that you guys talked about with IFIN being 16% to 18% top-line growth. What would be normalized member? I m assuming that takes into account purchase accounting, so if we are here at third quarter 08, fourth quarter 08, you have a full year of IFIN under your belt now, what kind of revenue growth? Will it be higher than the 10% to 12% that you have been talking about for State Street in the past?

Ronald Logue: Could be. It s what we would want it to be. We obviously want to target it to be greater than our peers. In the last year or two we have been able to hit that top piece, 12%. My expectation is that it will be at the top or better than that, yes.

Unidentified Audience Member: Finally, on the callable trust preferred, I assume that s a State Street issue, what kind of spread pickup do you think you might obtain from calling it?

Ed Resch: There are two State Street issues, one of which is already callable, the second one of which will be callable next month. We think there s a fairly significant pickup that is worth the premium we re going to have to pay to call; it s a 4 point premium on the $500 million component. So the economics clearly are compelling for us to do that.

Unidentified Audience Member: Just a question on the client facing employees again. Can you give us a sense for what the average tenure of a client facing employee tends to be at State Street? Do you have an idea of what that is at IFIN?

Then a follow-up to that is, if we look at your organic growth of your client facing employees, what has been that rate over the last five or ten years?

Ronald Logue: The organic growth? Well, first of all, in terms of the employees it s difficult because we ll break it down into different segments entry-level, middle management, senior manager. I would say, on average, eight to 12 years, maybe. It s much lower in the entry-level; But as soon as you get to middle management, which I would say someone that has been there five, six years most people usually stay. I don t know exactly what IFIN s is, but I would expect it would be about the same.

We have benefited dramatically through organic growth, especially in the merger and acquisition activity of asset managers. What happens is when first of all, there are different ways that you can measure market share. I don t like to use assets under custody because it s a bad measurement. I prefer to use relationships you have with organizations, and the deeper relationship you have with these organizations, the higher the probability when A merges with B that you are going to get both of them. We have seen that happen literally dozens of times over the last five or six years. That has truly fueled a lot of the organic growth because we usually will have some relationship with the top 150-250 global investment managers. If you were to do it by relationships, we have some, even

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though it may be small; it s much higher than the assets under custody if you did it. It s not doing everything, but there s a relationship there.

Jay Hooley: Can I just add to that? The other factor that s maybe less obvious here is the mix of client-based so these are mutual fund and alternatives, and that group of segments would be different than pensions in the following way. A pension fund tends to be a fixed asset pool that gets some funding, but your cross-sell is limited to ancillary services. In the front and alternative world it s often that if you have a relationship, a customer will bring on new funds and just bring them on with you, be it alternative or be it traditional mutual funds. So I think if you were to look at a base which focuses more on the fund in the alternative space as opposed to broadly across insurance/pension, you might see higher organic growth.

Unidentified Audience Member: (inaudible question - microphone inaccessible). Can you just discuss whether you think it would be a net positive or a net negative with the launch of FX market space over at the CME, with respect to Currenex and your stand-alone currency offering?

Jay Hooley: Yes, I think it s a positive. The Currenex business is focused in the hedge fund space. You saw the CME as a supplier into that in my diagram, and I think that as things go more electronic, CME and Currenex, we re just in the sweet spot of the flows that we re going to continue to get.

I think you can also look at, where is the whole foreign exchange business going. Will there ultimately be currency exchanges out there that we position to fill some of that space? There s a number of possibilities and a rapidly evolving trading space around currencies. But we think that Currenex positions us against the hedge fund segment. We think there s great synergies with FX Connect, from the standpoint of sharing technology. So we think it s net additive.

Unidentified Audience Member: On the asset servicing pipeline coming into the fourth quarter, you said was very robust. You were talking to a lot of large clients, many of them in the US. Since you have announced Putnam and Evergreen and acquired the IFIN business, has that depleted a substantial portion of that pipeline, or would you characterize it as still very full?

Jay Hooley: No. I would say that when we have been making those comments, Evergreen was already announced, Putnam is a new disclosure. Putnam was obviously one of several big prospective clients that we had in the pipeline, but by no means does it deplete it. I think, to me, what is encouraging about the pipeline is that it s geographically diverse and its diverse across product lines. So we still see a pretty deep pipeline driven by all of the phenomena that is going on in the industry around pressure on cost, the ability to introduce new products, globalize your business. As we have talked throughout this meeting, it has also been enhanced by the Bank of New York-Mellon announcement. So I think that Putnam is one of many situations that are out there.

Ronald Logue: We have a lot of capacity. If you think about it, we haven t done any major acquisition for four years. We have been building a lot of capacity into the system. We can put a lot on the frame, and we anticipate doing that.

Unidentified Audience Member: Your expenditures in the mid office should be waning compared to what they were in the last couple years?

Ronald Logue: As we get into 2008, as we said before, they will begin to wane, yes.

Unidentified Audience Member: On your goal of 50% of revenues from outside the US, to what degree will you need acquisitions to fulfill that?

Ronald Logue: As we were talking about with some of the previous questions, we re doing very well in terms of however you want to define cross-sell from our current base. As we pick up a potential customer, we re able to sell other services much more quickly. So I feel good about that, and so I think that s going to contribute a lot.

If, in fact, there are pools of cross-border assets that are available, as we have said before, those are something that are very interesting to us, just like a piece of the Deutsche Bank piece. There are not any, or there not any sizable ones right now. If there were, obviously, I think we would be interested in doing something like that, obviously, given the financial parameters of what we can and cannot do.

Unidentified Audience Member: If you were not to do an acquisition, how long do you think it would take you to get to that 50%?

Ronald Logue: Don t know, it s hard to tell. It depends on the denominator, I think, as to how quickly we grow the US piece. Part of me says I hope it takes them a long time because they re growing the US piece. Two, three years, maybe; that s why I didn t set a timeframe on that. I think it s more of a mindset to be a global company. If you are going to be a global company, than half of your business should be outside the US.

Unidentified Audience Member: Thank you.

Ronald Logue: Other questions? Thank you, thank you very much. I appreciate your time.

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This document and the documents attached hereto contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, including statements about the financial outlook and business environment. Those statements are based on current assumptions, forecasts and expectations and involve a number of risks and uncertainties, which could cause actual outcomes and results to differ materially from those results. These risks and uncertainties include the ability to obtain regulatory and Investors Financial shareholder approval, the risk that businesses will not be integrated successfully, or will take longer than anticipated, that expected cost savings will not be achieved or unexpected costs will be incurred, that customer retention goals will not be met, that disruptions from the transaction will harm relationships with customers, employees and regulators, the pace at which State Street adds new clients or at which existing clients use additional services, the value of global and regional financial markets, the pace of cross-border investment activity, changes in interest rates, the pace of worldwide economic growth and rates of inflation, the extent of volatility in currency markets, consolidations among clients and competitors, State Street s business mix, the dynamics of markets State Street serves, and State Street s success at integrating and converting acquisitions into it described in detail above under "PCL Construction Guarantee and Loan," Under "Item 1. Description of Business," above. KNOWN TRENDS, EVENTS, AND UNCERTAINTIES We expect to experience seasonal fluctuations in our gross revenues and net earnings due to higher sales volume during peak periods. Advertising revenue from the publication of books by Hickory that list hotel availability is recognized either when the books are published (December) or on a performance basis throughout the year, depending on the contractual terms. This seasonality may cause significant fluctuations in our quarterly operating results and our cash flows. In addition, other material fluctuations in operating results may occur due to the timing of development of resort projects and our use of the completed contracts method of accounting with respect thereto. Furthermore, costs associated with the acquisition and development of vacation resorts, including carrying costs such as interest and taxes, are capitalized as inventory and will be allocated to cost of real estate sold as the respective revenues are recognized. We intend to continue to invest in projects that will require substantial development and significant amounts of capital funding during 2006 and in the years ahead. CRITICAL ACCOUNTING ESTIMATES Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities. We base our estimates on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. On an on-going basis, we evaluate our estimates. Actual results may differ from these estimates if our assumptions do not materialize or conditions affecting those assumptions change. For a detailed discussion of our significant accounting policies, see Note 2, Summary of Significant Accounting Policies to the Notes to our audited consolidated financial statements included in "Item 7. Financial Statements." We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements: GOING CONCERN CONSIDERATIONS --------------------------- We have incurred losses during the development stage during our existence, and we have negative retained earnings. We had an accumulated deficit of $13,499,420 at December 31, 2005. We expect our travel operations through the end of the current fiscal year to require additional working capital of approximately 40 $2,000,000 and Hickory to require approximately $500,000 in working capital during the next twelve months. If we are unable to obtain these funds, we may have to curtail or delay our travel business plan. In addition to our ability to raise additional capital, our continuation as a going concern also depends upon our ability to generate sufficient cash flow to conduct our operations. If we are unable to raise additional capital or generate sufficient cash flow to conduct our Travel Division operations and/or to complete the construction of our planned vacation homes, we may be required to delay the acquisition of additional travel agencies and restructure or refinance all or a portion of our outstanding debt. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. REVENUE RECOGNITION ------------------- We recognize revenues on the accrual method of accounting. Revenues from Hickory are recognized as earned, which is primarily at the time of delivery of the related service, publication or promotional material. Fees from advertisers to be included in the hotel book and web service operated by Hickory are recognized upon the annual publication of the book or when performance levels are achieved. Revenue from the delivery of services is recognized when it is invoiced to the recipient of the service. One of our principal sources of revenue is associated with access to the travel portals that provide a database of discounted travel services. Annual renewals occur at various times during the year. Costs and revenue related to portal usage charges are incurred in the month prior to billing. Customers are charged additional fees for hard copies of the site access information. Occasionally these items are printed and shipped at a later date, at which time both revenue and expenses are recognized. Revenues and expenses from our TraveLeaders business are not included in our results as the same are borne by Around The World Travel, Inc., the third party manager of the business. We recognize as revenue only the net operating results of TraveLeaders after deducting the management fee paid to Around The World Travel of 10% of net earnings before interest expense, taxes, depreciation and amortization. We have entered into 673 pre-construction sales contracts for units in The Sonesta Orlando Resort at Tierra Del Sol. We will recognize revenue when title is transferred to the buyer. Revenues include property sales which are accounted for as the profits on the sales at the time of closing. GOODWILL -------- We adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." This statement requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation under the provisions of SFAS No. 144. In 2004, we recorded an impairment of $1,500,000 related to the 41 acquisition of the TraveLeaders assets in December 2004, based on our payment of more than fair value. The remaining goodwill of $14,425,437 as of December 31, 2004 was composed of $12,585,435 from the TraveLeaders acquisition and $1,840,002 from the Hickory acquisition. In 2005 we renegotiated and ultimately reached a settlement on the acquisition which resulted in an acquisition of goodwill of $5,585,435 of which $1,500,000 was previously impaired resulting in a goodwill balance of $4,085,435. Our remaining goodwill of $1,840,002 is related to the Hickory acquisition and has not been further impaired as of December 31, 2005. Total goodwill amounts to $5,925,437. The goodwill will be evaluated on an annual basis and impaired whenever events or circumstances indicate the carrying value of the goodwill may not be recoverable. RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2004 We had revenues of $19,381,284 for the fiscal year ended December 31, 2005, as compared to revenues of $6,419,320 for the fiscal year ended December 31, 2004, which represents a $12,961,964 increase in revenue from the prior period. The increase in revenue was due to increased revenue due to our sale of 41 acres of property in December 2005, located in Polk County, Florida (adjacent to the Sonesta Resort property) for $8,000,000 and a profit of $3,324,736, as well as the sale of 13.5 acres of undeveloped property for approximately $4,000,0000 during the year ended December 31, 2005. Revenues of $19,381,284 for the fiscal year ended December 31, 2005, included operating revenues of $7,361,284 and undeveloped land sales of $12,020,000. We had cost of undeveloped land sales of $8,122,562 as of December 31, 2005, compared to cost of undeveloped land sales of $-0- as of December 31, 2004. We had total operating expenses of $19,892,825 for the fiscal year ended December 31, 2005, as compared to total operating expenses of $10,629,069 for the fiscal year ended December 31, 2004, which represented an increase of $9,263,756 or 87.2% from the prior period. Total operating expenses for the year ended December 31, 2005, included depreciation and amortization of $1,476,326, an increase of $813,791 or 122.8% compared to depreciation and amortization expense for the prior year of $662,535 and general and administrative expenses of $5,136,413, an increase of $862,770 or 20.2% from the prior period. Additionally, although there was a goodwill impairment expense of $1,500,000 for the year ended December 31, 2004, there was no such expense for the year ended December 31, 2005. The increase in general and administrative expenses was due to increased professional fees and increased travel and insurance expenses during the year ended December 31, 2005, compared to the year ended December 31, 2004. These increased professional fees were due to increased fees paid to independent contractors at American Travel and Marketing Group, Inc., legal fees in connection with the Sonesta resort, Reedy Creek Property and KeyBank closings, as well as the Company's SEC filings. The increased travel expenses were attributable to increased costs associated with the travel by American Travel and Marketing Group, Inc. and Comtech Fibernet, Inc., as well as increased travel expenses due to Caribbean Leisure Marketing, Inc.'s supervision of the Antiguan call center which was launched in January 2005. Also attributing to the increase in travel expenses was increased travel due to the Company's operations of AWT. We had a loss from operations of $511,541 for the year ended December 31, 2005, compared to a loss from operations of $4,209,749 for the year ended December 31, 2004, a decrease of $3,698,208 or 87.8% from the prior period. The decrease in loss from operations was associated with increased revenues and profits in the travel division and the profits from the sale of two properties during 2005. 42 We had interest expense of $3,317,033 for the year ended December 31, 2005, compared to interest expense of $736,798 for the year ended December 31, 2004, an increase of $2,580,235 or 350% from the prior period. This increase in interest expense was mainly attributable to interest on the credit facilities provided by Stanford, which are described in greater detail below, which credit facilities were received towards the end of the year ended December 31, 2004 and during the year ended December 31, 2005 and amortization of deferred financing costs related to the aforementioned credit facilities. We had $-0- of unrealized loss on marketable securities for the year ended December 31, 2005, compared to $2,185,278 of unrealized loss on marketable securities for the year ended December 31, 2004, which was due to a loss of $ 2,185,278 on the write down of acquiring Around The World Travel's preferred stock in April 2004. We had $-0- of minority interest for the year ended December 31, 2005, compared to $510,348 of minority interests for the year ended December 31, 2004. We own 50.83% of Hickory, with the minority interests owning the remaining 49.17%. In the event Hickory generates net profits, as it did in 2003, it is required to reserve and allocate such profits to the minority shareholders, in the event Hickory incurs operating losses, as it did in 2004 and 2005, that is not the case. We had ($293,201) of equity in loss from operations of unconsolidated affiliate during the year ended December 31, 2005, compared to $-0- of equity operations of unconsolidated affiliate during the year ended December 31, 2004. This was due to the loss from certain of our subsidiaries, including Caribbean Media Group, Inc. ("CMG"), which we own 49% of, and which runs our call center operations in Antigua; which like CMG, we own less than 50% of, and which are therefore accounted for separately as unconsolidated affiliates. The call center commenced operations in January 2005 and we therefore had no results to report in 2004. We had $3,610,234 of total other expenses during the year ended December 31, 2005, compared to total other expenses of $2,411,728 for the year ended December 31, 2004, an increase of $1,198,506 or 49.7% from the prior period. Total other expenses for the year ended December 31, 2005 included interest expense and the amortization of deferred financing costs from the additional notes entered into in 2005 and late 2004 plus the loss from operations of unconsolidated affiliate, while the unrealized loss from marketable securities and the allocated minority interest reversal were non-reoccurring 2004 events. We had loss before income taxes of $4,121,775 for the year ended December 31, 2005, compared to a loss before income taxes of $6,621,477 for the year ended December 31, 2004, a decrease in loss before income taxes of $2,499,702 or 37.8% from the prior period. We had provision for income taxes of $5,004 for the year ended December 31, 2005, compared to provision for income taxes of $12,824 for the year ended December 31, 2004, a decrease in provision for income taxes of $7,820 or 61.0% from the prior period. Provision for income taxes for the year ended December 31, 2005 was due to state income tax due by Hickory. We had a net loss of $4,126,779 for the year ended December 31, 2005, compared to a net loss of $6,634,301 for the year ended December 31, 2004, which 43 represented a decrease in net loss of $2,507,522 or 37.8% from the prior period. The decrease in net loss was mainly attributable to increased revenues and profits in the travel division and the profits from the sale of two properties during 2005. LIQUIDITY AND CAPITAL RESOURCES We had total current assets of $11,054,971 as of December 31, 2005, which included cash of $225,055, restricted cash of $2,100,000, accounts receivable of $2,043,141, other receivable of $6,587,357 and prepaid expenses and other of $99,418. This represented an increase in total assets of $5,054,606 from December 31, 2004, when total current assets were $6,000,365. The main reasons for the increase in total current assets as of December 31, 2005, compared to December 31, 2004, include a $2,100,000 increase in restricted cash and a $6,474,357 increase in other receivables. Restricted cash consisted of escrowed deposit funds from customers as well as funds devoted exclusively to the development of the Sonesta Resort. We had net property and equipment as of December 31, 2005 of $4,583,853, which was a decrease of $1,504,647 from net property and equipment of $6,088,500 as of December 31, 2004. The decrease in net property and equipment from prior period was caused by additional depreciation expense and the write-off of some obsolete assets. We had $34,695,281 of land held for development as of December 31, 2005, which as an increase in land held for development from $23,448,214 of land held for development as of December 31, 2004. The increase in land held for development was due to capitalization of costs such as interest, professional fees, operating expenses on Tierra Del Sol, Inc. until the units at the Sonesta Resort property are completed. The $34,695,281 of land held for development as of December 31, 2005, represented the total costs capitalized since 2002 including the cost of the land. We had total other assets of $39,589,142 as of December 31, 2005, which included restricted cash of $11,075,354, prepaid sales commissions of $7,770,949; prepaid sales commissions from an affiliated entity, Xpress, Ltd., of $3,516,209; investment senior notes $5,170,000; goodwill of $5,925,437; trademark of $975,000 and other assets of$5,156,193, which included deferred financing costs, our 1%

investment in Reedy Creek Acquisition Corp., member contracts and customer lists. Total other assets as of December 31, 2005 were $7,724,240 more than total other assets of $31,864,902 as of December 31, 2004. The increase in other assets from the prior period was mainly attributable to a decrease of $8,500,000 in goodwill from the prior period, which was due to the re-pricing of the purchase of Around The World Travel, Inc., as described above offset by an increase in deferred financing costs related to the credit facilities, an increase in restricted cash to be used for future construction, and the increase in prepaid sales commissions. Trademark of $975,000 as of December 31, 2005, represented the Company's trademark on "Traveleaders." Prepaid sales commissions are paid to a sales agent at the point of sale and the agent then executes a note indicating that if the customer does not ultimately close on the sale of the property, the agent will return the advance. One half of the total sales commissions are paid at the point of sale, with the remaining balance being paid to the agent at closing. 44 We had total assets of $89,923,247 as of December 31, 2005, which included total current assets of $11,054,971; net property and equipment of $4,583,853; land held for development of $34,695,281 and total other assets of $39,589,142, compared to total assets of $67,401,981 as of December 31, 2004. The increase in total assets was mainly due to the increases in total current assets and land held for development as described above. We had total current liabilities of $12,764,605 as of December 31, 2005, which included current maturities of long-term debt and notes payable of $3,652,235; current maturities of notes payable-related parties of $1,650,605; accounts payable and accrued expenses of $3,782,822; accrued expenses-officers of $3,393,500 and other liabilities of $285,443. Accrued expenses-officers included $2,700,000 in salaries due to our Chief Executive Officer and Chairman, Malcolm J. Wright, as well as $477,000 in interest due on that amount (accrued officer and director salaries bear interest at 12% per year, compounded annually until paid), and $200,000 due to L. William Chiles, the Chief Executive Officer of Hickory and our Director, and $16,500 of interest on such salary. This was a decrease in current liabilities of $11,083,965 from total current liabilities of $23,848,570 as of December 31, 2004. The decrease in current liabilities was mainly attributable to a decrease of $5,953,000 in current maturities of long-term debt and notes payable; a decrease of $1,836,151 in accounts payable and accrued expenses; a decrease of $2,752,535 in customer deposits and a decrease of $2,047,443 in other liabilities. As of December 31, 2005, we owed $1,650,605 in connection with notes payable to related parties including $327,028 owed to a company controlled by our significant shareholder, Roger Maddock, which amount bears interest at 12% per annum and is payable on demand; $232,208 owed to our Director, William Chiles; $591,500 owed to Charles Sieberling, the Secretary of Hickory, and $178,366 owed to our Chief Executive Officer and Chairman, Malcolm J. Wright. We had total liabilities of $83,704,893 as of December 31, 2005, which included total current liabilities of $12,764,605; long-term debt and notes payable of $32,288,920; a put liability related to the purchase of the minority interest in Tierra Del Sol, Inc., and deposits on pre-unit sales of $37,666,368. We had total working capital deficit of $1,709,634 and a ratio of current assets to current liabilities of 0.87 as of December 31, 2005. We had net cash flows provided by operating activities of $7,179,347 for the year ended December 31, 2005, which was mainly attributable to an increase in deposits on unit pre-sales in the Sonesta Resort of $20,997,022; and an increase in accounts payable and accrued expenses of $6,468,380, which items were offset by the following major line items, net loss of $4,126,779, increase in shareholder advances and notes payable of $71,823; and increase in prepaid commissions of $2,655,267. The increase in prepaid and other assets was caused by our settlement of the Around The World Travel, Inc. ("AWT") Asset Purchase Agreement, described in greater detail above, which caused certain funds and assets that had been remitted to AWT to be treated as receivables. 45 We had total cash flows used in investing activities of $14,527,299 as of December 31, 2005, which was used as follows: $3,185,547 for the acquisition of the assets of Around The World Travel, Inc.; $175,689 of acquisition of fixed assets; $141,400 of advances to Caribbean Media Group, Inc.; $2,100,000 of restricted cash and $7,782,776 of capitalization of real estate carrying costs. The $7,782,776 of capitalized real estate carrying costs are costs related to the construction and development of the Sonesta Resort properties, which are capitalized until the units are closed (ownership is transferred to the buyer). Once the units close, the accumulation of costs related to that particular unit is recognized as cost of goods sold. We had net cash provided by financing activities of $5,066,783 for the year ended December 31, 2005, which was due to $13,077,538 of proceeds from notes payable and $241,725 of proceeds of notes payable - related parties, which was offset by $7,308,532 of payment of debt and $943,947 of payments of note payable - related parties. We expect that we will require approximately $2,500,000 through the end of the 2006 fiscal year for working capital for our travel management and services businesses. We estimate that the cost to complete the construction of Phase I of the Sonesta Resort will be $135,500,000 of which $ 8,000,000 will be for resort amenities, $64,000,000 will be for vertical construction on 294 units and $49,500,000 will be for other costs such as contingencies, closing costs and soft costs such as architectural, engineering, and legal costs. An additional approximate amount of $14,000,000 will be expended for horizontal construction costs which include all of Phase I requirements plus most of the infrastructure requirements for the entire Project. As of December 31, 2005, approximately $10,250,376 had been advanced to the Company pursuant to the Construction Loan. On December 30, 2005, we closed on an aggregate of $54,850,000 in senior debt to be used in the development of The Sonesta Orlando Resort at Tierra Del Sol. KeyBank, N.A. is the lender of the senior debt, which was provided to us in the form of two credit facilities. The first is a land loan in the amount of $14,850,000, which is secured by Project land that is dedicated to specific phases of the development. The second is a $40,000,000 revolving construction loan that will fund the development and construction for Phase 1 of the Sonesta Resort. Both loans are part of a comprehensive finance plan for the development of the Project that also includes funding in the amount of $25,825,000 from the Westridge Community Development District ("CDD"), which bonds will be used to pay for infrastructure facilities for public purposes such as water supply and retention systems, roadways, green space and nature recreation areas. In addition to the KeyBank provided senior debt, the Project is also benefiting from $25,825,000 in bonds issued by the CDD, a special purpose taxing district formed for the purpose of financing the installation of vital public services such as water supply and retention, sanitary and storm water sewer systems, roadways and the landscaping attendant to those uses. The CDD supports these initiatives, through the provision of capital and maintenance, via a tax upon the property owners of the district that utilizes a low finance rate (5.8% per annum) and a long-term amortization of the capital costs (30 years). 46 The first phase of site work on the Sonesta Resort, at an estimated cost exceeding $19 million, will be funded by the CDD via the sale by the CDD of bonds issued on a non-recourse basis to the Company ("CDD Bonds"). The CDD was initially created by the Company in September 2003 and enabled by an order of a Florida State District Court. The CDD Bond issue was underwritten by KeyBanc Capital Markets Group in the amount of $25,825,000. The first issue of the CDD Bonds were successfully sold and closed simultaneous with the closing of the Key Bank senior debt facilities. Upon closing of the loan, we repaid $7,862,250 of short-term debt plus accrued interest of approximately $256,512. This short-term debt originally matured on March 31, 2005, but it was extended until the closing of the KeyBank credit facilities in December 2005. In addition, to partially fund our development costs at The Sonesta Orlando Resort at Tierra Del Sol, we have used cash from buyer's deposits, after providing the disclosure required by Florida law, on the pre-sold town homes for which the buyer has waived the requirements to maintain the funds in escrow. The deposits on the town homes range from 10% to 20% of the purchase price. As of December 31, 2005, approximately 2% of the buyers of town homes in the Sonesta Orlando Resort have waived the escrow requirement and these funds have been expended for our project related costs. Our contract for the condominiums requires a 20% deposit. All of the deposits received on condominium contracts are maintained in escrow. Provided the purchaser has waived escrow, we may use any condominium contract deposit in excess of 10% to fund the hard costs of construction of their unit. In the event we post a bond according to Florida law, we will also be permitted to use the bonded portion of the deposits on the condominiums for the projects development and construction costs. We believe that the sum of the construction loan and the bond sale proceeds will provide sufficient capital for the construction of Phase 1 of The Sonesta Orlando Resort at Tierra Del Sol. In June 2005, we began the earth moving and clearing process on the land for the Sonesta Resort and we expect to begin the vertical construction of Phase 1 in approximately May 2006. We will need to raise additional capital to begin and complete Phase 2 of the Sonesta Resort, assuming the construction of Phase 1 is successful, of which there can be no assurance. Additionally, we will need to raise significant capital to complete our planned development activities on our Reedy Creek Property. At December 31, 2005, we had an outstanding principal balance of $6,000,000 under our secured revolving credit facility with Stanford, which bears interest at a fixed rate of 6% per annum payable quarterly in arrears and matures on December 18, 2008. At the sole election of the lender, any amount outstanding under the credit facility may be converted into shares of our common stock at a conversion price of $15.00 per share. The $6,000,000 credit facility is guaranteed by Malcolm J. Wright, our Chief Executive Officer and Chairman and is secured by a second mortgage on our Sonesta Orlando Resort property, including all fixtures and personal property located on or used in connection with these properties, and all of the issued and outstanding capital stock and assets of two of our subsidiaries, American Leisure Marketing & Technology, Inc. and Caribbean Leisure Marketing Limited. As of December 31, 2005, we had an outstanding principal balance of $4,250,000, under another secured revolving credit facility with Stanford, which bears interest at a fixed rate of 8% per annum payable quarterly in arrears. The 47 credit facility is comprised of two tranches. The first tranche of $1,250,000 matures on September 30, 2006, may solely be used for the working capital of our Hickory and TraveLeaders travel business and must immediately be repaid to the extent that the borrowed amount together with accrued and unpaid interest exceeds a borrowing base which is generally calculated as the lesser of $1,250,000, or 50% of the dollar amount of TraveLeaders eligible accounts receivable minus such reserves as the lender may establish from time to time in its discretion. The second tranche of $3,000,000 matures on April 22, 2007. At the sole election of the lender, any amount outstanding under the credit facility may be converted into shares of our common stock at a conversion price of $10.00 per share. The credit facility is secured by collateral assignments of our stock in the active Travel Division subsidiaries as well as a collateral assignment of our first lien security interest in the assets formerly owned by Around The World Travel, Inc. Our $1,355,000 secured revolving credit facility with Stanford bears interest at a fixed rate of 8% per annum and matures April 22, 2007. The proceeds of this facility may be used solely for our call center operations in Antigua. Interest for the period from January 1, 2005 to March 31, 2006 is due on April 3, 2006 and interest is due quarterly in arrears for periods after April 1, 2006. At the sole election of the lender, any amount outstanding under the credit facility may be converted into shares of our common stock at a conversion price of $10.00 per share. The credit facility is secured by all of the issued and outstanding stock of our subsidiary, Caribbean Leisure Marketing Limited. We entered into another credit facility in the amount of $305,000 with Stanford in September 2005 of which $289,000 had been drawn as of December 31, 2005. The credit facility bears interest at 8.0% per annum and is secured by the assets and stock of the Company. On December 29, 2005, Stanford International Bank, Ltd. ("SIBL") provided Tierra Del Sol with financial assistance to facilitate the establishment of the Land Loan and the Construction Loan. The financial assistance consisted of a loan to Tierra Del Sol of $2,100,000 (the "SIBL Tierra Del Sol Loan"), and the establishment of letters of credit in favor of KeyBank in the amount of $4,000,000 and $2,000,000, respectively (the "Letters of Credit"). As additional consideration for this financial assistance, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of $5.00 per share and warrants to purchase 154,000 shares of our common stock at an exercise price of $0.001 per share. Additionally, in January 2006, in connection with the SIBL Reedy Creek Loan, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of $5.00 per share and warrants to purchase 154,000 shares of the Company's common stock at an exercise price of $0.001 per share. The warrants expire 5 years from issuance. The warrants contain anti-dilution provisions, including a provision which requires us to issue additional shares under the warrants if we issue or sell any common stock at less than $1.02 per share, or grant, issue or sell any options or warrants for shares of the Company's common stock to convert into shares of our common stock at less than $1.02 per share. If we do issue or sell common stock, which would cause a re-pricing of the warrants issued to SIBL, it would likely have an adverse effect on the trading value of our common stock and could cause substantial dilution to our then shareholders. 48 Our subsidiary Hickory Travel Systems, Inc. owes $250,000 pursuant to a note payable to Sabre, Inc. ("Sabre"), which final payment of $250,000 on such note was due December 31, 2003. The note originally accrued interest at 8% per annum and is secured by the personal guaranty of William Chiles who is a Director of the Company. Interest has not been paid or accrued on this note since December 31, 2003, as there is no interest penalty or default rate applicable to the final unpaid payment. Sabre has not requested the final payment of $250,000 of the promissory note from Hickory to date. Additionally, Hickory has a $375,900 loan through the U.S. Small Business Administration ("SBA") of which $369,687 has been drawn as of December 31, 2005. The SBA loan is due by May 2033 and bears interest at 4% per annum with principal and interest payments of $1,862 due monthly from May 2005 until May 2033. The SBA note is secured by Hickory's assets and the personal guaranty of William Chiles who is our Director. In connection with our purchase of the assets of Around The World Travel, Inc. ("AWT"), as of December 31, 2005 there is a balance from those liabilities we assumed from AWT of $3,893,915, of which approximately $270,000 is due in the next twelve months. All of our credit facilities with Stanford contain customary covenants and restrictions, including covenants that prohibit us from incurring certain types of indebtedness, paying dividends and making specified distributions. Failure to comply with these covenants and restrictions would constitute an event of default under our credit facilities, notwithstanding our ability to meet our debt service obligations. Upon the occurrence of an event of default, the lender may convert the debt to the company's common stock, accelerate amounts due under the applicable credit facility and may foreclose on collateral and/or seek payment from a guarantor of the credit facility. At December 31, 2005, we believe we were in compliance with the covenants and other restrictions applicable to us under each credit facility. On December 31, 2005, the Company acquired the minority interest of Tierra Del Sol (the "Minority

Interest") in connection with the entry into a Stock Purchase Agreement with Harborage Leasing Corporation ("Harborage"). The Minority Interest was purchased from Harborage for a promissory note for $1,432,046, which is due on July 1, 2006, and which bears interest at 12% per year (the "Harborage Note"); two (2) three-bedroom condominium units to be constructed in Phase 2 of the Sonesta Resort, which are to be delivered to Harborage by December 31, 2007 (or if such units are not available, $500,000 for each such unit not transferred by December 31, 2007); 197,000 shares of the Company's restricted common stock (the "Harborage Shares") and warrants to purchase 300,000 shares of common stock at an exercise price of $5.00 per share. The warrants expire if unexercised five (5) years from their date of grant. Pursuant to the Stock Purchase Agreement, Harborage has the right to require the Company to purchase all or a portion of the 197,000 Harborage shares at $5.00 per share, for sixty (60) days, beginning January 1, 2007 (the "Put Option"). The Put Option will no longer be in effect provided that both of the following events occur: (i) Harborage is able to sell the Harborage Shares pursuant to an effective Registration Statement under the Securities Act of 1933 (the "Act"), or pursuant to Rule 144 of the Act; and after the fulfillment of (i) above, the average closing price of the Company on the Over-The-Counter Bulletin Board or principal exchange on which the Company's common stock then trades, exceeds 49 $5.00 per share for a period of thirty (30) consecutive days. The Harborage Note and shares are guaranteed by Malcolm J. Wright, the Company's Chief Executive Officer and Chairman, for which he received a guaranty fee equal to three percent (3%) of the amount guaranteed. The Company paid this fee through the grant of 102,351 warrants to purchase shares of the Company's common stock at an exercise price of $1.02 per share. These warrants will expire 5 years from the expiration date of the guaranty. Additionally, we have an indemnity obligation in conjunction with the acquisition of the Galileo Senior Secured Debt from GCD Acquisition Corp. regarding any and all liability on a $5,000,000 note wherein GCD Acquisition Corp. is the "Maker" and CNG Hotels, Ltd. is the Holder (the "Note"), which note bears interest at the rate of the 3 month LIBOR plus 1% per year, and is unsecured. Maker's obligation (an indemnified obligation) to make payments of principal and interest under the Note is conditioned by the Maker's receipt of payments of principal or interest by AWT pursuant to its obligations under the Galileo Senior Secured Debt. Subject to the condition of receipt of payment by AWT, the interest on the Note is payable every six (6) months in arrears. Maker is under no obligation to seek enforcement or collection of the Galileo Senior Secured Debt. The Note matures on February 22, 2009. Maker's obligation to pay the principal amount (an indemnified obligation) is conditioned upon the receipt of payment from AWT, as aforesaid. In addition, the Note is non-recourse to Maker, and, but for payments actually received from AWT, no claim, suit or judgment may lie against Maker. SUBSEQUENT EVENTS In February 2006, we entered into a Note Modification Agreement with SIBL, whereby we agreed to modify certain provisions of our outstanding promissory notes with SIBL to grant extensions of payments due. Pursuant to the Note Modification Agreement, we and SIBL agreed that all interest due on our $6,000,000 note, from January 1, 2005, through September 30, 2006, shall be due and payable on September 30, 2006, with all interest thereafter payable with the original terms of that note; that all interest accrued on the $3,000,000 note we have with SIBL, from the date of the note until September 30, 2006, shall be due and payable on September 30, 2006, with all interest thereafter payable with the original terms of that note; that the maturity date of our $1,250,000 note with SIBL be extended until September 30, 2006, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; that the maturity date of our $1,355,000 note with SIBL be extended until June 30, 2007, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; that the maturity date of our $305,00 note with SIBL be extended until June 30, 2007, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; and that interest on our $2,100,000 note with SIBL be payable in arrears, on a quarterly basis, with the first payment due on March 28, 2006, and subsequent payments due on each June 28, September 28, December 28 and March 28, until the maturity date of December 27, 2007, with the outstanding principal and interest shall be due (collectively, all the notes described above shall be referred to as the "Notes"). Furthermore, SIBL agreed, pursuant to the Note Modification Agreement, to waive any defaults arising under the Notes prior to the date of the Note Modification Agreement, attributable to the failure of us to make any payments of interest due under the Notes prior to the date of the Note Modification Agreement; and 50 any default of us and/or Around The World Travel, Inc. ("AWT") under the $1,250,000 note to fulfill the financial reporting requirements under the loan documents related to the $1,250,000 note. SIBL also waived our obligation and AWT's under the $1,250,000 note to fulfill the financial reporting requirements described in the note in the future, provided that SIBL may reinstate such requirements at any time upon written demand to us of such note. OFF-BALANCE SHEET ARRANGEMENTS We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors. RISK FACTORS RISKS RELATING TO OUR CAPITAL AND LIQUIDITY NEEDS WE HAVE A LIMITED HISTORY OF OPERATIONS AND WE HAVE A HISTORY OF OPERATING LOSSES. Since our inception, we have been assembling our Travel Division including the acquisition of Hickory in October 2003 and TraveLeaders in December 2004, planning The Sonesta Orlando Resort at Tierra Del Sol, building travel club membership databases, and assembling our management team. We have incurred net operating losses since our inception. As of December 31, 2005, we had an accumulated deficit of $13,499,420. WE MAY NOT GENERATE ENOUGH OPERATING REVENUE OR CAPITAL TO MEET OUR OPERATING AND DEVELOPMENT COSTS. Our costs of establishing our business models for both the Travel Division and the Resort Development Division, including acquisitions and the due diligence costs of that process, together with the un-financed development costs incurred in the Resort Development Division requires significant capital. Historically, our sources for capital have been through loans from our founding and majority shareholders as well as from loans from our capital partner, Stanford. On December 29, 2005, certain affiliates of the Company closed two (2) credit facilities with Key Bank related to the Sonesta Resort. The credit facilities consisted of a $40,000,000 revolving construction loan to be used to construct Phase 1 of the Sonesta Resort (the "Construction Loan") and a $14,850,000 term loan used to finance the acquisition of the property for the Resort and to pay certain related costs (the "Land Loan"). If we are unable to generate enough operating revenue to satisfy our capital needs, or we cannot obtain future capital from our founding and majority shareholders or from Stanford, and/or if we are not able to repay the Construction Loan or the Land Loan, it will have a material adverse effect on our financial condition and results of operation. 51 WE OWE A SIGNIFICANT AMOUNT OF MONEY TO KEYBANK IN CONNECTION WITH THE CONSTRUCTION LOAN AND LAND LOAN, WHICH MONEY WE DO NOT CURRENTLY HAVE, AND WHICH LOANS ARE SECURED BY THE SONESTA RESORT. The occurrence of any one or more "events of default" under the Land Loan and/or Construction Loan would allow KeyBank to pursue certain remedies against us including taking possession of the Sonesta Resort project; withholding further disbursement of the proceeds of the loan and/or terminate KeyBank's obligations to make further disbursements thereunder; and/or declaring the note evidencing the loans to be immediately due and payable. We do not currently have cash on hand sufficient to repay the approximately $10,250,376 which was borrowed from KeyBank pursuant to the Land Loan and Construction Loan as of December 31, 2005. The Land Loan and Construction Loan are due on June 28, 2007 and December 28, 2007, respectively, and we do not currently have sufficient cash to repay such loans when due. Furthermore, we will likely not have sufficient cash to repay such loans until the completion of the units in the Sonesta Report, if at all. If we do not repay the amounts owning under the Construction Loan and Land Loan when due, KeyBank may take possession of the Sonesta Resort project, and we may be forced to curtail or abandon our current business plans, which could cause the value of our securities to become worthless. WE HAVE RECEIVED $11,605,000 MILLION OF CONVERTIBLE DEBT FINANCING FROM STANFORD, WHICH IS SECURED BY MORTGAGES ON OUR PROPERTY AND LIENS ON OUR ASSETS. We have received an aggregate of $11,605,000 million of convertible debt financing from Stanford. The terms of our financial arrangements with Stanford are secured by the following mortgages on our properties and liens on our assets: - Our $6,000,000 credit facility has been re-structured to be secured by a first mortgage on land owned by third parties. However, Stanford has agreed that the mortgage securing the $6,000,000 credit facility shall be released in exchange for payment of the primary obligations it secures, which includes the $2,100,000 loan to Tierra Del Sol and the release of the Letters Of Credit. In consideration of Stanford's release of the mortgage securing the $6,000,000 credit facility, we have granted Stanford warrants to acquire up to 2% of each of the Development Partnerships. A component of that collateral is that Stanford has an option to elect to receive warrants to purchase Series E Preferred Stock in lieu of and equivalent to distributions (after tax) from the Development Partnerships. Series E Preferred Stock has a conversion value to common stock at $15.00 per common share. Other assets previously provided to secure this credit facility, including all of the issued and outstanding capital stock and assets of two of our subsidiaries, American Leisure Marketing & Technology, Inc. and Caribbean Leisure Marketing Limited remain as security for the debt. - Our $4,250,000 credit facility is secured by collateral assignments of our stock in the active Travel Division subsidiaries as well as a collateral assignment of our first lien security interest in the assets formerly owned by Around The World Travel, Inc. 52 - Our $1,355,000 credit facility is secured by all of the issued and outstanding stock of our subsidiary, Caribbean Leisure Marketing Limited. This facility is non-recourse to the Company but for the assets and revenues of that subsidiary. In addition, Malcolm J. Wright, our Chief Executive Officer and Chairman provided a personal guarantee for our $6,000,000 credit facility. If we fail to comply with the covenants in our credit facilities, Stanford can elect to accelerate the amounts due under the credit facilities and may foreclose on our assets and property that secure the loans. BUSINESS ACQUISITIONS OR JOINT VENTURES MAY DISRUPT OUR BUSINESS, DILUTE SHAREHOLDER VALUE OR DISTRACT MANAGEMENT ATTENTION. As part of our business strategy, we may consider the acquisition of, or investments in, other businesses that offer services and technologies complementary to ours. If the analysis used to value acquisitions is faulty, the acquisitions could have a material adverse affect on our operating results and/or the price of our common stock. Acquisitions also entail numerous risks, including: - difficulty in assimilating the operations, products and personnel of the acquired business; - potential disruption of our ongoing business; - unanticipated costs associated with the acquisition; - inability of management to manage the financial and strategic position of acquired or developed services and technologies; - the diversion of management's attention from our core business; - inability to maintain uniform standards, controls, policies and procedures; - impairment of relationships with employees and customers, which may occur as a result of integration of the acquired business; - potential loss of key employees of acquired organizations; - problems integrating the acquired business, including its information systems and personnel; - unanticipated costs that may harm operating results; and - risks associated with entering an industry in which we have no (or limited) prior experience. If any of these occur, our business, results of operations and financial condition may be materially adversely affected. RISKS RELATED TO OUR RESORT DEVELOPMENT DIVISION WE OWE A SIGNIFICANT AMOUNT OF MONEY TO KEYBANK, NATIONAL ASSOCIATION, WHICH WE DO NOT CURRENTLY HAVE FUNDS TO RE-PAY, AND WHICH LOANS INCLUDE LIENS ON OUR PROPERTIES. In December 2005, we closed two credit facilities with KeyBank, National Association ("KeyBank") related to the Sonesta Resort. The credit facilities consisted of a $40,000,000 revolving credit line, for financing up to $72,550,000 (the "Construction Loan") and a $14,850,000 term loan to be used to finance the acquisition of the property for the resort (the "Land Loan"). The 53 Construction Loan and the Land Loan bear interest at the rate of the daily London Interbank Offered Rate ("LIBOR") plus 2.75%, and plus 3.10%, respectively. The maturity date of the Construction Loan is December 28, 2007 and the maturity date of the Land Loan is June 28, 2007. The Construction Loan and the Land Loan are secured by a first lien on the land within Phase 1 and Phase 2, respectively of the Sonesta Resort, including any improvements, easements, and rights of way; a first lien and security interest in all fixtures and personal property, an assignment of all leases, subleases and other agreements relating to the property; an assignment of construction documents; a collateral assignment of all contracts and agreements related to the sale of each condominium unit; a collateral assignment of all purchase deposits and any management and/or operating agreement. As of the date of this filing we have borrowed $0.00 from KeyBank pursuant to the Construction Loan and $14,850,000 under the Land Loan, which amount we do not currently have funds on hand to repay. We are under no pressure to repay the Land Loan. Our business plan includes retiring that debt with a construction loan to build Phase 2 of the Sonesta Resort. We intend to use the proceeds of the sale of the units built with the Phase 1 Construction Loan. Since any units that are built with the Construction Loan are subject to bona fide third party sales agreements that have been approved by Key Bank, we believe that the risk of not repaying any amounts drawn under the Construction Loan is manageable. WE NEED SIGNIFICANT ADDITIONAL FINANCE FACILITIES TO BEGIN AND COMPLETE THE DEVELOPMENT OF PHASE 2 OF THE SONESTA RESORT AND OUR PLANNED CONSTRUCTION OF THE REEDY CREEK PROPERTY. While we currently believe we have sufficient capital to complete the development of Phase 1 of the Sonesta Resort, we do not plan to use Company's revenue to begin or complete Phase 2 of the Sonesta Resort and/or our planned development of the Reedy Creek Property (as described above). Our plan for the financing of the Phase 2 town homes is to use a program from a national mortgage lender to employ construction loans issued to each purchaser that will, upon completion, convert to permanent, conventional mortgages. The finance plan for the Phase 2 amenities is to employ a line of credit secured by a segment of the profits from the sale of the residential units. We will employ a conventional construction loan for the condominium units. As of this date, the Company has not yet secured the line of credit for the amenities or the construction loan for the condominium units. It is impossible at this time for us to estimate the cost of completing Phase 2 of the Sonesta Resort and/or the development of the Reedy Creek Property, however, based upon the size of the projects, we would anticipate such costs to be substantial. We will not begin the construction of Phase 2 until we have capitalized the construction appropriately. If we cannot obtain the appropriate financing, we may have to delay the commencement of the construction of Phase 2 until such time as we have adequate funding available. We may never have sufficient capital to begin or complete the development of Phase 2 of the Sonesta Resort which could force us to modify the development plan for the Sonesta Resort. Our business plan for the development of the Reedy Creek Property is to enter into a partnership agreement with an experienced and high credit development partner, and as such, we do not expect to raise capital or incur debt to begin or complete that project. At present, the Company has not yet chosen such partner although we are in receipt of proposals from qualified developers that are consistent with our business plan. 54 THE CONSTRUCTION OF THE SONESTA RESORT IS SUBJECT TO DELAYS AND COST OVERRUNS, WHICH COULD CAUSE THE ESTIMATED COST OF THE RESORT TO INCREASE AND WHICH COULD CAUSE US TO CURTAIL OR ABANDON THE CONSTRUCTION OF THE SONESTA RESORT. We believe that we currently have sufficient capital to complete Phase 1 of the Sonesta Resort. However, all construction projects, especially construction projects as large as our planned Sonesta Resort are subject to delays and cost overruns. We have experienced cost increases and overruns since sales commenced in 2004, due to significant price increases in construction materials, which have been exacerbated by the hurricanes of 2004 and 2005. The increased costs have impacted construction throughout the southeastern United States and are not unique to us. Because of the significant cost increases, we are evaluating and plan to implement a program to revise upwards the price of sold and unsold units or to cancel contracts on units because of cost overruns. If we continue to experience substantial delays or additional cost overruns during the construction of Phase 1 of the Sonesta Resort, or both, we could be forced to obtain additional financing to complete the project, which could be at terms worse than our current funding, and could force us to curtail or abandon our current plans for Phases 1 and 2 of the Sonesta Resort. As a result, sales of our town homes and condominiums could be severely effected, which could force us to curtail or abandon our business plans and/or could make it difficult if not impossible to repay the significant amount of money due to KeyBank (as explained above), which as a result could cause the value of our securities to become worthless. EXCESSIVE CLAIMS FOR DEVELOPMENT-RELATED DEFECTS IN ANY REAL ESTATE PROPERTIES THAT WE PLAN TO BUILD THROUGH OUR RESORT DEVELOPMENT DIVISION COULD ADVERSELY AFFECT OUR LIQUIDITY, FINANCIAL CONDITION AND RESULTS OF OPERATIONS. We will engage third-party contractors to construct our resorts. However, our customers may assert claims against us for construction defects or other perceived development defects including, but not limited to, structural integrity, the presence of mold as a result of leaks or other defects, electrical issues, plumbing issues, or road construction, water or sewer defects. In addition, certain state and local laws may impose liability on property developers with respect to development defects discovered in the future. To the extent that the contractors do not satisfy any proper claims as they are primarily responsible, a significant number of claims for development-related defects could be brought against us. To the extent that claims brought against us are not covered by insurance, our payment of those claims could adversely affect our liquidity, financial condition, and results of operations. MALCOLM J. WRIGHT, WHO SERVES AS OUR CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND AS CHAIRMAN OF THE BOARD OF DIRECTORS, IS INVOLVED IN OTHER BUSINESSES THAT HAVE CONTRACTED WITH US AND IS ALSO INVOLVED WITH PROPERTY DEVELOPMENT PROJECTS THAT MAY BE IN COMPETITION WITH US. Malcolm J. Wright is the President of American Leisure Real Estate Group, Inc., a real estate development company with which we have contracted for the development of our resorts including The Sonesta Orlando Resort at Tierra Del 55 Sol ("ALREG"). Mr. Wright has an 81% interest in ALREG; however, we have no interest in ALREG. Additionally, Mr. Wright is an officer of Xpress Ltd., with which we have contracted for exclusive sales and marketing for The Sonesta Orlando Resort at Tierra Del Sol. Mr. Wright is also an officer and shareholder of Innovative Concepts, Inc., which operates a landscaping business, M J Wright Productions, Inc., which owns our Internet domain names, Resorts Development Group, LLC which develops resort properties in Orlando including Bella Citta, Los Jardines Del Sol, The Preserve, Tortuga Cay and Sherberth Development LLC, Resorts Construction, LLC with whom we intend to contract to construct part of the Sonesta Resort as described above, Resorts Concepts, LLC which operates a design business, Titan Manufacturing, LLC with whom we intend to purchase roof tiles for our developments, South Beach Resorts LLC in conjunction with Mr. Pauzar and Mr. Maddock which is redeveloping the Boulevard Hotel on South Beach, Miami. Because Mr. Wright is employed by us and the other party to these transactions, Mr. Wright might profit from a transaction when we do not. Management believes that these transactions are in the best interest of, or not detrimental to, the Company, and are as good or better than could be achieved, if even possible to achieve, by contracting with a wholly unrelated party. Additionally, the transactions were negotiated by us in a manner akin to an arms length transaction. Additionally, from time to time, Mr. Wright pursues real estate investment and sales ventures that may be in competition with ventures that we pursue or plan to pursue. Mr. Wright, however, has personally guaranteed our debts, and has encumbered his personal assets to secure financing for the above described projects. Additionally, to preserve Company liquidity, Mr. Wright has been deferring his annual base salary since 2002. BECAUSE MALCOLM J. WRIGHT, WHO SERVES AS OUR CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER AND THE CHAIRMAN OF THE BOARD OF DIRECTORS, IS INVOLVED IN A NUMBER OF OTHER BUSINESSES, HE MAY NOT BE ABLE OR WILLING TO DEVOTE A SUFFICIENT AMOUNT OF TIME TO OUR BUSINESS OPERATIONS. Malcolm J. Wright is the President of ALREG, Xpress Ltd., Innovative Concepts, Inc., M J Wright Productions, Inc., Resorts Development Group, LLC, Resorts Construction, LLC, Titan Manufacturing LLC, Tortuga Cay Resort, LLC, Osceola Business Managers, Inc., Florida World, Inc., SBR Holding LLC (a non trading holding company of South beach resorts, LLC), RDG LLC, and SunGate Resort Villas, Inc., It is possible that the demands on Mr. Wright from these other businesses could increase with the result that he may have less time to devote to our business. We do not have an employment agreement with Mr. Wright and he is under no requirement to spend a specified amount of time on our business. As a result, Mr. Wright may not spend sufficient time in his roles as an executive officer and as Chairman of our company to realize our business plan. If Mr. Wright does not have sufficient time to serve our company, it could have a material adverse effect on our business and results of operations. 56 WE MAY PROVIDE THE EXECUTIVE OFFICERS OF OUR SUBSIDIARIES AN AGGREGATE BONUS OF UP TO 19% OF THE PRE-TAX PROFITS OF THE SUBSIDIARY IN WHICH THEY SERVE AS OUR EXECUTIVE OFFICERS, WHICH WOULD REDUCE ANY PROFITS THAT WE MAY EARN. We may provide the executive officers of each of our subsidiaries an aggregate bonus of up to 19% of the pre-tax profits, if any, of the subsidiaries in which they serve as executive officers. For example, Malcolm J. Wright would receive 19% of the pre-tax profits of Leisureshare International Ltd, Leisureshare International Espanola SA, American Leisure Homes, Inc., Advantage Professional Management Group, Inc., Tierra Del Sol Resort, Inc., and Wright Resorts Villas & Hotels, Inc. However, we do not have any agreements with our officers regarding the bonus other than our agreement with L. William Chiles. Mr. Chiles is entitled to receive 19% of the profits of Hickory up to a maximum payment over the life of his contract of $2,700,000. As Mr. Chiles' bonus is limited, it is not subject to the buy-out by us described below. The executive officers of our other subsidiaries would share a bonus of up to 19% of the pre-tax profits of the subsidiary in which they serve as executive officers. We would retain the right, but not the obligation to buy out all of the above agreements after a period of five years by issuing such number of shares of our common stock equal to the product of 19% of the average after-tax profits for the five-year period multiplied by one-third of the price-earnings ratio of our common stock at the time of the buyout divided by the greater of the market price of our common stock or $5.00. If we pay bonuses in the future, it will reduce our profits and the amount, if any, that we may otherwise have available to pay dividends to our preferred and common stockholders. Additionally, if we pay bonuses in the future it will take away from the amount of money we have to repay our outstanding loans and the amount of money we have available for reinvestment in our operations and as a result, our future results of operations and business plan could be affected by such bonuses, and we could be forced to curtail or abandon our current business plan and plans for future expansion. WE HAVE EXPERIENCED DELAYS IN OBTAINING SIGNATURES FOR AGREEMENTS AND TRANSACTIONS, WHICH HAVE PREVENTED THEM FROM BEING FINALIZED AND/OR DISCLOSED IN OUR FILINGS. We have experienced delays in obtaining signatures for various agreements and transactions in the past. In some cases, we have either disclosed the terms of these agreements and transactions in our periodic and other filings with the SEC and/or filed such agreements with only the limited signatures which we could obtain by the required filing dates of such reports, with the intention to re-file such agreements at a later date once we are able to obtain all of the required signatures; however, these agreements and transactions are not final. Until they are finalized, their terms are subject to change although we do not have any present intention to do so. If the terms of these agreements and transactions were to change, we may be required to amend our prior disclosure and any revisions could be substantial. WE RELY ON KEY MANAGEMENT AND IF WE LOSE ANY OF THEM, IT COULD HAVE A MATERIAL ADVERSE AFFECT ON OUR BUSINESS AND RESULTS OF OPERATIONS. Our success depends, in part, upon the personal efforts and abilities of Malcolm J. Wright, L. William Chiles, and Frederick Pauzar. Mr. Wright is the Chairman of the Company and the Company's Chief Executive Officer. Mr. Chiles is a Director of the Company and Chief Executive Officer of Hickory, and Mr. Pauzar is the President, Chief Operating Officer and a Director of the Company. Our 57 ability to operate and implement our business plan is dependent on the continued service of Messrs. Wright, Chiles and Pauzar. We have entered into an employment agreement with Mr. Chiles. We are in the process of entering into written employment agreements with Mr. Wright and Mr. Pauzar. If we are unable to retain and motivate them on economically feasible terms, our business and results of operations will be materially adversely affected. In addition, the absence of Mr. Wright, Mr. Chiles or Mr. Pauzar may force us to seek a replacement who may have less experience or who may not understand our business as well. IF WE DO NOT EVENTUALLY PAY MALCOLM J. WRIGHT, OUR CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER FOR HIS SERVICES AS AN EXECUTIVE OFFICER AND A DIRECTOR, WE COULD LOSE HIS SERVICES. We have not paid cash to Malcolm J. Wright for his services as an executive officer and a Director as of the filing of this report; however, he is entitled to receive various forms of remuneration from us such as accrued salary of $500,000 per year beginning in 2004, accrued salary of $250,000 per year from 2002 to 2004, and accrued compensation of $18,000 per year for serving as a director. We may pay Mr. Wright a bonus of up to 19% of the pre-tax profits, if any, of various subsidiaries as discussed above. We have made payments to entities controlled by Mr. Wright in consideration for substantial valuable services that those entities have provided to us for The Sonesta Orlando Resort at Tierra Del Sol. As of December 31, 2005, the total remuneration which Mr. Wright had accrued in connection with his salary as an officer of the Company had totaled $2,700,000. If we do not eventually pay cash to Mr. Wright for his salary, director's compensation and bonus, he may determine to spend less of his time on our business or to resign his positions as an officer and a director. RISKS RELATED TO OUR TRAVEL DIVISION WE NEED APPROXIMATELY $2,500,000 OF CAPITAL THROUGH THE END OF THE 2005 FISCAL YEAR FOR OUR TRAVEL DIVISION OPERATIONS AND THE OPERATIONS OF HICKORY, WHICH MAY NOT BE AVAILABLE TO US ON FAVORABLE TERMS, IF AT ALL. We anticipate needing to raise approximately $2,000,000 through the end of the 2006 fiscal year for the working capital needs for the Travel Division, as well as approximately $500,000 for the operations of Hickory, which includes Hickory's requirement to cover its seasonal losses, and TraveLeaders' requirements during its reorganization to adopt our business modelsIf we do not receive a sufficient amount of additional capital on acceptable terms, or at all, we may be unable to fully implement our business plan. We have identified sources of additional working capital, but we do not have any written commitments from third parties or from our officers, directors or majority shareholders. Additional capital may not be available to us on favorable terms, if at all. If we cannot obtain a sufficient amount of additional capital, we will have to delay, curtail or scale back some or all of our travel operations, any of which would materially adversely affect our travel businesses. In addition, we may be required to delay the acquisition of additional travel agencies and restructure or refinance all or a portion of our outstanding debt. 58 OUR COMMISSIONS AND FEES ON CONTRACTS WITH SUPPLIERS OF TRAVEL SERVICES FOR OUR TRAVEL DIVISION MAY BE REDUCED OR THESE CONTRACTS MAY BE CANCELLED AT WILL BY THE SUPPLIERS BASED ON OUR VOLUME OF BUSINESS, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS. Our suppliers of travel services including airline, hotel, cruise, tour and car rental suppliers may reduce the commissions and fees that we earn under contract with them based on the volume of business that we generate for them. These contracts generally renew annually and in some cases may be cancelled at will by the suppliers. If we cannot maintain our volume of business, our suppliers could contract with us on terms less favorable than the current terms of our contracts or the terms of their contracts with our competitors, exclude us from the products and services that they provide to our competitors, refuse to renew our contracts, or, in some cases, cancel their contracts with us at will. In addition, our suppliers may not continue to sell services and products through global distribution systems on terms satisfactory to us. If we are unable to maintain or expand our volume of business, our ability to offer travel service or lower-priced travel inventory could be significantly reduced. Any discontinuance or deterioration in the services provided by third parties, such as global distribution systems providers, could prevent our customers from accessing or purchasing particular travel services through us. If these suppliers were to cancel or refuse to renew our contracts or renew them on less favorable terms, it could have a material adverse effect on our business, financial condition or results of operations. OUR SUPPLIERS OF TRAVEL SERVICES TO OUR TRAVEL DIVISION COULD REDUCE OR ELIMINATE OUR COMMISSION RATES ON BOOKINGS MADE THROUGH US BY PHONE AND OVER THE INTERNET, WHICH COULD REDUCE OUR REVENUES. We receive commissions paid to us by our travel suppliers such as hotel chains and cruise companies for bookings that our customers make through us by phone and over the Internet. Consistent with industry practices, our suppliers are not obligated by regulation to pay any specified commission rates for bookings made through us or to pay commissions at all. Over the last several years, travel suppliers have substantially reduced commission rates and our travel suppliers have reduced our commission rates in certain instances. Future reductions, if any, in our commission rates that are not offset by lower operating costs or increased volume could have a material adverse effect on our business and results of operations. FAILURE TO MAINTAIN RELATIONSHIPS WITH TRADITIONAL TRAVEL AGENTS FOR OUR TRAVEL DIVISION COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS. Hickory has historically received, and expects to continue to receive, a significant portion of its revenue through relationships with traditional travel agents. Maintenance of good relationships with these travel agents depends in large part on continued offerings of travel services in demand, and good levels of service and availability. If Hickory does not maintain good relations with its travel agents, these agents could terminate their memberships and use of 59 Hickory's products and services, which would have a material adverse effect on our business and results of operations. DECLINES OR DISRUPTIONS IN THE TRAVEL INDUSTRY COULD SIGNIFICANTLY REDUCE OUR REVENUE FROM THE TRAVEL DIVISION. Potential declines or disruptions in the travel industry may result from any one or more of the following factors: - price escalation in the airline industry or other travel related industries; - airline or other travel related strikes; - political instability, war and hostilities; - long term bad weather; - fuel price escalation; - increased occurrence of travel-related accidents; and - economic downturns and recessions. OUR TRAVEL REVENUES MAY FLUCTUATE FROM QUARTER TO QUARTER DUE TO SEVERAL FACTORS INCLUDING FACTORS THAT ARE OUTSIDE OF OUR CONTROL, AND IF BECAUSE OF THESE FACTORS, OUR REVENUES ARE BELOW OUR EXPECTATIONS IT WOULD LIKELY HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS. We may experience fluctuating revenues because of a variety of factors, many of which are outside of our control. These factors may include, but are not limited to, the timing of new contracts; reductions or other modifications in our clients' marketing and sales strategies; the timing of new product or service offerings; the expiration or termination of existing contracts or the reduction in existing programs; the timing of increased expenses incurred to obtain and support new business; changes in the revenue mix among our various service offerings; labor strikes and slowdowns at airlines or other travel businesses; and the seasonal pattern of TraveLeaders' business and the travel agency members of Hickory. In addition, we make decisions regarding staffing levels, investments and other operating expenditures based on our revenue forecasts. If our revenues are below expectations in any given quarter, our operating results for that quarter would likely be materially adversely affected. GLOBAL TRAVEL DISTRIBUTION SYSTEM CONTRACTS THAT WE MAY ENTER INTO GENERALLY PROVIDE FOR FINANCIAL PENALTIES FOR NOT ACHIEVING PERFORMANCE OBJECTIVES. We are seeking to enter into multi-year global distribution system contracts. These contracts typically cover a five-year period and would require us to meet certain performance objectives. If we do not structure a global distribution system contract effectively, it may trigger financial penalties if the performance objectives are not met. In the event that we enter into global distribution system contracts and are unable to meet the performance objectives, it would have a material adverse effect on our business, liquidity and results of operations. 60 OUR CONTRACTS WITH CLIENTS OF THE TRAVELEADERS BUSINESS DO NOT GUARANTEE THAT WE WILL RECEIVE A MINIMUM LEVEL OF REVENUE, ARE NOT EXCLUSIVE, AND MAY BE TERMINATED ON RELATIVELY SHORT NOTICE. Our contracts with clients of the TraveLeaders business do not ensure that we will generate a minimum level of revenue, and the profitability of each client may fluctuate, sometimes significantly, throughout the various stages of our sales cycles. Although we will seek to enter into multi-year contracts with our clients, our contracts generally enable the client to terminate the contract, or terminate or reduce customer interaction volumes, on relatively short notice. Although some contracts require the client to pay a contractually agreed amount in the event of early termination, there can be no assurance that we will be able to collect such amount or that such amount, if received, will sufficiently compensate us for our investment in any canceled sales campaign or for the revenues we may lose as a result of the early termination. If we do not generate minimum levels of revenue from our contracts or our clients terminate our multi-year contracts, it will have a material adverse effect on our business, results of operation and financial condition. WE RECEIVE CONTRACTUALLY SET SERVICE FEES AND HAVE LIMITED ABILITY TO INCREASE OUR FEES TO MEET INCREASING COSTS. Most of our travel contracts have set service fees that we may not increase if, for instance, certain costs or price indices increase. For the minority of our contracts that allow us to increase our service fees based upon increases in cost or price indices, these increases may not fully compensate us for increases in labor and other costs incurred in providing the services. If our costs increase and we cannot, in turn, increase our service fees or we have to decrease our service fees because we do not achieve defined performance objectives, it will have a material adverse effect on our business, results of operations and financial condition. THE TRAVEL INDUSTRY IS LABOR INTENSIVE AND INCREASES IN THE COSTS OF OUR EMPLOYEES COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, LIQUIDITY OR RESULTS OF OPERATIONS. The travel industry is labor intensive and has experienced high personnel turnover. A significant increase in our personnel turnover rate could increase our recruiting and training costs and decrease operating effectiveness and productivity. If we obtain a significant number of new clients or implement a significant number of new, large-scale campaigns, we may need to recruit, hire and train qualified personnel at an accelerated rate, but we may be unable to do so. Because significant portions of our operating costs relate to labor costs, an increase in wages, costs of employee benefits, employment taxes or other costs associated with our employees could have a material adverse effect on our business, results of operations or financial condition. 61 OUR INDUSTRY IS SUBJECT TO INTENSE COMPETITION AND COMPETITIVE PRESSURES COULD ADVERSELY AFFECT OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION. We believe that the market in which we operate is fragmented and highly competitive and that competition may intensify in the future. We compete with small firms offering specific applications, divisions of large entities, large independent firms and the in-house operations of clients or potential clients. A number of competitors have or may develop greater capabilities and resources than us. Additional competitors with greater resources than us may enter our market. Competitive pressures from current or future competitors could cause our services to lose market acceptance or result in significant price erosion, all of which could have a material adverse effect upon our business, results of operations or financial condition. WE RELY AND PLAN TO RELY ON ONLY A FEW MAJOR CLIENTS FOR OUR REVENUES. We plan to focus our marketing efforts on developing long-term relationships with companies in our targeted travel and vacation resort industry. As a result, we will derive a substantial portion of our revenues from relatively few clients. There can be no assurances that we will not continue to be dependent on a few significant clients, that we will be able to retain those clients, that the volumes of profit margins will not be reduced or that we would be able to replace such clients or programs with similar clients or programs that would generate a comparable profit margin. Consequently, the loss of one or more of those clients could have a material adverse effect on our business, results of operations or financial condition. RISKS RELATED TO OUR COMMUNICATIONS DIVISION WE MAY NOT BE ABLE TO KEEP UP WITH CURRENT AND CHANGING TECHNOLOGY ON WHICH OUR BUSINESS IS DEPENDENT. Our call center and communications business is dependent on our computer and communications equipment and software capabilities. The underlying technology is continually changing. Our continued growth and future profitability depends on a number of factors affected by current and changing technology, including our ability to - expand our existing service offerings; - achieve cost efficiencies in our existing call centers; and - introduce new services and products that leverage and respond to changing technological developments. The technologies or services developed by our competitors may render our products or services non competitive or obsolete. We may not be able to develop and market any commercially successful new services or products. We have considered integrating and automating our customer support capabilities, which we expect would decrease costs by a greater amount than any decrease in revenues; however, we could be wrong in these expectations. Our failure to maintain our technological capabilities or respond effectively to technological changes could have a material adverse effect on our business, results of operations or financial condition. 62 A BUSINESS INTERRUPTION AT OUR CALL CENTER, WHETHER OR NOT PROLONGED, COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION. Our call center business operations depend upon our ability to protect our call center, computer and telecommunications equipment and software systems against damage from fire, power loss, telecommunications interruption or failure, natural disaster and other similar events. In the event we experience a temporary or permanent interruption at our call center and our contracts do not provide relief, our business could be materially adversely affected and we could be required to pay contractual damages to some clients or allow some clients to terminate or renegotiate their contracts with us. In the event that we experience business interruptions, it would have a material adverse effect on our business, results of operations and financial condition. RISKS RELATING TO OUR STOCK AND GENERAL BUSINESS RISKS RE-PRICING WARRANTS AND ISSUING ADDITIONAL WARRANTS TO OBTAIN FINANCING HAS CAUSED AND MAY CAUSE ADDITIONAL DILUTION TO OUR EXISTING STOCKHOLDERS. In the past, to obtain additional financing, we have modified the terms of our warrant agreements to lower the exercise price per share to $.001 from $5.00 with respect to warrants to purchase 100,000 shares of our common stock and to $.001 from $2.96 with respect to warrants to purchase 1,350,000 shares of our common stock. Additionally, we have granted an additional 616,000 warrants to SIBL and affiliates to purchase shares of our Common Stock at $5.00 per share and 308,000 warrants to SIBL and affiliates to purchase shares of our Common Stock at $0.001 per share. Re-pricing of our warrants and issuing additional warrants has caused and may cause additional dilution to our existing shareholders. WARRANTS GRANTED TO STANFORD INTERNATIONAL BANK, LTD., IN CONNECTION WITH THE TIERRA DEL SOL LOAN AND LETTERS OF CREDIT CONTAIN ANTI-DILUTION FEATURES, WHICH COULD EFFECT THE VALUE OF OUR COMMON STOCK. On December 29, 2005, Stanford International Bank, Ltd. ("SIBL") provided Tierra Del Sol with financial assistance to facilitate the establishment of the Land Loan and the Construction Loan. The financial assistance consisted of a loan to Tierra Del Sol of $2,100,000 (the "SIBL Tierra Del Sol Loan"), and the establishment of letters of credit in favor of KeyBank in the amount of $4,000,000 and $2,000,000, respectively (the "Letters of Credit"). As additional consideration for this financial assistance, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of $5.00 per share and warrants to purchase 154,000 shares of our common stock at 63 an exercise price of $0.001 per share. Additionally, in January 2006, in connection with the SIBL Reedy Creek Loan, we granted SIBL and its affiliates warrants to purchase 308,000 shares of our common stock at an exercise price of $5.00 per share and warrants to purchase 154,000 shares of the Company's common stock at an exercise price of $0.001 per share. The warrants expire 5 years from issuance. The warrants contain anti-dilution provisions, including a provision which requires us to issue additional shares under the warrants if we issue or sell any common stock at less than $1.02 per share, or grant, issue or sell any options or warrants for shares of the Company's common stock to convert into shares of our common stock at less than $1.02 per share. If we do issue or sell common stock, which would cause a re-pricing of the warrants issued to SIBL, it would likely have an adverse effect on the trading value of our common stock and could cause substantial dilution to our then shareholders. THERE MAY NOT BE AN ACTIVE OR LIQUID TRADING MARKET FOR OUR COMMON STOCK, WHICH MAY LIMIT INVESTORS' ABILITY TO RESELL THEIR SHARES. An active and liquid trading market for our common stock may not develop or, if developed, such a market may not be sustained. In addition, we cannot predict the price at which our common stock will trade. If there is not an active or liquid trading market for our common stock, investors in our common stock may have limited ability to resell their shares. WE HAVE AND MAY CONTINUE TO ISSUE PREFERRED STOCK THAT HAS RIGHTS AND PREFERENCES OVER OUR COMMON STOCK. Our Articles of Incorporation, as amended, authorize our Board of Directors to issue preferred stock, the relative rights, powers, preferences, limitations, and restrictions of which may be fixed or altered from time to time by the Board of Directors. Accordingly, the Board of Directors may, without approval from the shareholders of our common stock, issue preferred stock with dividend, liquidation, conversion, voting, or other rights that could adversely affect the voting power and other rights of the holders of our common stock. The preferred stock can be utilized, under certain circumstances, as a method of discouraging, delaying, or preventing a change in our ownership and management that shareholders might not consider to be in their best interests. We have issued various series of preferred stock, which have rights and preferences over our common stock including, but not limited to, cumulative dividends and preferences upon liquidation or dissolution. WE DO NOT EXPECT TO PAY DIVIDENDS IN THE NEAR FUTURE. We have never declared or paid dividends on our common stock. We do not anticipate paying dividends on our common stock in the near future. Our ability to pay dividends is dependent upon, among other things, future earnings as well as our operating and financial condition, capital requirements, general business conditions and other pertinent factors. We intend to reinvest in our business operations any funds that could be used to pay dividends. Our common stock is junior in priority to our preferred stock with respect to dividends. Cumulative dividends on our issued and outstanding Series A preferred stock, Series B preferred stock, Series C preferred stock and Series E preferred stock accrue dividends at a rate of $1.20, $12.00, $4.00, and $4.00, respectively, per share per annum, payable in preference and priority to any payment of any cash dividend on our common stock. We have authorized Series F preferred stock with cumulative dividends that accrue at a rate of $1.00 per share per annum and are also payable in preference and priority to any payment of any cash dividend on our common stock. Dividends on our preferred stock accrue from the date on which we agree to issue such preferred shares and thereafter from day to day whether 64 or not earned or declared and whether or not there exists profits, surplus or other funds legally available for the payment of dividends. We have never paid any cash dividends on our preferred stock. We will be required to pay accrued dividends on our preferred stock before we can pay any dividends on our common stock. BECAUSE OF THE SIGNIFICANT NUMBER OF SHARES OWNED BY OUR DIRECTORS, OFFICERS AND PRINCIPAL SHAREHOLDERS, OTHER SHAREHOLDERS MAY NOT BE ABLE TO SIGNIFICANTLY INFLUENCE OUR MANAGEMENT. Our directors, officers, and principal shareholders beneficially own a substantial portion of our outstanding common and preferred stock. Malcolm J. Wright, who serves as our Chief Executive Officer and Chief Financial Officer and as a Director, and Roger Maddock, one of our majority shareholders, own, directly and indirectly, approximately an aggregate of 73.1% of the voting power in our company. As a result, these persons control our affairs and management, as well as all matters requiring shareholder approval, including the election and removal of members of the Board of Directors, transactions with directors, officers or affiliated entities, the sale or merger of the Company or substantially all of our assets, and changes in dividend policy. This concentration of ownership and control could have the effect of delaying, deferring, or preventing a change in our ownership or management, even when a change would be in the best interest of other shareholders. IF WE ARE LATE IN FILING OUR QUARTERLY OR ANNUAL REPORTS WITH THE SEC, WE MAY BE DE-LISTED FROM THE OVER-THE-COUNTER BULLETIN BOARD. Pursuant to new Over-The-Counter Bulletin Board ("OTCBB") rules relating to the timely filing of periodic reports with the SEC, any OTCBB issuer which fails to file a periodic report (Form 10-QSB's or 10-KSB's) by the due date of such report (not withstanding any extension granted to the issuer by the filing of a Form 12b-25), three (3) times during any twenty-four (24) month period is automatically de-listed from the OTCBB. Such removed issuer would not be re-eligible to be listed on the OTCBB for a period of one-year, during which time any subsequent late filing would reset the one-year period of de-listing. If we are late in our filings three times in any twenty-four (24) month period and are de-listed from the OTCBB, our securities may become worthless and we may be forced to curtail or abandon our business plan. IF THERE IS A MARKET FOR OUR COMMON STOCK, OUR STOCK PRICE MAY BE VOLATILE. If there is a market for our common stock, we anticipate that such market will be subject to wide fluctuations in response to several factors, including, but not limited to: (1) actual or anticipated variations in our results of operations; (2) our ability or inability to generate new revenues; (3) the number of shares in our public float; (4) increased competition; and (5) conditions and trends in the travel services, vacation, and/or real estate and construction markets. 65 Furthermore, because our Common Stock is traded on the NASD over the counter bulletin board, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock. Further, due to the limited volume of our shares which trade and our limited public float, we believe that our stock prices (bid, asked and closing prices) are entirely arbitrary, are not related to the actual value of the Company, and do not reflect the actual value of our common stock (and in fact reflect a value that is much higher than the actual value of our Common Stock). Shareholders and potential investors in our Common Stock should exercise caution before making an investment in the Company, and should not rely on the publicly quoted or traded stock prices in determining our Common Stock value, but should instead determine value of our Common Stock based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies. [Remainder of Page Left Intentionally Blank.] 66 ITEM 7. FINANCIAL STATEMENTS REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors American Leisure Holdings, Inc. and Subsidiaries Orlando, Florida We have audited the accompanying consolidated balance sheets of American Leisure Holdings, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years then ended. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Leisure Holdings, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 3 to the financial statements, the Company's recurring losses from operations and the need to raise additional financing in order to satisfy its vendors and other creditors and execute its Business Plan raise substantial doubt about its ability to continue as a going concern. Management's plans as to these matters are also described in Note 3. The 2005 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Lopez, Blevins, Bork & Associates, LLP Houston, Texas March 30, 2006 F-1 AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2004 2005 2004 ----------- ----------- ASSETS CURRENT ASSETS: Cash $ 225,055 $2,266,042 Cash - Restricted 2,100,000 - Accounts receivable, net 2,043,141 3,539,387 Other receivables 6,587,357 113,000 Prepaid expenses and other 99,418 51,460 Other current assets - 30,476 ------------- ------------ Total Current Assets 11,054,971 6,000,365 ------------- ------------ PROPERTY AND EQUIPMENT, NET 4,583,853 6,088,500 ------------- ------------ LAND HELD FOR DEVELOPMENT 34,695,281 23,448,214 ------------- ------------ OTHER ASSETS Cash - Restricted 11,075,354 - Prepaid Sales Commissions 7,770,949 5,966,504 Prepaid Sales Commissions - affiliated entity 3,516,209 2,665,387 Investment-Senior Notes 5,170,000 5,170,000 Goodwill 5,925,437 14,425,437 Trademark 975,000 1,000,000 Other 5,156,193 2,637,574 ------------- ------------ Total Other Assets 39,589,142 31,864,902 ------------- ------------ TOTAL ASSETS $ 89,923,247 $ 67,401,981 ============= ============ LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES: Current maturities of long-term debt and notes payable $ 3,652,235 $ 9,605,235 Current maturities of notes payable-related parties 1,650,605 1,910,629 Accounts payable and accrued expenses 3,782,822 5,618,973 Accrued expenses - officers 3,393,500 1,355,000 Customer deposits - 2,752,535 Other 285,443 2,332,886 Shareholder advances - 273,312 ------------- ------------ Total Current Liabilities 12,764,605 23,848,570 Long-term debt and notes payable 32,288,920 20,600,062 Put liability 985,000 - Deposits on unit pre-sales 37,666,368 16,669,347 ------------- ------------ Total liabilities 83,704,893 61,117,979 ------------- ------------ Commitments and contingencies

STOCKHOLDERS' EQUITY: Preferred stock; 1,000,000 shares authorized; $.001 par value; 1,000,000 Series "A" shares issued and outstanding at December 31, 2005 and December 31, 2004 10,000 10,000 Preferred stock; 100,000 shares authorized; $.01 par value; 2,825 Series "B" shares issued and outstanding at December 31, 2005 and December 31, 2004 28 28 Preferred stock, 28,000 shares authorized; $.01 par value 27,189 Series "C" shares issued and outstanding at December 31, 2005 and December 31, 2004 272 272 Preferred stock; 50,000 shares authorized; $.001 par value; 24,101 Series "E" shares issued and outstanding at December 31, 2005 and December 31, 2004 24 24 Preferred stock; 150,000 shares authorized; $.01 par value; 0 and 1,936 Series "F" shares issued and outstanding at December 31, 2005 and December 31, 2004 - 19 Common stock, $.001 par value; 100,000,000 shares authorized; 10,334,974 and 9,977,974 shares issued and outstanding at December 31, 2005 and December 31, 2004 10,335 9,978 Additional paid-in capital 19,697,115 15,636,322 Accumulated deficit (13,499,420) (9,372,641) ------------- ------------ Total Stockholders' Equity 6,218,354 6,284,002 ------------- ------------ TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY $ 89,923,247 $ 67,401,981 ============= ============ See accompanying notes to financial statements. F-2 AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2005 2004 ------------- ------------ Revenue: Operating Revenues $ 7,361,284 $ 6,419,320 Undeveloped Land Sales 12,020,000 - ------------- ------------ Total Revenue 19,381,284 6,419,320 Cost of Operating Revenues 5,157,524 4,192,891 Cost of Undeveloped Land Sales 8,122,562 - ------------- ------------ 13,280,086 4,192,891 Gross Margin 6,101,198 2,226,429 Operating Expenses: Depreciation and amortization (1,476,326) (662,535) General and administrative expenses (5,136,413) (4,273,643) Goodwill impairment - (1,500,000) ------------- ------------ (6,612,739) (6,436,178) Loss from Operations (511,541) (4,209,749) Interest Expense (3,317,033) (736,798) Unrealized loss on marketable securities - (2,185,278) Minority Interest - 510,348 Equity in operations of unconsolidated affiliate (293,201) - ------------- ------------ Total Other Income (Expense) (3,610,234) (2,411,728) ------------- ------------ Loss before Income Taxes (4,121,775) (6,621,477) PROVISIONS FOR INCOME TAXES (5,004) (12,824) ------------- ------------ NET LOSS $ (4,126,779) $ (6,634,301) ============= ============ NET INCOME (LOSS) PER SHARE: BASIC AND DILUTED $ (0.55) $ (0.83) ============= ============ WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED 10,070,467 8,607,614 ============= ============ See accompanying notes to financial statements. F-3 AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 2004 ------------- ----------- CASH FLOWS FROM OPERATING ACTIVITIES: Net (loss) $ (4,126,779) $(6,634,301) Adjustments to reconcile net loss to net cash used in operating activities: Depreciation and amortization 1,680,336 936,874 Interest expense 1,887,623 437,394 Impairment loss - 3,685,278 Bad debt expense - 21,864 Common stock issued for services - 150,555 Loss on sale of AVR - (145,614) Minority interests - (510,348) Changes in assets and liabilities: (Increase) in restricted cash (11,075,354) - Decrease (Increase) in receivables 1,496,246 (382,125) (Increase) Decrease in prepaid and other assets (7,564,683) 362,516 (Increase) in prepaid commissions (2,655,267) (8,355,410) (Decrease) in shareholder advances &notes payable 71,823 - Increase in deposits on unit pre-sales 20,997,022 16,669,347 Increase in accounts payable and accrued expenses 6,468,380 2,872,777 ------------- ------------- Net cash provided by operating activities 7,179,347 9,108,807 ------------- ------------- CASH FLOWS FROM INVESTING ACTIVITIES: Acquisition of AWT Assets (3,185,547) 767,291 Advances to Around The World Travel, Inc - (4,789,463) Advances to Caribbean Media Group (141,400) - Acquisition of fixed assets (175,689) (3,511,881) Investment in Reedy Creek Acquisition Corp (901,705) - Sale of AVR - 800,000 Restricted cash (2,100,000) - Capitalization of real estate carrying costs (7,782,776) (8,124,587) ------------- ------------- Net cash from investing activities (14,287,117) (14,858,640) ------------- ------------- CASH FLOWS FROM FINANCING ACTIVITIES: Payment of debt (7,308,532) (316,218) Proceeds from notes payable 13,077,537 8,860,943 Payments of notes payable - related parties (943,947) (818,508) Proceeds of notes payable - related parties 241,725 312,377 Payments on advances - (757,571) ------------- ------------- Net cash from financing activities 5,066,783 7,281,023 ------------- ------------- Net decrease in cash (2,040,987) 1,531,190 CASH AT BEGINNING PERIOD 2,266,042 734,852 ------------- ------------- CASH AT END OF PERIOD $ 255,055 $ 2,266,042 ============= ============= SUPPLEMENTAL CASH FLOW INFORMATION: Cash paid for interest $ 1,010,308 $ 1,052,308 ============= ============= Cash paid for income taxes $ - $ - ============= ============= NON-CASH TRANSACTION Issuance of Series B preferred stock for assets $ - $ 62,640 ============= ============= Issuance of Series E preferred stock for investment in debt and equity securities $ - $ 2,410,100 ============= ============= Stock and warrants issued in connection with acquisition $ 416,923 $ - ============= ============= Exchange of 1913 Mercedes-Benz for debt to an affiliated entity $ - $ 500,000 ============= ============= Issuance of warrants to acquire common stock for debt issuance costs $ 3,837,696 $ 2,597,998 ============= ============= Issuance of Series A preferred stock for debt to an affiliated entity $ - $ 1,200,000 ============= ============= Purchase of minority interest of TDS in exchange for notes payable of $2,062,206, put liability of $985,000, common stock valued at $183,210 and warrants valued at $233,713 $ 3,464,129 $ - ============= ============= See accompanying notes to financial statements. F-4 AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31, Additional Retained Total Preferred Stock Common Stock Paid-in Retained Stockholders' Shares Amount Shares Amount Capital Deficit Equity --------- --------- --------- -------- ---------- ----------- ------------- Balance-December 31, 2003 882,500 $ 8,825 7,488,983 $ 7,489 $6,166,488 $(2,738,340) $ 3,444,462 Issuance of common stock for acquisition of senior secured notes - - 340,000 340 169,660 - 170,000 Issuance of common stock for debt issue costs - - 600,000 600 329,400 - 330,000 Issuance of common stock for debt issue costs - - 1,450,000 1,450 2,022,200 - 2,023,650 Issuance of warrants in connection with debt - - - - 244,348 - 244,348 Reclassification of Series C preferred stock 27,189 272 - - 2,718,628 - 2,718,900 Issuance of Series E preferred stock in exchange for preferred stock of Around the World Travel, Inc. 24,101 24 - - 2,410,076 - 2,410,100 Issuance of common stock for services - - 98,991 99 120,456 - 120,555 Issuance of Series B preferred stock for assets 325 3 - - 62,637 - 62,640 Issuance of Series A preferred stock for debt to an affiliated entity 120,000 1,200 - - 1,198,800 - 1,200,000 Issuance of Series F preferred stock in connection with the acquisition of certain assets and assumumption of certain liabilities of Around the World Travel 1,936 19 - - 193,629 - 193,648 Net loss - - - - - (6,634,301) (6,634,301) --------- --------- --------- --------- ----------- ------------ ------------- Balance-December 31, 2004 1,056,051 $ 10,343 9,977,974 $ 9,978 $15,636,322 $ (9,372,641) $ 6,284,002 Issuance of Series F preferred stock in connection with the acquisition of certain assets and assumption of certain liabilities of Around the World Travel (1,936) (19) - - (193,629) - (193,648) Issuance of common stock in connection with the exercise of warrants by an affiliate 160,000 160 160 Purchase of Tierra Del Sol, Inc minority interest 197,000 197 416,726 416,923 Issuance of warrants in connection with debt - - - - 3,837,696 - 3,837,696 Net loss - - - - -

(4,126,779) (4,126,779) --------- --------- ---------- --------- ----------- ------------ ------------- Balance-December 31, 2005 1,054,115 $ 10,324 10,334,974 $ 10,335 $19,697,115 $(13,499,420) $ 6,218,354 See accompanying notes to financial statements. F-5 AMERICAN LEISURE HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - THE COMPANY American Leisure Holdings, Inc., a Nevada corporation, was incorporated in May 2002. American Leisure, through its subsidiaries, is involved in the development of vacation real estate in Orlando, Florida and the supplying of products related to the travel and leisure business throughout the United States of America. The consolidated entity is hereinafter referred to as "American Leisure" and "the Company" and "AMLH". PRINCIPLES OF CONSOLIDATION In determining whether American Leisure has a direct or indirect controlling financial interest in affiliates, consideration is given to various factors, including common stock ownership, possession of securities convertible into common stock and the related conversion terms, voting rights, representation on the board of directors, rights or obligations to purchase additional ownership interests as well as the existence of contracts or agreements that provide control features. Generally, when American Leisure determines that its ownership, direct or indirect, exceeds fifty percent of the outstanding voting shares of an affiliate, American Leisure will consolidate the affiliate. Furthermore, when American Leisure determines that it has the ability to control the financial or operating policies through its voting rights, board representation or other similar rights, American Leisure will consolidate the affiliate. For those affiliates that American Leisure does not have the ability to control the operating and financial policies thereof, the investments are accounted for under the equity or cost method, as appropriate. American Leisure applies the equity method of accounting when it has the ability to exercise significant influence over operating and financial policies of an investee in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." In determining whether American Leisure has the ability to exercise significant influence, consideration is given to various factors including the nature and significance of the investment, the capitalization structure of the investee, representation on the board of directors, voting rights, veto rights and other protective and participating rights held by investors and contractual arrangements. F-6 Additionally, American Leisure applies accounting principles generally accepted in the United States of America and interpretations when evaluating whether it should consolidate entities. Typically, if American Leisure does not retain both control of the assets transferred to the entities, as well as the risks and rewards of those assets, American Leisure will not consolidate such entities. In determining whether the securitization entity should be consolidated, American Leisure considers whether the entity is a qualifying special purpose entity, as defined by Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125." The consolidated financial statements include the accounts of American Leisure Holdings, Inc. and its owned and/or controlled subsidiaries as follows: Company Percentage ------- ---------- American Leisure Corporation, Inc. (ALC) and Subsidiaries 100.00% Florida Golf Group, Inc.(FGG) 100.00% American Leisure Equities Corporation 100.00% American Leisure Homes, Inc. (ALH) 100.00% I-Drive Limos, Inc. (ID) 100.00% Orlando Holidays, Inc. (OH) 100.00% Welcome to Orlando, Inc. (WTO) 100.00% American Leisure, Inc. (ALI) 100.00% Pool Homes Managers, Inc. (PHM) 100.00% Advantage Professional Management Group, Inc. (APMG) 100.00% Leisureshare International Ltd (LIL) 100.00% Leisureshare International Espanola S.A. (LIESA) 100.00% American Travel & Marketing Group, Inc. (ATMG) 81.00% American Leisure Marketing and Technology, Inc. 100.00% Tierra Del Sol, Inc. 100.00% Hickory Travel Systems, Inc. 50.83% American Travel Club, Inc. 100.00% American Access Telecommunications Corporation 100.00% American Switching Technologies, Inc. 100.00% F-7 Affinity Travel Club, Inc. 100.00% Club Turistico Latinoamericano, Inc. 100.00% Affinity Travel, Inc. 100.00% Pool Homes, Inc. 100.00% American Sterling Corp. 100.00% American Sterling Motorcoaches, Inc. 100.00% Caribbean Leisure Marketing, Ltd. 100.00% Comtech Fibernet, Inc. 100.00% TDS Amenities, Inc. 100.00% TDS Clubhouse, Inc 100.00% Costa Blanca Real Estate, Inc. 100.00% Ameritel, Inc. 100.00% American Leisure Travel Group, Inc. 100.00% Luxshare, Inc. 100.00% AAH Kissimmee LLC 100.00% Castlechart Ltd. 100.00% Wright Resort Villas & Hotels, Inc. 100.00% Minority interests are reflected in the consolidated statements of operations to the extent income or losses are allocated to the minority interest shareholder. Losses in excess of the minority shareholders' basis are not allocated to the minority interest shareholders. All significant inter-company accounts and transactions have been eliminated in the consolidation. NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES This summary of significant accounting policies of American Leisure is presented to assist in understanding American Leisure's financial statements. The financial statements and notes are representations of American Leisure's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets 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. F-8 CONCENTRATION OF RISK American Leisure places its cash and temporary cash investments with established financial institutions. At various times during the year, the Company maintained cash balances in excess of FDIC insurable limits. Management feels this risk is mitigated due to the longstanding reputation of these banks. In the normal course of business, the Company extends unsecured credit to the majority of its travel business customers. Management periodically reviews its outstanding accounts receivable and establishes an allowance for doubtful accounts based on historical collection trends and other criteria. MARKETABLE EQUITY SECURITIES AND OTHER INVESTMENTS AMLH holds various minority equity investments in companies that meet AMLH's investment criteria. AMLH applies the equity method of accounting for minority investments when AMLH has the ability to exert significant influence over the operating and financial policies of an investment. In the absence of such ability, AMLH accounts for these minority investments under the cost method. Certain investments carry restrictions on immediate disposition. Declines in value that are judged to be other than temporary are reported in other income and expense. LONG-LIVED ASSETS Long-lived assets are stated at cost. Maintenance and repairs are expensed as incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, which is between three to seven years. Where an impairment of a property's value is determined to be other than temporary, an allowance for the estimated potential loss is established to record the property at its net realizable value. When items of land, building or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. The Company does not have any long-lived tangible assets that are considered to be impaired as of December 31, 2005. Land held for development Land held for development includes the initial cost of acquisition of the land and all subsequent capitalized construction and development costs. Construction and development costs include all expenditures incurred in readying certain construction and development related assets of the Company for their intended use. These expenditures consist of direct costs, interest costs, and an allocation of indirect overhead. Interest costs are capitalized during the capitalization period, which commences when i) expenditures for the asset have been made, ii) activities that are necessary to get the asset ready for its intended use are in progress, and iii) interest cost is being incurred, and continues as long as these three conditions are present. The amount capitalized in an accounting period shall be determined by applying an interest rate(s) ("the capitalization rate") to the average amount of accumulated expenditures for the asset during the period. The capitalization rates is based on the rates applicable to borrowings, both directly and indirectly associated with the subject asset, outstanding during the period. For the periods ending December 31, 2005 and 2004, interest capitalized totaled $2,198,853 and $1,497,904, respectively. As of December 31, 2005 and 2004, $1,240,403 and $920,134, respectively, of interest expense was accrued and unpaid. All capitalized construction costs are subject to write-down inasmuch as the Company's construction and development assets are carried at the lower of cost or net realizable value. The Company defers costs directly relating to the acquisition of new properties and resort businesses that, in management's judgment, have a high probability of closing. If the acquisition is abandoned, any deferred costs are expensed immediately. These costs are capitalized as land held for development upon closing. INTANGIBLES WITH FINITE LIVES In June 2001, the Financial Accounting Standards Board issued "Statement of Financial Accounting Standards, ("FAS") No. 142 "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. FAS No. 142 addressed the recognition and measurement of intangible assets acquired individually or with a group of other assets and the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. Under these rules, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to annual or more frequent impairment testing. Other intangible assets deemed to have a finite life continue to be amortized over their useful lives. F-9 The Company amortizes the following intangible assets with finite lives using straight-line method. Trademarks 20 Years Customer List 5 Years These intangible assets with finite lives are reviewed for potential impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. During 2005 and 2004 management determined that no impairment adjustment related to these intangibles was necessary. INCOME TAXES American Leisure accounts for income taxes using the asset and liability method. The differences between the financial statement and tax basis of assets and liabilities are determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the period in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce deferred tax asset accounts to the amounts that will more likely than not be realized. Income tax expense is the current tax payable or refundable for the period, plus or minus the net change in the deferred tax asset and liability accounts. GOODWILL American Leisure adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". This statement requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation under the provisions of SFAS No. 144. The intangible assets relate to 1) the acquisition goodwill for the controlling interest of HTS, and 2) the net assets purchased from Around The World Travel, Inc. pursuant to the Asset Purchase Agreement between Around The World Travel, Inc. and American Leisure Equity Corporation. In December 2005, American Leisure tested goodwill for impairment and concluded there were no events or changes in circumstances that would indicate impairment had occurred. CASH AND RESTRICTED CASH American Leisure considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The restricted cash represents funds held in escrow for deposits received for condo and townhome sales for the units at Tierra Del Sol Resorts. The escrowed funds will be applied to the purchase price by the buyer at closing. Also included in the escrowed funds are the equity requirements from KeyBank of $2.1 million as part of the credit facilities. The funds are not readily available to the Company and can only be disbursed with the consent of KeyBank to be used for the construction of Tierra Del Sol Resorts. ACCOUNTS RECEIVABLE, NET At December 31, 2005 and 2004, accounts receivable, net consisted of the following: 2005 2004 --------------------------------- Due from customers $ 2,143,982 $ 4,036,323 Miscellaneous receivables 13,000 575 --------------------------------- 2,156,982 4,036,898 Less: reserve for doubtful accounts (113,841) (497,511) --------------------------------- $ 2,043,141 $ 3,539,387 ================================= F-10 ALLOWANCE FOR DOUBTFUL ACCOUNTS Our reported balance of accounts receivable, net of the allowance for doubtful accounts, represents our estimate of the amount that ultimately will be realized in cash. We review the adequacy of our allowance for doubtful accounts on an ongoing basis, using historical payment trends and the age of the receivables and knowledge of our individual customers. When our analyses indicate, we increase or decrease our allowance accordingly. However, if the financial condition of our customers were to deteriorate, additional allowances may be required. SHARES FOR SERVICES AND OTHER ASSETS American Leisure accounts for non-cash stock-based compensation issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation, issued by the Financial Accounting Standards Board and EITF No. 96-18, Accounting for Equity (deficit) Investments That Are Issued to Non-Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Under APB No. 25, compensation cost is recognized over the vesting period based on the difference, if any, on the date of grant between the fair value of American Leisure's stock and the amount an employee must pay to acquire the stock. Common stock issued to non-employees and consultants is based upon the value of the services received or the quoted market price, whichever value is more readily determinable. Accordingly, no compensation expense has been recognized for grants of options to employees with the exercise prices at or above market price of the Company's common stock on the measurement dates. Had compensation expense been determined based on the estimated fair value at the measurement dates of awards under those plans consistent with the method prescribed by SFAS No. 123, the Company's December 31, 2005 and 2004, net loss would have been changed to the pro forma amounts indicated below. 2005 2004 ---------- ---------- Net Loss As reported (4,126,779) (6,634,301) Less: stock based compensation under intrinsic - 120,555 Stock based compensation under fair value method (129,573) (340,065) ---------- ---------- Pro forma (4,256,352) (6,853,811) ========== ========== Net income (loss) per share - basic and diluted As reported (0.55) (0.83) Pro forma (0.57) (0.86) The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: Risk free rate of 3.5%; volatility of 196% for 2005 and 161% for 2004 with no assumed dividend yield; and expected lives of five years. F-11 REVENUE RECOGNITION American Leisure recognizes revenues on the accrual method of accounting. For the sales of units on the Orlando property and other property sales, revenues will be recognized upon the close of escrow for the sales of its real estate. Revenues travel, call center and other segments are recognized as earned, which is primarily at the time of delivery of the related service, publication or promotional material. Costs associated with the current period are expensed as incurred; those costs associated with future periods are deferred. RESORT UNIT PRE-SALES American Leisure receives deposits between 5% and 20% of the sales price and these amounts are recorded as deposits on unit pre-sales. Certain amounts received are restricted and recorded in restricted cash. American Leisure prepays brokers commissions up to 6% of the total commission, which is up to 12%, and prepays Xpress, Ltd. a commission of 1.5% of the total sales and marketing fees of 4.5%. Brokers commissions and sales and marketing fees are due upon closing of a unit. Commissions and sales and marketing fees are earned upon the closing of a unit. Prepaid commissions and sales and marketing fees are refundable to American Leisure in the event of buyer withdrawal. If a buyer defaults, the seller is entitled to retain all deposits and any interest earned. If the buyer properly terminates the agreement in a manner allowed by the agreement, all deposits will be returned to the buyer within thirty (30) days of the effective date of Buyer's rightful cancellation date. The buyer has 15 days to terminate the purchase and sale agreement. In the event American Leisure fails to perform any of its obligations of the agreement within the time specified, the buyer shall give American Leisure written notice specifying such a default. American Leisure has 30 days subsequent to receipt of said notice to cure the specified default, i.e. a conveyance of the Unit, or the cancellation of the agreement in which event the buyer may request a return of buyer's deposit, together with interest earned. LOSS PER SHARE American Leisure is required to provide basic and dilutive earnings (loss) per common share information. The basic net loss per common share is computed by dividing the net loss applicable to common stockholders by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss applicable to common stockholders, adjusted on an "as if converted" basis, by the weighted average number of common shares outstanding plus potential dilutive securities. For the period ended December 31, 2005 and 2004, potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share. Total shares issuable upon the exercise of warrants and the conversion of preferred stock for the years ended December 31, 2005 and 2004, were 17,223,230 and 12,672,236, respectively. RECENT ACCOUNTING PRONOUNCEMENTS In June 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections ("SFAS 154"). SFAS 154 replaces Accounting Principles Board ("APB") Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle. SFAS 154 also requires that a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for prospectively as a change in estimate, and correction of errors in previously issued financial statements should be termed a restatement. SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material impact on the Company's consolidated financial statements. F-12 As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company accounts for share-based payments to employees using the intrinsic value method under Accounting Principles Board, or APB, Opinion No. 25. As such, the Company generally does not recognize compensation cost related to employee stock options or shares issued under the Company's employee stock purchase plan. In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) allows for two adoption methods: - The modified prospective method which requires companies to recognize compensation cost beginning with the effective date of adoption based on (a) the requirements for all share-based payments granted after the effective date of adoption and (b) the requirements for all unvested awards granted to employees prior to the effective date of adoption; or - The modified retrospective method which includes the requirements of the modified prospective method described above, but also requires restatement of prior period financial statements using amounts previously disclosed under the pro-forma provisions of Statement 123. SFAS No. 123(R) require all share-based payments to employees and directors to be recognized in the financial statements based on their fair values, using prescribed option-pricing models. Upon adoption pro-forma disclosure will no longer be an alternative to financial statement recognition. The Company will adopt the provisions of SFAS No. 123(R) in the first quarter of 2006. The Company intends to use the modified prospective method of adoption and continue to use the Black-Scholes option pricing model to value share-based payments, though alternatives for adoption under the new pronouncement continue to be reviewed by the Company. The Company continues to review the impact of SFAS No. 123(R) as relates to future use of share-based payments to compensate employees in 2006. The adoption of the fair-value method will not have a significant impact on the Company's results of operations as the fair value of stock option grants and stock purchases under the employee stock purchase plan will be required to expense beginning in 2006. Statement No. 123(R) also requires the benefit related to income tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current accounting guidance. This requirement will reduce net operating flows and increase financing cash flows of the Company in periods subsequent to adoption. These future amounts cannot be estimated, as they depend on, among other things, when employees exercise stock options. RECLASSIFICATIONS Certain amounts in the December 31, 2004 financial statements have been reclassified to conform to the December 31, 2005 financial statement presentation. F-13 NOTE 3 - FINANCIAL CONDITION AND GOING CONCERN American Leisure's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. American Leisure has working capital of $11,609,651 and has obtained adequate debt financing on the Orlando Resort property; however, American Leisure incurred a net loss of $4,126,779 during 2005 and there is substantial doubt as to American Leisure's ability to achieve profitable operations. American Leisure's management intends to raise additional operating funds through equity and/or debt offerings. However, there can be no assurance management will be successful in its endeavors. Ultimately, American Leisure will need to achieve profitable operations in order to continue as a going concern. American Leisure has adequate capital to maintain its operations. The proceeds from the sale of a parcel of Orlando Resort property and the cash received from the pre-sales of The Company's Orlando Resort units have provided current operational funds while the construction and land loans funded in December 2005 and the financing from the Community Development District Bond in January 2006 financed through KeyBank, N.A., provided American Leisure with adequate funds to maintain its operations until the balance of the financing is obtained for the construction of the Orlando Resort property. There are no assurances that American Leisure will be able to either (1) achieve a level of revenues adequate to generate sufficient cash flow from operations; or (2) obtain additional financing through either private placement, public offerings and/or bank financing necessary to support American Leisure's working capital requirements. To the extent that funds generated from operations and any private placements, public offerings and/or bank financing are insufficient, American Leisure will have to raise additional working capital. No assurance can be given that additional financing will be available, or if available, will be on terms acceptable to American Leisure. If adequate working capital is not available, American Leisure may be required to curtail its operations. NOTE 4 - ACQUISITIONS On December 30, 2004, American Leisure through one of its subsidiaries, entered into an Asset Purchase Agreement (hereinafter referred to as the "Original Purchase Agreement") with Around The World Travel, Inc. (AWT), pursuant to which AWT agreed to sell substantially all of its assets to American Leisure. American Leisure believes this acquisition will allow American Leisure to capture more travel consumers to visit its resort, buy property and consume its services. The business acquired will continue to operate as travel agencies under the name TraveLeaders. The parties agreed that the purchase price is equal to the fair value of the Business, plus $1,500,000. Under the terms of the Original Purchase Agreement, AWT conveyed to American Leisure all of the assets necessary to operate the Business, including substantially all of AWT's tangible and intangible assets and certain agreed liabilities. Pursuant to the terms of the Original Purchase Agreement, AWT and American Leisure entered into a Management Agreement, under which AWT manages the Business on behalf of American Leisure. AWT and American Leisure also entered into a License Agreement, under which American Leisure granted AWT a non-exclusive license to use certain trade names and related intellectual property in connection with the performance of ts duties under the Management Agreement. The Management Agreement has been renewed and the License Agreement hasve been renewed and will expire simultaneously with the Management Agreement. F-14 Prior to the Original Purchase Agreement, American Leisure had acquired from the creditors and minority shareholders of the Seller the following: 1) senior secured noted of the Seller with an outstanding principal balance of $18,761,000, subject to $5,000,000 of liabilities in exchange for 340,000 restricted shares of American Leisure common stock; 2) 907,877 shares of Series A Preferred Stock of the Seller (constituting approximately 42% of the issued and outstanding shares of such preferred stock) in exchange for 24,101 shares of newly designated Series E Convertible Preferred Stock of American Leisure, a promissory note in the principal amount of $1,698,340 and a cash payment of $5,250; 3) an option to purchase the Parent of the Seller (Around The World Holdings, Inc.), which owned approximately 62% of the issued and outstanding common stock of the Seller; 4) approximately 5% of the minority interest common and preferred stock of the Seller; and 5) options to purchase approximately 27% of the common stock and 42% of the preferred stock of the Seller from minority shareholders of the Seller. The excess purchase price over the fair value of net tangible assets was stated at $12,496,568, as of December 31, 2004 all of which was allocated to goodwill. The parties subsequently entered to a First Amendment to Asset Purchase Agreement dated as of March 31, 2005 (the "First Amendment"), pursuant to which -------------- the parties agreed to modify certain of the provisions of the Original Purchase Agreement. Under the terms of the Amended Purchase Agreement, the purchase price for the AWT assets was to be $17,500,000, which amount was stated as $17,500,000 to be paid as follows: Form of Consideration Amount ----------- Assumption of designated liabilities $ 4,242,051 Forgiveness of loans and indebtedness owed by AWT to the Company 4,774,619 Issuance of note by American Leisure to AWT (the "Purchaser Note") 8,483,330 ----------- Total $17,500,000 Prior to December 31, 2005, American Leisure paid a portion of the principal amount of the Purchase Note through: (i) the transfer of certain assets by American Leisure to AWT (consisting of certain accounts receivable, prepaid expenses and deposits); (ii) the retention by AWT of the proceeds from certain accounts receivable sold by AWT to American Leisure; and (iii) payments made by American Leisure to AWT. As of December 31, 2005, the outstanding balance of the Purchaser Note was $5,297,788. On or about November 14, 2005, the Company and American Leisure asserted certain claims against AWT with respect to the alleged breach of the Purchase Agreement and the Management Agreement dated as of December 31, 2005 between American Leisure and AWT. After negotiations among the parties, the parties agreed to settle the claims made by the Company and American Leisure pursuant to the terms of the Settlement Agreement (the "Settlement Agreement") effective December 31, 2005. The Settlement Agreement provides that the purchase price under the Amended Purchase Agreement will be reduced from $17,500,000 to $9,000,000. The parties agreed to implement the reduction of the purchase price by eliminating the remaining balance of the Purchaser Note (which had a balance of $5,297,788 as of December 31, 2005) and by establishing an obligation of AWT to pay to American Leisure the amount of $3,185,548 as of December 31, 2005. This amount is payable on demand. F-15 The following table summarizes the estimated fair value of the net assets acquired and liabilities assumed as reported: 2005 2004 ------------- -------------- Current assets $ 1,850,109 $ 1,850,109 Property and equipment 287,975 287,975 Deposits 276,481 276,481 Trademark 1,000,000 1,000,000 Goodwill 4,085,435 12,585,435 ------------- -------------- Total assets acquired $ 7,500,000 $ 16,000,000 ------------- -------------- Notes Assumed $ 4,242,051 $ 11,040,320 Accounts Payable & Accrued Expenses - 6,266,032 ------------- -------------- Total liabilities assumed 4,242,051 17,306,352 ------------- -------------- Debt forgiven 4,757,949 - Series F Preferred Stock issued - 193,648 ------------- -------------- Consideration $ 9,000,000 $ 17,500,000 ============= ============== As of December 31, 2005 and December 31, 2004, the Acquisition Goodwill amounted to $5,585,435 and $14,085,435 respectively. After an impairment of $1,500,000 for the excess paid over fair value of the assets (recognized in 2004), the balance of Goodwill is $4,085,435 and $12,585,435 as of December 31, 2005 and December 31, 2004 respectively. On December 31, 2005, the Company through its subsidiary Tierra Del Sol, Inc. ("TDS") acquired the minority interest held by Harborage Leasing Corporation in TDS for $3,464,129 consisting of a note payable of $1,432,046 which is due on July 1, 2006, and 197,000 shares of American Leisure common stock shares valued at market price on the date of the transaction or $183,210 and 300,000 warrants with an exercise price at $5.00 per share valued at $233,713 using the Black-Scholes option pricing model with the following assumptions: Risk free rate of 1.5%; volatility of 157% and no dividends, two 3 bedroom condominium to be built in Phase II of the Orlando Resort valued at $630,160. Furthermore, subsequent to January 2007, Harborage Leasing Corporation can sell the American Leisure shares to American Leisure for $985,000, which is recorded as a put liability in the accompanying financial statements. The put option is void if AMLH's stock price is greater than $5.00 per share for 30 consecutive days in 2007. The Company accounted for this acquisition using the purchase method of accounting and allocated the purchase price to the land held for development. Full ownership gives the Company the ability to recognize all of the profits on the development of the Orlando Resort property. American Leisure has agreed to provide its executive officers a bonus of up to 19% of the profits, if any, of TDS. NOTE 5 - OTHER RECEIVABLES Other receivables consist of unsecured advances to Around the World Travel, Inc. of $4,536,312 and other amounts due from West Villas, Inc., Maingate Towers, Inc. and Orlando Tennis Village, Inc. of $1,828,390 which is from the sale of the 40 acres described in Note 7, and $222,655 due from other third parties. The amounts due from AWT are predominantly from advances and from amounts earned by the Company in connection with the management agreement, under which AWT manages the assets acquired December 31, 2004. During 2005, the Company earned approximately $973,610 under this arrangement. F-16 NOTE 6 - PROPERTY

AND EQUIPMENT, NET At December 31, 2005, property and equipment consisted of the following: Useful Lives 2005 2004 ----------- ----------- Computer equipment 3-5 $ 419,683 $ 576,783 Furniture & fixtures 5-7 302,024 60,374 Automobiles 5 63,230 63,230 Leasehold improvements 5 31,919 - Telecommunications equipment 7 6,764,848 6,782,110 ----------- ----------- 7,581,704 7,482,497 Less: accumulated depreciation and amortization 2,997,851 1,393,997 ----------- ----------- $ 4,583,853 $ 6,088,500 =========== =========== Depreciation expense was $1,603,854 and $936,874 for 2005 and 2004, respectively. NOTE 7 - LAND HELD FOR FUTURE DEVELOPMENT American Leisure is planning to construct a 972-unit resort ("Orlando Resort") in Orlando, Florida on 122 acres of undeveloped land. Pre-construction sales commenced in February 2004. As of December 31, 2005, the Company, has pre-sold 673 vacation homes in a combination of contracts on town homes and reservations on condominiums for a total sales volume of approximately $234 million. In connection with the sales, the Company has received deposits totaling approximately $37,666,000 and has prepaid sales commissions to various brokers and agents of approximately $7,771,000 and has prepaid sales commissions of approximately $3,516,000 to Xpress, Ltd., a related party. On December 28, 2005, The Company completed the sale of 41 acres of its development property located in Polk County, Florida (adjacent to the Orlando Resort property) for $8,000,000 and realized a profit of $3,324,736 on the sale. The sale was brokered through American Leisure Real Estate Group, Inc, an entity controlled by Malcolm Wright (American Leisure's CEO); the broker commission on the sale amounted to $400,000. The Company has approximately $1,823,000 due from the buyers West Villas, Inc., Maingate Towers, Inc. and Orlando Tennis Village which is due upon demand and is recorded in other receivables at December 31, 2005. On March 8, 2005, American Leisure sold 13.5 acres of commercial property for $4,020,000, plus the reimbursement of expenses in the amount of $157,219. Profits realized on the sale amounted to approximately $968,000. F-17 NOTE 8 - INVESTMENT IN SENIOR SECURED NOTES During 2004, AMLH acquired senior secured notes receivable paper (the ""Notes"") for 340,000 shares of AMLH stock and the assumption of a non-recourse note payable to CNG Hotels (CNG Note) for $5,000,000. The Notes are secured by substantially all of the assets of Around the World Travel (""AWT""), the maker. The approximately $24,000,000 balance of the Notes includes unpaid interest of approximately $6,000,000. The Notes are in default and no interest is being accrued by AMLH relating to these Notes. Because of default status of the Notes and the uncertain nature of the future collections on the Notes, AMLH does not accrue any interest income relating to these Notes. The provisions of the CMG Note include, among other things, a limitation of the AMLH liability under CMG Note to that amount collected from AWT on the Notes, not to exceed $5,000,000. NOTE 9 - OTHER ASSETS Other assets include the following at December 31, 2005 and 2004: 2005 2004 ------------ ------------ Deferred financing costs $ 4,192,988 $ 2,131,763 Deposits and other 61,500 505,811 Investment in Reedy Creek 901,705 - $ 5,156,193 $ 2,637,574 ============ ============ Deferred financing costs are derived from warrants issued in connection with obtaining debt. Deferred financing costs are amortized over the life of the notes using the effective interest method. American Leisure has capitalized deferred financing costs of $3,837,696 and $2,267,998 for 2005 and 2004, respectively. American Leisure has recorded amortization expense $1,887,623 and $477,235 for the years ended December 31, 2005 and 2004, respectively. NOTE 10 - INVESTMENTS In January 2005, American Leisure acquired its interest in Caribbean Media Group, Ltd., (""CMG"") which provides call center, contact center and media services in Antigua. As of December 31, 2005, American Leisure owned approximately 49% of the total outstanding shares. American Leisure is accounting for its investment under the equity method of accounting as American Leisure has significant influence but not control, over the financing and operating activities of CMG. For the year ended December 31, 2005, the Company recognized a net loss in the equity of an unconsolidated affiliate, CMG, of $293,201. Summarized financial information of CMG is as follows: December 31, 2005 2004 --------- --------- Current assets $ 341,737 $ - Non-current assets 90,682 - Current liabilities 830,789 - Non-current liabilities - - Year ended December 31, 2005 2004 --------- --------- Revenue $ 948,392 $ - Gross Margin 231,829 - Net loss 598,369 - American Leisure's equity in net loss 293,201 - In November 2003, the Company entered into an agreement with Mr. Frederick Pauzar (who became American Leisure's COO and Director in September 2005) to sell their ownership interests in the stock of American Vacation Resorts Inc. ("AVR") for $1,500,000. In January 2005, the sale was completed and the Company recorded a reduction of $800,000 of debt due to Arvimex and a profit of $145,614. NOTE 11 - LONG-TERM DEBT AND NOTESPAYABLE Below is a summary of long-term debt and notes payable as of December 31, 2005 and 2004: Maturity Interest Principal Outstanding Collateral Date Rate 2005 2004 ---------- -------- -------- ----------- ----------- Third party entity Unsecured Demand 10% $ 30,000 $ - Financial institution Personal guarantees 12/2003 8% 250,000 250,000 Financial institution Assets, personal guarantees 8/2004 8.75% - 1,454 Third party individual 1st lien 13.5 commercial acres, guarantees 10/2004 12% - 1,300,000 Financial institution Assets of the Company 11/2004 12% - 9,528 Third party entities Equipment 3/2005 18% 9,029 28,097 Third party individual 3rd lien 163 acres of undeveloped land 3/2005 12% - 1,862,250 Financial institution 1st lien 163 acres of undeveloped land, guarantees 4/2005 12% - 6,000,000 Credit line Assets, personal guarantees 1/2006 8.75% 51,000 - Third party entity Unsecured 7/2006 12% 2,062,206 - Financial institution Lien on property, assets and common stock and guarantees 9/2006 8% 1,250,000 * 1,250,000 Financial institution Lien on property, assets and common stock and guarantees 4/2007 8% 3,000,000 * 3,000,000 Financial institution 1st lien 122 acres of undeveloped land, guarantees 6/2007 12% 10,250,376 - F-18 Financial institution Lien on property, assets and common stock and guarantees 6/2007 8% 1,355,000 * 1,255,000 Financial institution Lien on property, assets and common stock and guarantees 6/2007 8% 289,000 * - Financial institution Lien on property, assets and common stock and guarantees 12/2007 8% 2,100,000 * - Financial institution Lien on property, assets and common stock and guarantees 12/2008 6% 6,000,000 * 6,140,964 Third party entity Certain assets 2/2009 5% 5,000,000 5,000,000 Third party entity Vehicle 3/2010 9.39% 30,942 38,955 Third party entity Common stock of AWT 4/2011 4% - 1,698,340 Third party entity Common stock of AWT 4/2011 4% 3,893,915 - Financial institution Assets, personal guarantees 5/2033 4% 369,687 375,900 ----------- ----------- 35,941,155 28,210,488 Less: current portion (3,652,235) (9,605,235) ----------- ----------- Long-term debt $32,288,920 $18,605,253 =========== =========== F-19 * Effective December 31, 2005, Stanford International Bank Limited, an Antiguan banking corporation, modified the terms of the notes due them as follows: - Interest on the $6,000,000 Note has been paid through December 31, 2004. Interest accrued from January 1, 2005, through September 30, 2006, on the $6,000,000 Note shall be due and payable on December 28, 2008. Interest accruing after September 30, 2006, on the $6,000,000 Note shall be paid in accordance with the original terms of the Note. - Interest accrued on the $3,000,000 Note from the date of the Note through September 30, 2006, shall be due and payable on April 22, 2007. Interest accruing after September 30, 2006, on the $3,000,000 Note shall be paid in accordance with the original terms of the Note. - The Maturity Date of the $1,250,000 Note is hereby extended to September 30, 2006. The principal amount of the $1,250,000 Note, together with all interest accrued from the date of the $1,250,000 Note, shall be due and payable in full on that date. No payments shall be required prior to the revised Maturity Date. - The Maturity Date of the $1,355,000 Note is hereby extended to June 30, 2007. The principal amount of the $1,355,000 Note, together with all interest accrued from the date of the Note, shall be due and payable in full on that date. No payments shall be required prior to the revised Maturity Date. - The Maturity Date of the $305,000 Note is hereby extended to June 30, 2007. The principal amount of the Note, together with all interest accrued from the date of the Note, shall be due and payable in full on that date. No payments shall be required prior to the Maturity Date. As of December 31, 2005, $289,000 had been drawn from this facility. - Interest on the outstanding principal balance of the $2,100,000 Note will be payable in arrears, on a quarterly basis, with the first payment due on March 28, 2006 and with subsequent payments due on each subsequent June 28, September 28, December 28 and March 28, until the Maturity Date of December 27, 2007, when the outstanding principal balance and all accrued but unpaid interest will be due and payable in full. Principal maturities of long-term debt are as follows: Amount ------------- 2006 $ 3,652,235 2007 16,994,376 2008 6,000,000 2009 5,000,000 2010 30,942 2011 3,893,915 Thereafter 369,687 ------------- $ 35,941,155 ============= F-20 NOTE 12 - NOTES PAYABLE - RELATED PARTIES Notes payable - related parties, consists of the following as of December 31, 2005 and 2004. Interest Principal Outstanding Collateral Maturity Date Rate\ 2005 2004 ---------- ------------- --------- ----------- ---------- Related Party Unsecured Demand 12% $ 131,945 $ 140,044 Related Party Unsecured Demand 12% 306,500 659,000 Related Party Unsecured Demand 12% 180,000 180,000 Related Party Unsecured Demand 12% 20,000 20,000 Related Party Unsecured Demand 12% 327,028 531,232 Related Party Unsecured Demand 12% 124,262 - Related Party Unsecured Demand 10% 97,504 - Related Party Unsecured Demand 10% 285,000 - Shareholder Unsecured Demand 12% 178,366 - Shareholder 3rd lien on 163 acres of undeveloped land 5/1/05 12% - 380,353 ----------- ---------- 1,650,605 1,910,629 Less: current portion (1,650,605) (1,910,629) ----------- ---------- $ - $ - =========== ========== Principal repayments for next years are as follows: Amount ------------ 2006 1,650,605 ------------ $ 1,650,605 ============ NOTE 13 - SHAREHOLDER ADVANCES As of December 31, 2005 and 2004, American Leisure has shareholder advances totaling $0 and $273,312 respectively with interest at 12%. The advances were unsecured and due on demand. F-21 NOTE 14 - STOCKHOLDERS EQUITY AND REDEEMABLE PREFERRED STOCK COMMON STOCK AND REDEEMABLE PREFERRED STOCK In March 2004, we issued 340,000 shares of restricted Common Stock in connection with the acquisition of the Senior Debt of Traveleaders. In June 2004, 600,000 warrants were exercised by holders at par value of $.001 per share. In August 2004, 1,450,000 warrants were exercised by holders at par value of $.001 per share. In April 2004, 24,101 shares of the Company's Series "E" Preferred Stock were issued for the acquisition of the controlling interest in the Preferred Stock of Around the World Travel. In 2004, 98,991 shares were issued for services at $1.50 per share. In November 2004, 325 shares of the Company's Series "B" Preferred Stock were issued for $32,460 of telecommunications equipment. In December 2004, 120,000 shares of the Company's Series "A" Preferred Stock were issued for $1,200,000 of payables to a related party for the sales and marketing agreement of the Orlando property. On June 30 2005, 160,000 shares of common stock were issued upon the exercise of warrants at $0.001 per share. PREFERRED STOCK American Leisure is authorized to issue up to 10,000,000 shares in aggregate of preferred stock: Annual Total Series Liquidated Dividends Conversion Authorized Value Voting per Share Rate ------------- ---------- -------- ---------- ---------- Series A 1,000,000 $ 10.00 Yes $ 1.20 10 to 1 Series B 100,000 100.00 Yes 12.00 20 to 1 Series C 28,000 100.00 Yes 4.00 20 to 1 Series E 50,000 100.00 Yes 4.00 6.66 to 1 Series F 150,000 100.00 Yes 1.00 2 to 1 Series A have voting rights equal to 10 common shares to 1 Series A preferred share. Series A are redeemable at American Leisure's option after 5 years if not converted by the holder. The conversion period is 5 years from the date of issue. The redemption amount per share will equal the liquidation value plus accrued but unpaid dividends. Conversion is at 10 for 1 or if the market price is below $1.00 then the average daily market price for the 10 consecutive trading days prior to conversion. Dividends are payable if funds are available. Accrued but unpaid dividends do not pay interest. Series B have voting rights equal to 20 common shares to 1 Series B preferred share. Series B are redeemable at American Leisure's option after 5 years if not converted by the holder. The conversion period is 5 years from the date of issue. The redemption amount per share will equal the liquidation value plus accrued but unpaid dividends. F-22 Conversion is not less than 20 for 1 nor more than 12.5 for 1 based on the market price. Dividends are payable if funds are available. Accrued but unpaid dividends do not pay interest. Series C are redeemable at American Leisure's option after 5 years if not converted by the holder. The conversion period expires 5 years from the date of issue. The redemption amount per share will equal the liquidation value plus accrued but unpaid dividends. Conversion is not less than 20 for 1 nor more than 12.5 for 1 based on the market price. Series E are redeemable at American Leisure's option after 5 years if not converted by the holder. The conversion period expires 5 years from the date of issue. The redemption amount per share will equal the liquidation value plus accrued but unpaid dividends. Series E have voting rights equal to 6.66 common shares to 1 Series E preferred share. Series F issuance was retracted. Dividends are payable if funds are available. Accrued but unpaid dividends do not pay interest. American Leisure has not declared dividends as of December 31, 2005, however cumulative and unpaid dividends are as follows: December 31, 2005 December 31, 2004 Series A $ 5,094,049 $ 3,894,049 Series B 140,852 106,952 Series C 304,219 195,463 Series E 261,824 165,075 ---------------- ---------------- $ 5,800,944 $ 4,361,540 ================= ================= WARRANTS In March 2004, the Company issued warrants to Bill Chiles, a director of the Company, to purchase 168,672 shares of the Company's common stock at an exercise price of $2.96 per share of common stock which were subsequently revised to an exercise price of $1.02 as consideration for personal loan guarantees to Stanford. Also, in March 2004, the Company issued warrants to Malcolm Wright, a director of the Company and the Company's Chief Executive Officer and Chief Financial Officer, to purchase 347,860 shares of the Company's common stock at an exercise price of $1.02 per share of common stock. The Company issued the warrants to Messrs. Chiles and Wright as consideration for their personal guarantees of the Company's debt and pledges of their shares of the Company's stock to Stanford as part of the security for the financing that Stanford provided to the Company. In addition, Mr. Wright has personally guaranteed the Company's indebtedness of $6,000,000 to StanfordIn July 2005, the Company authorized the issuance of warrants to Mr. Wright and Mr. Chiles to purchase 347,860 shares and 168,672 shares, respectively, of our common stock at an exercise price of $1.02 per share and in December 2005, the Company authorized the issuance of warrants to Mr. Wright to purchase 2,008,500 shares of our common stock at an exercise price of $1.02 per share. The Company is under a continued obligation to issue warrants at $1.02 to Messrs Chiles and Wright for guarantees they may be required to give on the Company's behalf going forward. During 2004, the Company issued 1,433,064 warrants in connection with the loan guarantees and in connection with obtaining additional debt financing. The warrants were valued using the Black-Scholes option pricing model and recorded as deferred financing costs. During 2005, American Leisure issued 3,449,032 warrants valued at $3,254,029. The warrants were issued in connection with loan guarantees and in connection with obtaining additional financing and recorded as deferred financing costs. These warrants are exercisable from $.001 to $5 and have terms ranging from 3 to 5 years. The estimated fair value of the warrants was valued using the black-scholes option pricing model with the following assumptions: dividend yield 0.0%, expected volatility of 195%, risk-free interest rate of 1.5% and expected lives of 36 to 60 months. Also, during 2005, American Leisure issued 300,000 warrants valued at $233,713. The warrants were issued in connection with the acquisition of minority interest in Tierra Del Sol, Inc. The warrants are exercisable at $5 and have term of 5 years. The estimated fair value of the warrants was valued using the black-scholes option pricing model with the following assumptions: dividend yield 0.0%, expected volatility of 157%, risk-free interest rate of 1.5% and an expected life of 60 months. At December 31, 2005, there are 6,782,096 warrants outstanding with exercise prices ranging from $0.001 to $5.00 that expire between 2008 and 2010. On December 31, 2005, in connection with the acquisition of the minority interest subsidiaries, we issued 300,000 warrants with an exercise price of $5.00. F-23 NOTE 15 - NET INCOME (LOSS) PER SHARE Dividends have not been declared on the Company's cumulative preferred stock. The accumulated dividends are deducted from Net Loss to arrive at Net income (loss) per share as follows: Description 2005 2004 ---------- ---------- Net Loss (as reported) $(4,129,779) $(6,634,301) Less Undeclared Preferred Stock Dividend (1,439,405) (551,938) ---------- ---------- Net Loss after Preferred Stock Dividend $(5,566,184) $(7,186,239) ========== ========== Net Income (Loss) per share Basic and Diluted $ (0.55) $ (0.83) ========== ========== NOTE 16 - INCOME TAXES Deferred taxes are determined based on the temporary differences between the financial statement and income tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. The components of deferred income tax assets (liabilities) at December 31, 2005 and 2004, were as follows: 2005 2004 Net operating loss carryforwards $ 3,700,000 $ 2,200,000 Valuation allowance (3,700,000) (2,200,000) -------------------------- Net deferred tax assets $ - $ - ========================== At December 31, 2005, American Leisure had a net operating loss carryforward for Federal income tax purposes totaling approximately $11,000,000 which, if not utilized, will expire in the years up to 2025. At December 31, 2004, American Leisure had a net operating loss carryforward for federal income tax purposes totaling approximately $6,500,000 which, if not utilized, will expire in the years up to 2024. In June 2002, American Leisure had a change in ownership, as defined by Internal Revenue Code Section 382, which has resulted in American Leisure's net operating loss carryforward being subject to certain utilization limitations in the future. F-24 NOTE 17 - COMMITMENTS AND CONTINGENCIES LEASE COMMITMENTS American Leisure leases office facilities and reservation service center equipment under non-cancelable operating lease agreements for a monthly base rent of $14,838 through April 2008, and the reservation service center equipment leases call for a monthly base rent of $6,461 through December 2005. Future minimum rental payments are as follows: December 31, 2006 178,056 2007 178,056 2008 59,352 ---------- $ 415,464 ========== Rent expense totaled $243,509 and $382,316 for 2005 and 2004, respectively. EMPLOYMENT AGREEMENTS The Company has various employment agreements with select members of their management. These agreements provide for a base salary plus bonuses of up to 19% of the profits of each subsidiary company based upon the Company's operating earnings as defined in each agreement. Management and License Agreement AWT and American Leisure entered into a one year management and license agreement, under which AWT is entitled to use the TraveLeaders brand name in the operation of there travel business. AWT is to supervise, direct and control the management and operation of the business. AWT will a) recruit, employ, supervise, direct and discharge the employees of the business, b) establish prices, rates and charges for services provided by the business, c) establish and revise administrative policies and procedures for the control of revenue and expenditures, d) make payments on accounts payable and handle collections of accounts receivable, e) arrange for and supervise public relations and advertising, f) prepare and deliver interim accountings, annual accounting and such other information at reasonable times and g) obtain and keep in full force all licenses and permits. The management agreement expires on December 31, 2006. AWT pays American Leisure 90% of earnings before interest depreciation and taxes as calculated under accounting principles generally accepted in the United States of America. The management agreement is cancelable by both parties with 30 days notice. LITIGATION In the ordinary course of its business, the Company may from time to time become subject to claims or proceedings relating to the purchase, subdivision, sale and/or financing of its real estate or its operations. The Company believes that substantially all of the above are incidental to its business. We are a party in an action that was filed in Orange County, Florida and styled as Rock Investment Trust, P.L.C. and RIT, L.L.C. vs. Malcolm J. Wright, American Vacation Resorts, Inc., American Leisure, Inc., Inversora Tetuan, S.A., Sunstone Golf Resort, Inc., and Sun Gate Resort Villas, Inc., Case No. CIO-01-4874, Ninth Judicial Circuit, Orange County, Florida. In June, 2001, after almost 2 years from receiving notice from Malcolm Wright that one Mr. Roger Smee, doing business under the names Rock Investment Trust, PLC (a British limited company) and RIT, LLC (a Florida limited liability company) (collectively, the Smee Entities) had defaulted under various agreements to loan or to joint venture or to fund investment into various real estate enterprises founded by Mr. Wright, the Smee Entities brought the Lawsuit against Mr. Wright, American Leisure, Inc. (ALI) and several other entities. The gravamen of the initial complaint is that the Smee Entities made financial advances to Wright with some expectation of participation in a Wright real estate enterprise. In general, the suit requests either a return of the Smee Entities alleged advances of $500,000 or an undefined ownership interest in one or more of the defendant entities. Mr. Wright, American Leisure, Inc., and Inversora Tetuan, S.A., have filed a counterclaim and cross complaint against the Smee Entities and Mr. Smee denying the claims and such damages in the amount of $10 million. If the court rules that Mr. Wright is liable under his guarantee of the American Leisure, Inc. obligation to Smee, it is believed that such a ruling would not directly affect American Leisure Holdings, Inc. The litigation is in the discovery phase and is not currently set for trial. We have been advised by our attorneys in this matter that Mr. Wrights position on the facts and the law is stronger than the positions asserted by the Smee Entities. In March 2004, Manuel Sanchez and Luis Vanegas as plaintiffs filed a lawsuit against American Leisure Holdings, Inc. American Access Corporation, Hickory F-25 Travel Systems, Inc. Malcolm J. Wright and L. William Chiles, et al., seeking a claim for securities fraud, violation of Florida Securities and Investor Protection Act, breach of their employment contracts, and claims for fraudulent inducement. All defendants have denied all claims and have a counterclaim against Manuel Sanchez and Luis Vanegas for damages. The litigation commenced in March 2004 and will shortly enter the discovery phase and is not currently set for trial. We believe that Manuel Sanchez and Luis Vanegas claims are without merit and the claims are not material to us. We intend to vigorously defend the lawsuit. In February 2003, we and Malcolm J. Wright were joined in a lawsuit captioned as Howard C. Warren v. Travelbyus, Inc., William Kerby, David Doerge, DCM/Funding III, LLC, and Balis, Lewittes and Coleman, Inc. in the Circuit Court of Cook County, Illinois, Law Division, which purported to state a claim against us as a joint venturer with the primary defendants. The plaintiff alleged damages in an amount of $5,557,195.70. On November 4, 2004, the plaintiff moved to voluntarily dismiss its claim against us. Pursuant to an order granting the voluntary dismissal, the plaintiff has one (1) year from the date of entry of such order to seek to reinstate its claims. On March 30, 2004, Malcolm Wright, was individually named as a third-party defendant in the Circuit Court of Cook County, Illinois, Chancery Division, under the caption: Cahnman v. Travelbyus, et al. On July 23, 2004, the primary plaintiffs filed a motion to amend their complaint to add direct claims against our subsidiary, American Leisure as well as Mr. Wright. On August 4, 2004, the plaintiffs withdrew that motion and have not asserted or threatened any direct claims against American Leisure, Mr. Wright or us. In early May 2004, Around The World Travel, Inc. substantially all of the assets of which we purchased, filed a lawsuit in the Miami-Dade Florida Circuit Court against Seamless Technologies, Inc. and e-TraveLeaders, Inc. alleging breach of contract and seeking relief that includes monetary damages and termination of the contracts. They were granted leave to intervene as plaintiffs in the original lawsuits against Seamless and e-TraveLeaders. On June 28, 2004, the above named defendants brought suit against Around The World Travel and American Leisure Holdings, Inc. in an action styled Seamless Technologies, Inc. et al. v. Keith St. Clair et al. This suit alleges that Around The World Travel has breached the contracts and also that American Leisure Holdings, Inc. and Around The World Travels Chief Executive Officer were complicit with certain officers and directors of Around The World Travel in securing ownership of certain assets for American Leisure Holdings, Inc. that were alleged to have been a business opportunity for Around The World Travel. This lawsuit involves allegations of fraud against Malcolm J. Wright. The lawsuit filed by Seamless has been abated and consolidated with the original lawsuit filed by Around The World Travel. In a related matter, Seamlesss attorneys brought another action entitled Peter Hairston v. Keith St. Clair et al. This suit mimics the misappropriation of business opportunity claim, but it is framed within a shareholder derivative action. The relief sought against American Leisure Holdings, Inc. includes monetary damages and litigation costs. We intend to vigorously support the original litigation filed against Seamless and defend the counterclaim and allegations against us. On May 4, 2005, Simon Hassine, along with members of his family, filed a lawsuit against us and Around The World Travel in the Circuit Court of Dade County, Florida, Civil Division, Case Number 05-09137CA. The plaintiffs are the former majority shareholders of Around The World Travel and former owners of the assets of TraveLeaders. The plaintiffs allege that that they have not been paid for i) a subordinated promissory note in the principal amount of $3,550,000 plus interest on such note which they allege was issued to them by Around The World Travel in connection with their sale of 88% of the common stock of Around The World Travel; and ii) subordinated undistributed retained earnings and accrued F-26 bonuses in an aggregate amount of $1,108,806 which they allege were due to them as part of the sale. The plaintiffs allege that the note was issued to them net of $450,000 of preferred stock of Around The World Travel that they further allege they never received. The plaintiffs also allege that in December 2004 they entered into a settlement agreement with the Company regarding these matters. The plaintiffs are pursuing a claim of breach of the alleged settlement agreement with damages in excess of $1,000,000, interest and costs as well as performance under the alleged settlement agreement or, in the alternative, a declaratory judgment that the promissory note, undistributed retained earnings and accrued bonuses are not subordinated to the Galileo Debt and full payment of the promissory note, undistributed retained earnings and accrued bonuses plus prejudgment interest, stated interest on the note, costs and reasonable attorneys fees. The plaintiffs are also pursuing a claim for breach of contract regarding the preferred stock of Around The World Travel and seeking $450,000 plus interest, costs and reasonable attorneys fees. The plaintiffs are also pursuing claims of fraudulent transfer regarding our acquisition of interests in the debt and equity of Around The World Travel and seeking unspecified amounts. We intend to vigorously defend the lawsuit. We have authorized our counsel to file various motions including a motion to dismiss the complaint in its entirety as against us and Malcolm J. Wright due to the failure by the plaintiffs to comply with a provision in the underlying document that grants exclusive jurisdiction to the courts located in Cook County, Illinois. In the ordinary course of our business, we may from time to time become subject to routine litigation or administrative proceedings, which are incidental to our business. We are not aware of any proceeding to which any of our directors, officers, affiliates or security holders are a party adverse to us or have a material interest adverse to us. NOTE 18 - EMPLOYEE BENEFITS The Company's subsidiary, HTS, maintains a qualified 401(k) profit sharing plan covering substantially all of its full time employees who have completed ninety days of service. Eligible employees may voluntarily contribute a percentage of their compensation up to established limits imposed by the Internal Revenue Service. At the discretion of the Board of Directors, the Company may make a matching contribution equal to a percentage of each employee's contribution. There were no matching contributions made for the year ended December 31, 2005. NOTE 19 - SELF-INSURED HEALTH INSURANCE The Company's subsidiary, HTS, is partially self-insured for benefits provided under an employee health insurance plan through Great West Life Insurance Company. Benefits include medical, prescription drug, dental and group term life insurance. The plan provides for self-insurance up to $30,000 per employee per year. Accordingly, there exists a contingent liability for unprocessed claims in excess of those reflected in the accompanying consolidated financial statements. American Leisure has accrued $149,758 at December 31, 2005 for claims reported and incurred but not reported as of December 31, 2005. NOTE 20 - OPERATING SEGMENTS The Company has adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". At December 31, 2005, the Company's three business units have separate management teams and infrastructures that offer different products and services. The business units have been aggregated into three reportable segments. F-27 As noted in Note 6, Tierra Del Sol, Inc. is planning to construct a 972-unit resort in Orlando, Florida on 122 acres of undeveloped land. Development is scheduled to commence in the spring of 2006. Presales commenced in February 2004. American Leisure's operates a call center and revenues are recognized upon the completion of the earning process from the completion of the travel of the customer, the trip to the properties for the potential purchase, or the appropriate event based on the agreement with American Leisure's client as to the ability to be paid for the service. Travel Unit ("Travel") provides travel related services. For the year ending December 31, 2005: In (000's) Real Estate Call Center Travel Other Elim. Consol. ----------- ----------- -------- -------- --------- ---------- Revenues: Services $ 1,851 $ - $ 7,074 $ - $ (1,564) $ 7,361 Undeveloped land $ 12,020 $ - $ - $ - $ - $ 12,020 Segment income (loss) $ (1,929) $ (1,051) $ (466) $ - $ (681) $ (4,127) Total Assets $ 94,150 $ 2,898 $ 12,366 $ - $ (19,490) $ 89,923 2005 Capital expenditures $ 5 $ 0 $ 171 $ - $ - $ 176 Depreciation $ 720 $ 649 $ 312 $ - $ - $ 1,680 For the year ending December 31, 2004: In (000's) Real Estate Call Center Travel Other Elim. Consol. ----------- ----------- -------- ------- --------- ---------- Revenue $ 753 $ - $ 6,169 $ - $ (503) $ 6,419 Segment income (loss) $ (2,161) $ (16) $ (2,581) $(1,168) $ (1,876) $ (6,634) Total Assets $ 59,225 $ 3,284 $ 19,353 $ - $ (14,460) $ 67,402 Capital expenditures $ 3,512 $ - $ 288 $ - $ - $ 3,800 Depreciation $ 717 $ - $ 220 $ - $ - $ 937 The accounting policies of the reportable segments are the same as those described in Note 2. The Company evaluates the performance of its operating segments based on income before net interest expense, income taxes, depreciation and amortization expense, accounting changes and non-recurring items. NOTE 21 - RELATED PARTY TRANSACTIONS We accrue salaries payable to our Chief Executive Officer, President and Chief Financial Officer, Malcolm J. Wright. As of December 31, 2005, the aggregate amount of unpaid salaries payable to Mr. Wright was $2,700,000. The Company accrues interest at a rate of 12% compounded annually on the salaries payable to Mr. Wright. As of December 31, 2005, the aggregate amount of interest accrued on salaries payable to Mr. Wright was $477,000. F-28 We accrue salaries payable to L. William Chiles, the President of Hickory, at $100,000 per year as for his services. Mr. Chiles also receives paid compensation for his services from Hickory. As of December 31, 2005, the aggregate amount of salaries payable to Mr. Chiles was $200,000. The Company accrues interest at a rate of 12% compounded annually on the salaries payable to Mr. Chiles beginning in January 2005. As of December 31, 2005, the aggregate amount of interest accrued on salaries payable to Mr. Chiles was $16,500. We pay or accrue directors' fees to each of our directors in an amount of $18,000 per year for their services as directors. During the last two fiscal years the Company paid an aggregate of $32,521 to directors and accrued an aggregate of $135,000. The Company entered into an agreement with Mr. Wright and Mr. Chiles whereby the Company agreed to indemnify Mr. Wright and Mr. Chiles against all losses, costs or expenses relating to the incursion of or the collection of the Company's indebtedness against Mr. Wright or Mr. Chiles or their collateral. This indemnity extends to the cost of legal defense or other such reasonably incurred expenses charged to or assessed against Mr. Wright or Mr. Chiles. In the event that Mr. Wright or Mr. Chiles make a personal guarantee for the Company's benefit in conjunction with any third-party financing, and Mr. Wright or Mr. Chiles elect to provide such guarantee, then Mr. Wright and/or Mr. Chiles shall earn a fee for such guarantee equal to three per cent (3%) of the total original indebtedness and two per cent (2%) of any collateral posted as security. This fee is to be paid by the issuance of warrants to purchase the Company's common stock at a fixed strike price of $1.02 per share, when the debt is incurred. Mr. Wright personally guaranteed (the "Guarantees") the Company's $6,000,000 Credit Facility from Stanford. In addition, Mr. Wright pledged to Stanford 845,733 shares of the Company's common stock held by Mr. Wright. L. William Chiles had personally guaranteed $2,000,000 of the $6,000,000 Credit Facility and pledged to Stanford 850,000 shares of the Company's common stock held by Mr. Chiles. Stanford released Mr. Chiles from the personal guarantee and released his common stock from the pledge when the Company closed the $6,000,000 Credit Facility. In March 2004, the Company authorized the issuance of warrants to Mr. Wright and Mr. Chiles to purchase 347,860 shares and 168,672 shares, respectively, of our common stock at an exercise price of $2.96 per share, which was subsequently reduced to $1.02 per share of common stock. In July 2005, the Company authorized the issuance of warrants to Mr. Wright and Mr. Chiles to purchase 347,860 shares and 168,672 shares, respectively, of our common stock at an exercise price of $1.02 per share and in December 2005, the Company authorized the issuance of warrants to Mr. Wright to purchase 2,008,500 shares of our common stock at an exercise price of $1.02 per share. The Company has generally agreed to provide the executive officers of each of its subsidiaries a bonus of up to 19% of the profits, if any, of the subsidiary in which they serve as our executive officers. The bonus will be paid for the five-year period beginning on the date that the Company enters into such an agreement with the subsidiary. Pursuant to this general agreement, Malcolm J. Wright is entitled to receive up to 19% of the profits of Leisureshare International Ltd, Leisureshare International Espanola SA, TDSR, American Leisure Homes, Inc., Advantage Professional Management Group, Inc., and American Leisure Hospitality Group Inc. and any new company formed for the development and sale of vacation homes, hospitality management, and vacation ownership . In 2005, $182,647 was accrued to Malcolm Wright from the profits of Advantage Professional Management Group, Inc. L. William Chiles is entitled to receive 19% of the profits of Hickory up to a maximum payment of $2,700,000. Although Mr. Chiles' bonus is limited, it is not subject to the buy-out by the Company as discussed below as it will cease as soon as the $2,700,000 amount has been paid to him. The executive officers of other the Company's other subsidiaries are F-29 entitled to share a bonus of up to 19% of the profits of the subsidiary in which they serve as our executive officers. The Company has the right to buy-out of these agreements after a period of five years by issuing such number of shares of its common stock equal to the product of the average after-tax profits for the five-year period multiplied by one-third (1/3) of the P/E ratio of the Company's common stock at the time of the buyout divided by the greater of the market price of the Company's common stock or $5.00. The Company has not paid bonus as of the filing of this report. Malcolm J. Wright is the President and 81% majority shareholder of American Leisure Real Estate Group, Inc. (ALRG). On November 3, 2003 TDSR, entered into an exclusive development agreement with ALRG to provide development services for the development of the Sonesta Orlando Resort. Pursuant to this development agreement, ALRG is responsible for all development logistics and TDSR is obligated to reimburse ALRG for all of ALRG's costs and to pay ALRG a development fee in the amount of 4% of the total costs of the project paid by ALRG. During the fiscal year ended December 31, 2005, ALRG administered operations and paid bills in the amount of $8,007,889 and received a fee of 4% (or approximately $320,316) under the development agreement. Total fees earned since November 2003 amount to $466,561. Malcolm J. Wright and members of his family are the majority shareholders of Xpress. On November 3, 2003, TDSR entered into an exclusive sales and marketing agreement with Xpress to sell the units being developed by TDSR. This agreement provides for a sales fee in the amount of 3% of the total sales prices received by TDSR plus a marketing fee of 1.5%. During the period since the contract was entered into and ended December 31, 2005 the total sales made by Xpress amounted to approximately $234,413,949. As a result of the sales, TDSR is obligated to pay Xpress a total sales fee of $7,032,418 and a marketing fee of $3,516,209. As of December 31, 2005, the Company has paid Xpress $4,758,269 of cash, issued Xpress 120,000 shares of Series A Preferred Stock valued at $1,200,000, and transferred to Xpress a 1913 Mercedes Benz valued at $500,000. In February 2004, Malcolm J. Wright, individually and on behalf of Xpress, and Roger Maddock, individually and on behalf of Arvimex, entered into contracts with TDSR to purchase an aggregate of 32 townhomes for $13,116,800 and paid a deposit of $1,311,680. M J Wright Productions, Inc., of which Mr. Wright is the President, owns our Internet domain names. The Company and Mr. Wright have agreed to terms in principle of an employment agreement pursuant to which Mr. Wright will serve as our Chief Executive Officer and Chief Financial Officer. The Company will provide the terms of a definitive employment agreement in a future filing with the Commission. On or about November 14, 2005, the Company and American Leisure asserted certain claims against AWT with respect to the alleged breach of the Purchase Agreement and the Management Agreement dated as of December 31, 2005 between ALEC and AWT. After negotiations among the parties, the parties agreed to settle the claims made by the Company and ALEC pursuant to the terms of the Settlement Agreement (the "Settlement Agreement") effective December 31, 2005. The Settlement Agreement provides that the purchase price under the Amended Purchase Agreement will be reduced from $17,500,000 to $9,000,000. The parties agreed to implement the reduction of the purchase price by eliminating the remaining balance of the Purchaser Note (which had a balance of $5,297,788 as of December 31, 2005) and by establishing an obligation of AWT to pay to ALEC the amount of $3,185,548 as of December 31, 2005. This amount is payable on demand. F-30 NOTE 22 - SUBSEQUENT EVENTS PURCHASE OF LAND HELD FOR DEVELOPMENT ------------------------------------ On July 5, 2005, the

Company acquired a 1% interest in Reedy Creek Acquisition Company, LLC ("Reedy Creek") for $901,705. Reedy Creek owns 40.68 acres of undeveloped land in Osceola County, Florida located 1.5 miles west of Walt Disney World Orlando Maingate Entrance. The property will be used in the development of vacation second homes with resort amenities. On January 3, 2006, The Company acquired an additional 99% interest in Reedy Creek (total ownership of 100%) for a purchase price of $12,400,000. The Company is holding this land for future development. KEYBANK, NA LAND LOAN DRAWS ---------------------------- In January 2006, draws were made from the $14,850,000 land loan with KeyBank, NA. The draws increased the loan outstanding to $13,350,000 and those funds were transferred to a restricted cash account. The $1,500,000 balance of the loan is reserved for interest on the loan. NOTE MODIFICATION AGREEMENT -------------------------- In February 2006, we entered into a Note Modification Agreement with SIBL, whereby we agreed to modify certain provisions of our outstanding promissory notes with SIBL to grant extensions of payments due. Pursuant to the Note Modification Agreement, we and SIBL agreed that all interest due on our $6,000,000 note, from January 1, 2005, through September 30, 2006, shall be due and payable on September 30, 2006, with all interest thereafter payable with the original terms of that note; that all interest accrued on the $3,000,000 note we have with SIBL, from the date of the note until September 30, 2006, shall be due and payable on September 30, 2006, with all interest thereafter payable with the original terms of that note; that the maturity date of our $1,250,000 note with SIBL be extended until September 30, 2006, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; that the maturity date of our $1,355,000 note with SIBL be extended until June 30, 2007, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; that the maturity date of our $305,00 note with SIBL be extended until June 30, 2007, and that no payments of principal or interest on that note shall be payable until the extended due date of that note; and that interest on our $2,100,000 note with SIBL be payable in arrears, on a quarterly basis, with the first payment due on March 28, 2006, and subsequent payments due on each June 28, September 28, December 28 and March 28, until the maturity date of December 27, 2007, with the outstanding principal and interest shall be due (collectively, all the notes described above shall be referred to as the "Notes"). F-31 ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE Effective August 25, 2004, the client auditor relationship between us and Bateman & Co., Inc., P.C. ceased as the former principal independent accountant was dismissed. On that date, our Board of Directors approved a change of accountants and the Company's management engaged Lopez, Blevins, Bork & Associates, LLP as our principal independent public accountant for the fiscal year ended December 31, 2004. Prior to that, we had engaged Bateman on August 16, 2004 and dismissed Malone & Bailey, PLLC as our principal independent accountant on August 17, 2004. In both cases, the decision to change principal independent accountants was approved by our Board of Directors. Bateman had been engaged when the audit partner in charge of our account left Malone to join Bateman. The audit partner left Bateman and joined Lopez. We reported the change of auditors from Bateman to Lopez on Form 8-K filed with the Commission on March 28, 2005. We reported the change of auditors from Malone to Bateman on our Form 8-K filed with the Commission on August 18, 2004. Lopez succeeded Bateman who succeeded Malone. Malone audited our balance sheet as of December 31, 2002 and December 31, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the period from June 14, 2002 (Inception) through December 31, 2002, and the fiscal year ended December 31, 2003. Malone's report on our financial statements for the period from June 14, 2002 (Inception) through December 31, 2002, and the fiscal year ended December 31, 2003, did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles except for concerns about our ability to continue as a going concern. In connection with the audit of our financial statements for the period from June 14, 2002 (Inception) through December 31, 2002, and the fiscal year ended December 31, 2003, and any later interim period, including the interim period up to and including the date the relationship with Malone ceased, there were no disagreements with Malone on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Malone would have caused Malone to make reference to the subject matter of the disagreement(s) in connection with its report on our financial statements. There were no reportable events as defined in Item 304(a)(1)(iv)(B) of Regulation S-B during the period from June 14, 2002 (Inception) through December 31, 2002, and the fiscal year ended December 31, 2003, and any later interim period, including the interim period up to and including the date the relationship with Malone ceased. Bateman reviewed our interim financial statements included in the Form 10-QSB filed with the Commission on August 20, 2004. During the interim period beginning August 16, 2004 (the date that we engaged Bateman) up to and including the date that the relationship with Bateman ceased, there were no disagreements with Bateman on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Bateman would have caused Bateman, if Bateman had issued a report on our financial statements, to make reference to 67 the subject matter of the disagreement(s) in connection with such report. There have been no reportable events as defined in Item 304(a)(1)(iv)(B) of Regulation S-B during the interim period up to and including the date the relationship with Bateman ceased. We authorized Malone and Bateman to respond fully to any inquiries of any new auditors hired by us relating to their engagement as our principal independent accountant. We requested that Malone review the disclosure in the report on Form 8-K filed with the Commission on August 18, 2004, and Malone was given an opportunity to furnish us with a letter addressed to the Commission containing any new information, clarification of our expression of its views, or the respect in which it did not agree with the statements made by us therein. Such letter was filed as an exhibit to such report on Form 8-K. We requested that Bateman review the disclosure in our report on Form 8-K filed with the Commission on March 28, 2005, and Bateman was given an opportunity to furnish us with a letter addressed to the Commission containing any new information, clarification of our expression of its views, or the respect in which it did not agree with the statements made by us therein. Such letter was filed as an exhibit to such report on Form 8-K. We did not previously consult with Bateman regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or (ii) the type of audit opinion that might be rendered on our financial statements; or (iii) any matter that was either the subject matter of a disagreement (as defined in Item 304(a)(1)(iv)(A) of Regulation S-B) between us and Malone, our previous principal independent accountant, as there were no such disagreements, or an other reportable event (as defined in Item 304(a)(1)(iv)(B) of Regulation S-B) during the period from June 14, 2002 (Inception) through December 31, 2002, and the fiscal year ended December 31, 2003, and any later interim period, including the interim period up to and including the date the relationship with Malone ceased. Neither have we received any written or oral advice concluding there was an important factor to be considered by us in reaching a decision as to an accounting, auditing, or financial reporting issue. We did not previously consult with Lopez regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or (ii) the type of audit opinion that might be rendered on our financial statements; or (iii) any matter that was either the subject matter of a disagreement (as defined in Item 304(a)(1)(iv)(A) of Regulation S-B) between us and Bateman or Malone, our previous principal independent accountants, as there were no such disagreements, or an other reportable event (as defined in Item 304(a)(1)(iv)(B) of Regulation S-B) during the interim period up to an including the date the relationship with Bateman ceased, or the period from June 14, 2002 (Inception) through December 31, 2002, and the fiscal year ended December 31, 2003, and any later interim period, including the interim period up to and including the date the relationship with Malone ceased. Neither have we received any written or oral advice concluding there was an important factor to be considered by us in reaching a decision as to an accounting, auditing, or financial reporting issue. We requested Bateman review the disclosure in our report on Form 8-K before it was filed with the Commission on August 18, 2004, and provided Bateman the opportunity to furnish us with a letter addressed to the Commission containing any new information, clarification of our expression of its views, or the respects in which Bateman did not agree with the statements made by us in such 68 report. Bateman did not furnish a letter to the Commission. We requested Lopez review the disclosure in the report on Form 8-K before it was filed with the Commission on March 28, 2005, and provided Lopez an opportunity to furnish us with a letter addressed to the Commission containing any new information, clarification of our expression of its views, or the respects in which Lopez did not agree with the statements made by us in such report. Lopez did not furnish a letter to the Commission. ITEM 8A. CONTROLS AND PROCEDURES. Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this annual report (the "Evaluation Date"), has concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, because we have not fully integrated our administrative operations, we face increased pressure related to recording, processing, summarizing and reporting consolidated financial information required to be disclosed by us in the reports that we file or submit under the Exchange Act in a timely manner as well as accumulating and communicating such information to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We believe that until we have fully integrated our administrative operations, we will continue to face such pressure regarding the timeliness of our filings as specified in the Commission's rules and forms which could lead to a future determination that our disclosure controls and procedures are not effective as of a future evaluation date. Changes in internal control over financial reporting. There were no significant changes in the Company's internal control over financial reporting during the fourth fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. ITEM 8B. OTHER INFORMATION. On December 28, 2005, the Company's Board of Directors appointed Frederick Pauzar, who has served as the Company's Chief Operating Officer and Director since September 1, 2005, as Secretary of the Company. In connection with Mr. Pauzar's appointment, Malcolm J. Wright, the Company's Chief Executive Officer, resigned as Secretary of the Company. 69 On March 7, 2006, at a Special Telephonic Meeting of the Board of Directors of the Company (the "Meeting"), Michael Crosbie was nominated to serve as the Company's General Counsel, Executive Vice President and Secretary and of the Company, which nomination was approved by a majority of the Directors present at the Meeting. Mr. Crosbie's appointment to his offices was effective March 15, 2006. In connection with Mr. Crosbie's appointment as Secretary of the Company, Mr. Pauzar resigned as Secretary of the Company. Additionally at the Meeting, the Board of Directors nominated Malcolm J. Wright, the Company's Chief Executive Officer and then President and Director as Chairman of the Company's Board of Directors, and Mr. Wright's nomination was approved by a majority of the Directors present at the Meeting. Mr. Wright replaces William Chiles, who stepped down as Chairman of the Board of Directors, but will continue to serve as a Director of the Company. At the Meeting, the Board of Directors also nominated Frederick Pauzar, the Company's Chief Operating Officer and a Director of the Company to serve as the Company's President, which nomination was approved by a majority of the Directors present at the Meeting. As a result of Mr. Pauzar's appointment, Mr. Wright will no longer serve as the Company's President, but will continue to serve as the Company's Chief Executive Officer and Chairman of the Board of Directors. Finally, a majority of the Directors who attended the Meeting, voted to appoint Jeffrey Scott as the President of the Company's 50.83% owned subsidiary, Hickory Travel Systems, Inc. ("Hickory") and to reconfirm William Chiles, also a Director of the Company, as the Chief Executive Officer of Hickory. PART III ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT. OFFICERS AND DIRECTORS: Our executive officers and directors, and their ages and positions are as follows: NAME AGE TITLE ------------------ --- ----------------------------- Malcolm J. Wright 55 Chief Executive Officer, Chairman of the Board of Directors, Chief Financial Officer Frederick Pauzar 51 President, Chief Operating Officer and Director Michael Crosbie 37 Corporate General Counsel, Executive Vice President, Secretary and Director L. William Chiles 63 Director, Chief Executive Officer and Chairman of the Board of Directors of Hickory Travel Systems, Inc. James Leaderer 52 Director Jeffrey Scott 49 President of Hickory Travel Systems, Inc. 70 BIOGRAPHICAL INFORMATION CURRENT OFFICERS AND DIRECTORS ----------------------------- MALCOLM J. WRIGHT is the driving force behind our business model, has served as a member of our Board of Directors and as our Chief Executive Officer and Chief Financial Officer since June 2002. Mr. Wright served as our Secretary from June 2002 until December 28, 2005 and as our President from June 2002 until March 7, 2006. Since March 7, 2006, Mr. Wright has served as the Chairman of our Board of Directors. Prior to joining us, Mr. Wright successfully developed vacation properties abroad that are similar to the ones planned at The Sonesta Orlando Resort at Tierra Del Sol. Since 1998, Mr. Wright served as the President of American Leisure Inc, which we acquired in June 2002. Mr. Wright currently serves as the President of American Leisure Real Estate Group, Inc., a real estate development company with which we have contracted for the development of the resort, Xpress Ltd., with which we contracted for the exclusive sales and marketing for resort, Innovative Concepts, Inc., which operates a landscaping business, M J Wright Productions, Inc., which owns our Internet domain names, and Resorts Development Group, LLC, which engages in real estate development. Mr. Wright is also the President of Osceola Business Managers, Inc., Florida World, Inc. and SunGate Resort Villas, Inc. which do not currently conduct any business operations. Since 1980, Mr. Wright has spent a considerable amount of time and money in establishing a large and effective marketing network in the United Kingdom and parts of Europe, that has been responsible for the pre-sales at The Sonesta Orlando Resort at Tierra Del Sol Mr. Wright was admitted to Associate Membership of the Institute of Chartered Accountants in England & Wales in 1974 and admitted to Fellowship of the Institute of Chartered Accountants in England & Wales in 1978. Mr. Wright has devoted substantially all of his time over the past few years to the growth and success of the Company. In addition to providing the vision and strategy for the acquisition and integration of the various subsidiaries, Mr. Wright has taken personal responsibility for the welfare of the Company. Mr. Wright has also guaranteed certain loan facilities, without which the Company would be in a decidedly different position. He has put his personal assets at stake to advance the interests of the Company. Furthermore, Mr. Wright has accrued his salary since 2002 in an effort to preserve capital. He has led the Company to transactions that have the potential to provide greater shareholder value. FREDERICK PAUZAR has served as our Director and Chief Operating Officer since September 1, 2005. Since March 7, 2006, Mr. Pauzar has served as our President. From December 28, 2005 until March 15, 2006, Mr. Pauzar served as our Secretary. Mr. Pauzar currently serves as Chairman and Chief Executive Officer of Group One Productions, Inc., a Florida-based business and real estate consulting and development firm, and has held these positions since he co-founded the company in 1991. Mr. Pauzar also currently serves as Vice President and as a Director of Fugleberg Koch Architects, Inc. and has held these positions since February 2005 and January 1997, respectively. From January 1997 to February 2005, Mr. Pauzar served as Chief Executive Officer of Fugleberg. Mr. Pauzar received an Associate in Science degree from Excelsior College in Albany, New York. Mr. Pauzar serves on the board of the Downtown Digital Media Arts Center in Orlando, Florida. 71 MICHAEL CROSBIE, has served as our General Counsel, Executive Vice President, Director and Secretary since March 15, 2006. Mr. Crosbie previously served as a Partner with Foley & Lardner, a national law firm in its Orlando, Florida, office from February 2004 until March 2006. From February 2002 until January 2004, Mr. Crosbie served as senior counsel with Foley & Lardner and from September 1998 until January 2002, he served as an associate with Foley & Lardner. Prior to joining Foley & Lardner, Mr. Crosbie served as a law clerk for United States District Judge Steven D. Merryday in Tampa, Florida, from June 1997 until August 1998. From August 1995 until May 1997, he was employed as an associate attorney with Rumberger, Kirk & Caldwell, in Orlando, Florida. Mr. Crosbie obtained his bachelors degree from the University of Central Florida in Political Science in 1992 and obtained his Juris Doctorate from the University of Florida in 1995. Mr. Crosbie is a member of The Florida Bar, the Supreme Court of Florida, the United States District Court for the Middle District of Florida, the United States Court of Appeals for the Ninth and Eleventh Circuits and is also a member of the Federalist Society. L. WILLIAM CHILES has served as a member of our board of directors since June 2002. Mr. Chiles served as our Chief Executive Officer from August 2002 to May 2004. Since August 1998, Mr. Chiles has served as the Chief Executive Officer and President of Hickory Travel Systems, Inc., which we acquired in October 2003. Mr. Chiles received a Masters degree in marketing and finance from the University of Colorado and a Bachelors degree in business administration from Colorado State University. Mr. Chiles has specialized education in management. He is a Member of the Young Presidents Organization, the Chicago Presidents Organization and the Minister ARC Advisory Board. JAMES LEADERER has served as a member of our board of directors since May 2002, and served as our President, Chief Executive Officer, Treasurer and Secretary from May 2002 to July 2002. From January 1999 to November 2003, Mr. Leaderer served as the General Principal of Momentum Securities. Mr. Leaderer received a Bachelor of Science degree in engineering from Syracuse University. JEFFREY SCOTT was appointed as the President of Hickory Travel Systems, Inc. on March 7, 2006. Mr. Scott served as General Manager of Thor, Inc, a Cendant company. a travel services company, from November 2002 until March 2006. From August 2002 until November 2002, he served as Vice President of Sales and Client Services for Thor, Inc. From June 1990 to March 2001, he served in various positions with Worldspan L.P, including serving as Director of Customer Operations from April 1996 to March 2001; serving as Manager in the Sales and Marking Department from April 1994 to April 1996; and serving as a Regional Sales Manager of Zone Manager from June 1990 until April 1994. Mr. Scott obtained a Bachelor of Science degree in Management from National Louis University, in Atlanta, Georgia in June 2001. 72 There are no family relationships among our directors, executive officers or persons nominated to become directors or executive officers. -- We are not aware of the occurrence during the last five years of any events described in Item 401(d) of Regulation S-B under the Securities Act regarding our directors, persons nominated to become directors, executive officers, or control persons. TERM OF OFFICE Our Directors are elected annually and hold office until our next annual meeting of the shareholders and until their successors are elected and qualified. Our officers are appointed by our board of directors and hold office until they are removed by the board or they resign. AUDIT COMMITTEE We do not have an audit committee or an audit committee financial expert. We expect the nomination and acceptance of several directorships in the future. We anticipate that we will form an audit committee when new members join our board of directors, and anticipate that one of them will serve as an independent audit committee financial expert. COMPENSATION COMMITTEE We do not have a compensation committee. We expect the nomination and acceptance of several directorships in the future. We anticipate that we will form a compensation committee when new members join our board of directors. COMPENSATION OF DIRECTORS We pay or accrue $18,000 per year for each person who serves on the board of directors. During the last two fiscal years we accrued all Directors salaries, which amount totaled approximately $177,000 as December 31, 2005. In June 2004, we granted to each of Malcolm J. Wright and L. William Chiles warrants to purchase 100,000 shares (or an aggregate of 200,000 shares) of our common stock at an exercise price of $1.02 per share for their services. Warrants to purchase 75,000 shares have vested to each of them. Warrants to purchase the remaining 25,000 shares will vest to each of them on their next anniversary dates as Directors, provided that they are still serving as Directors. They may exercise the warrants for a period of five years from the dates on which such warrants vest. In September 2005, we granted warrants to purchase 100,000 shares of our common stock at an exercise price of $1.02 per share to Frederick Pauzar for his services as a director. The warrants vested immediately with respect to 25% of 73 the shares and will vest with respect to 25% of the shares on the next three anniversaries of the date on which Mr. Pauzar became a director, provided that Mr. Pauzar is still serving as a director on such dates. In March 2006, in connection with Mr. Crosbie's employment as Executive Vice President, General Counsel and Secretary of the Company, Mr. Crosbie was granted 100,000 warrants to purchase shares of the Company's common stock at an exercise price of $1.02 per share. One half of the warrants, or 50,000 vested on March 15, 2006, with the remaining warrants vesting 25,000 at a time on March 15, 2007 and March 15, 2008, assuming he is still employed by the Company on those dates. CODE OF ETHICS The Company has adopted a code of ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Company will provide to any person without charge, upon request, a copy of such code of ethics. Persons wishing to make such a request should do so in writing to the Secretary at American Leisure

Holdings, Inc., 2460 Sand Lake Road, Orlando, Florida, 32809. 74 ITEM 10. EXECUTIVE COMPENSATION. The following table sets forth information regarding the compensation that we paid to our Chief Executive Officer and each of our four other most highly compensated executive officers during the three years ended December 31, 2005. We refer to these officers in this report as the named executive officers. SUMMARY COMPENSATION TABLE Annual Compensation* Long Term Compensation (1) Awards Restricted Securities Other annual Stock Underlying Salary Bonus compensation award(s) Options/SARs Name and Principal Position Year ($) ($) ($) ($) (#) -------------------------- ------ ---------- ------- ------------- ------------ ------------ Malcolm J. Wright 2005 $518,000(2) $182,647 2,135,851 (6) Chief Executive Officer, 2004 $578,000(3) -- -- -- 230,000 (6) Secretary, Chief Financial 2003 $313,000(3) -- -- -- -- Officer and Chairman L. William Chiles 2005 $263,438(4) -- -- -- 193,672 (6) Director and the Chief 2004 $270,902(5) -- -- -- 218,672 (6) Executive Officer of Hickory 2003 $168,579(5) -- -- -- -- Travel Systems, Inc. Christopher Dane 2005(7) $108,496 Former President of Hickory Travel Systems, Inc. Frederick Pauzar 2005 $93,333(8) President, Chief Operating Officer and Director Charles Sieberling 2005 $128,240 Secretary of Hickory 2004 $131,731 Travel Systems, Inc. 2003 $ 86,000 75 * Does not include perquisites and other personal benefits in amounts less than 10% of the total annual salary and other compensation. (1) There are no stock option, retirement, pension, or profit sharing plans for the benefit of our officers and directors. (2) Mr. Wright was accrued $500,000 for his salary as an officer of the Company and $18,000 for directors compensation for the year ended December 31, 2005, which amount bears interest at 12% annum, compounded annually until paid. Additionally, we pay $940 per month and related expenses to provide Mr. Wright with business use of a motor vehicle. The amount listed in the table above includes the $500,000 annual salary, the $18,000 director's compensation, the $940 a month vehicle expense and a bonus of $182,647 which was paid to Mr. Wright equal to 19% of the total net revenues of the Company's subsidiary, Advantage Professional Management, Inc. in connection with the terms of Mr. Wright's employment with the Company, which have not as of the date of this filing been finalized in a written employment agreement. The $182,647 bonus accrued to Mr. Wright during the year ended December 31, 2005. The amount of salary listed in the table above for the year ended December 31,2 005 does not include any interest on Mr. Wright's salary which has accrued. As of December 31, 2005, the Company had accrued approximately $2,700,000 of officer's and Directors salary for Mr. Wright, earned by Mr. Wright from the year 2000 to December 31, 2005, which amount has accrued approximately $477,000 of interest as of December 31, 2005. (3) Includes $500,000, $250,000 and $250,000 of accrued salary for Mr. Wright's services as an executive officer for 2004, 2003 and 2002, respectively, $60,000 and $45,000 of accrued interest on salaries payable in 2004 and 2003, respectively, at 12% per annum, compounded annually, and $18,000 of accrued director compensation per year for Mr. Wright's services as a director of the Company for 2004, 2003 and 2002. We pay $940 per month and related expenses to provide Mr. Wright with business use of a motor vehicle. (4) Mr. Chiles was paid $145,438 in salary for his services to the Company as Chief Executive Officer of Hickory Travel Systems, Inc. He also accrued $100,000 of salary for his services to the Company as Chief Executive Officer of Hickory Travel Systems, Inc., which accrued salary bears interest at the rate of 12% per year compounded annually until paid. Mr. Chiles also accrued $18,000 in Directors fees for the year ended December 31, 2005. (5) Includes $152,902 and $150,579 of salary paid to Mr. Chiles for his services as an executive officer of Hickory for 2004 and 2003, respectively, $100,000 of accrued salary for 2004, and $18,000 of accrued director compensation per year for his services as a director for 2004, 2003 and 2002. Mr. Chiles is provided a new insured automobile for his use during the term of his employment with Hickory, which vehicle shall have an approximate value of $80,000. (6) In July 2004, Mr. Wright was issued 100,000 options, of which 50,000 vested immediately and 25,000 vested as of July 2005, with the remaining 25,000 to vest as of July 2006 (which unvested 25,000 shares are not included in the compensation table above). In July 2004, Mr. Chiles was issued 100,000 options, of which 50,000 vested immediately and 25,000 vested as of July 2005, with the remaining 25,000 to vest as of July 2006 (which unvested 25,000 shares are not included in the compensation table above). Additionally, in 2004, in connection with personal guarantees pursuant to the Debt Guarantor Agreement described above under "Description of Business," we issued Mr. Wright 205,000 warrants to purchase shares of our common stock, and Mr. Chiles warrants to purchase 168,672 shares of common stock. In 2005, in connection with personal guarantees pursuant to the Debt Guarantor Agreement, we issued Mr. Wright warrants to purchase 2,110,851 shares of our common stock and we issued Mr. Chiles 168,672 warrants to issue shares of our common stock. All of Mr. Wright's warrants are exercisable at $1.02 per share. (7) Mr. Dane served as president of Hickory Travel Systems, Inc. from March 1, 2005 until March 1, 2006. (8) Mr. Pauzar was paid $93,333 for his services as the Company's Chief Operating Officer from September 1, 2005 until December 31, 2005 and for his services as the Company's Secretary from December 28, 2005 until December 31, 2005. Mr. Pauzar did not accrue any salary for the year ended December 31, 2005. Mr. Pauzar's current annual salary for his services to the Company is $500,000. Mr. Pauzar does not have an employment agreement with the Company as of the date of this filing. 76 EMPLOYMENT AGREEMENTS Mr. Wright and we are negotiating an employment agreement pursuant to which Mr. Wright will serve as our Chief Executive Officer and Chief Financial Officer. Mr. Pauzar and we are negotiating an employment agreement pursuant to which Mr. Pauzar will serve as our President and Chief Operating Officer. Mr. Crosbie and we are negotiating an employment agreement pursuant to which Mr. Crosbie will serve as our Vice President, General Counsel and Secretary. On May 18, 2004, we entered into a three-year employment agreement with L. William Chiles to serve as Chairman of our board of directors and a separate three-year employment agreement for him to serve as the President and Chief Executive Officer of Hickory Travel Systems, Inc. ("Hickory"). Mr. Chiles ceased serving as President of Hickory on March 7, 2006 and ceased serving as the Chairman of our board of directors on March 7, 2006. The agreements provide that Mr. Chiles will receive a base salary of $100,000 for his services as our Chairman and $150,000 for his services as the Chief executive Officer of Hickory. Under each agreement, Mr. Chiles is eligible to receive an annual incentive-based bonus based on his achievement of goals and objectives that he and our board of directors agree upon. Mr. Chiles is entitled to one and one-half weeks of vacation at two times his base salary rate per week per $50,000 of his base salary for his services as Chairman and $75,000 of his base salary for his services as Chief Executive Officer of Hickory. Mr. Chiles is also entitled to share in the profits of Hickory in an amount not to exceed $2,700,000 over the life of his employment agreement with Hickory. Hickory is required to provide Mr. Chiles with key man life insurance equal to eight times his base salary; however, neither we nor Hickory have obtained such policy as of the date of this report. Hickory is also required to provide Mr. Chiles with one insured automobile having a value of $80,000 every year of his employment agreement. If Mr. Chiles is terminated without cause, under each agreement, he will receive thirty-six months' base salary and any incentive-based bonus that otherwise would have been payable to him through the date that we terminate his employment. We do not have an obligation to pay base salary or incentive-based bonus to Mr. Chiles under either agreement if he voluntarily terminates his employment or he is terminated for cause. For purposes of these employment agreements, "cause" means the following activities: - Use of alcohol, narcotics or other controlled substances that prevent him from efficiently performing his duties; - Disclosure of confidential information or competes against us in violation of the employment agreements; - Theft, dishonesty, fraud, or embezzlement from us or a violation of the duty of loyalty to us; - If Mr. Chiles is directed by a regulatory or governmental authority to terminate his employment with us or engages in activities that cause actions to be taken by regulatory or government authorities, that have a material adverse effect on us; 77 - Conviction of a felony (other than a felony resulting in a traffic violation) involving any crime of moral turpitude or any crime involving us; - Sexual harassment or sexually inappropriate behavior; - Materially disregards duties under the employment agreements; - Egregious misconduct or pattern of conduct; or - Entering into enforceable commitments on our behalf without conforming to our policies and procedures or in violation of any of our directives. 78 ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS. The following table sets forth information as of March 30, 2006, with respect to the beneficial ownership of our common stock by (i) each director and officer of the Company, (ii) all directors and officers as a group and (iii) each person known by the Company to own beneficially 5% or more of our common stock: TOTAL PREFERRED TOTAL PERCENTAGE OF COMMON STOCK VOTING VOTING BENEFICIAL STOCK (1) RIGHTS (1) WARRANTS (1) SHARES (1) VOTING SHARES (1) --------- ------------ ----------- ---------- ------------------ Roger Maddock 2,447,616 (2) 5,050,000 (3) 513,000 (4) 8,010,616 (2)(3)(4) 50.9% (5) Malcolm J. Wright 1,592,981 (6) 4,000,000 (7) 2,923,711 (8) 8,516,692 (6)(7)(8) 49.8% (9) Stanford Venture Capital Holdings, Inc. 845,733 (10) - 708,000 (11) 1,553,733 (10)(11) 13.6% (12) Stanford International Bank Limited 2,085,500 (13) 500,000 (14) 385,000 (15) 2,970,500 (13)(14)(15) 28.1% (16) L William Chiles 850,000 - 412,344 (17) 1,262,344 (17) 11.9% (18) James Leaderer 10,000 - 10,000 0.1% (19) Frederick Pauzar - - 50,000 (20) 50,000 (20) 0.5% (21) Michael Crosbie - - 50,000 (22) 50,000 (22) 0.5% (23) (All officers and Directors 2,452,981 4,000,000 (7) 3,436,055 (8)(17) 9,889,036 (6)(7)(8) 56.1% (24) five persons) (20)(22) (17)(20)(22) 79 (1) The number of shares of common stock owned are those "beneficially owned" as determined under the rules of the Commission, including any shares of common stock as to which a person has sole or shared voting or investment power and any shares of common stock which the person has the right to acquire within sixty (60) days through the exercise of any option, warrant or right. As of March 1, 2006, there were 10,176,474 shares of common stock outstanding, which amount does not include the 197,000 shares of common stock we agreed to issue Harborage Leasing Corporation, in connection with our purchase of the minority interest in Tierra Del Sol Resort, Inc. (2) Includes 2,102,268 shares of common stock owned by Arvimex, Inc., whose president is Mr. Maddock and 345,348 shares of common stock owned directly by Mr. Maddock. (3) Includes 30,000 shares of Series A Preferred Stock, which are convertible into 300,000 shares of common stock, owned directly by Mr. Maddock and 475,000 shares of Series A Preferred Stock, which are convertible into 4,750,000 shares of common stock held by Arvimex, Inc., whose president is Mr. Maddock. (4) Includes 270,000 warrants to purchase shares of the Company's common stock which were granted to Avirmex, Inc., whose president is Mr. Maddock, in January 2004 (terms, expiration date, price, etc.) and 243,00 warrants to purchase shares of the Company's common stock at $1.02 per share, which warrants were issued to Mr. Maddock in connection with his guaranty of the Company's $8,100,000 credit facility from Stanford International Bank, Ltd., which is described in greater detail under under "Item 1. Description of Business," above. (5) Using 15,739,474 shares outstanding, which assumes the conversion of Mr. Maddock's 5,050,000 shares of Series A Preferred Stock and the exercise of all 513,000 warrants which he beneficially owns. (6) Includes 845,733 shares of common stock held individually by Mr. Wright; 719,942 shares held by Xpress, Ltd. ("Xpress"), which Mr. Wright is the president of; and 27,306 shares of common stock held by Mr. Wright's daughter who resides in the same household as Mr. Wright and which shares Mr. Wright has voting control of until his daughter reaches the age of 18, in April 2006. 80 (7) Includes 55,000 shares of Series A Preferred Stock which are convertible into 550,000 shares of the common stock, which are owned individually by Mr. Wright; 335,000 shares of Series A Preferred Stock owned directly by Xpress, which Mr. Wright is the president of, which are convertible into 3,350,000 shares of common stock and 10,000 shares of Series A Preferred Stock, which are convertible into 100,000 shares of the Company's commons stock, which shares are held by Mr. Wright's daughter. Mr. Wright has pledged 845,733 shares of common stock to Stanford as collateral for an aggregate of $6,000,000 of financing that Stanford has provided to us. Mr. Wright disclaims beneficial ownership of 302,000 shares of common stock owned directly by James Hay Trustees, Ltd. as Mr. Wright does not have voting or investment power over these shares, which the trust is holding for the benefit of Mr. Wright's pension. (8) Includes 3,121,571 warrants to purchase shares of the Company's common stock at $1.02 per share. (9) Using 17,100,185 shares of common stock outstanding, assuming the conversion of Mr. Wright's 400,000 shares of Series A Preferred Stock and the exercise of all 2,923,711 warrants held by Mr. Wright. (10) Includes 1,125,000 shares of common stock held directly by Stanford Venture Capital Holdings, Inc. ("Stanford") and 845,733 shares of common stock pledged by Malcolm J. Wright, see footnote (7) above. However, this amount does not include the shares of common stock directly owned by four Stanford employees or shares issuable upon exercise of the warrants owned by such employees, as there are no contracts, agreements or understandings pursuant to which Stanford has or shares voting power, which includes the power to vote, or direct the voting of, or investment power, which includes the power to dispose or direct the disposition of, in connection with the shares of the four Stanford employees. Stanford International Bank Limited received the securities of which it is the beneficial owner from R. Allen Stanford who received them from Stanford Venture Capital Holdings, Inc. as set forth in an Assignment and Assumption Agreement, filed as Exhibit 10.1 to Schedule 13D by Stanford International Bank Limited on July 15, 2005. (11) Includes 708,000 warrants to purchase shares of the Company's common stock at $5.00 per share. (12) Using 10,884,474 shares of common stock outstanding, which amount assumes the exercise by Stanford of all 708,000 warrants which it holds. (13) Includes 1,125,000 shares of common stock held by Stanford International Bank, Ltd., and an aggregate of $5,605,000 which in convertible promissory notes convertible into shares of common stock at $10 per share, and $6,000,000 in a convertible promissory note convertible into shares of common stock at $15 per share, which are in aggregate convertible into 960,500 shares of common stock at the option of Stanford International Bank, Ltd. 81 (14) Includes 25,000 shares of Series C Preferred Stock held by Stanford International Bank, Ltd., which are convertible into 500,000 shares of common stock. (15) Includes 231,000 warrants to purchase shares of the Company's common stock at $0.001 per share and 154,000 shares of the Company's common stock at $5.00 per share. (16) Using 11,061,474 shares outstanding, which amount includes the conversion of all 25,000 shares of Series C Preferred Stock held by Stanford International Bank, Ltd., and the exercise of all 385,000 warrants which Stanford International Bank, Ltd. holds. (17) Includes 412,344 warrants held by Mr. Chiles, 143,672 of which have an exercise price of $2.96 per share and 268,672 of which have an exercise price of $1.02 per share. (18) Using 10,588,818 shares of common stock outstanding, which amount assumes the exercise by Mr. Chiles of all 412,344 warrants which he holds to purchase shares of the Company's common stock. (19) Using 10,176,474 shares of common stock outstanding as of March 30, 2006, which amount does not include the 197,000 shares of common stock we agreed to issue Harborage Leasing Corporation, in connection with our purchase of the minority interest in Tierra Del Sol Resort, Inc., which shares have not been issued as of the date of this filing. (20) Includes 50,000 warrants to purchase shares of the Company's common stock at $1.02 per share. (21) Using 10,226,474 shares of common stock outstanding, which amount assumes the exercise by Mr. Pauzar of all 50,000 warrants which he holds to purchase shares of the Company's common stock. (22) Includes 50,000 warrants to purchase shares of the Company's common stock at $1.02 per share. (23) Using 10,226,474 shares of common stock outstanding, which amount assumes the exercise by Mr. Crosbie of all 50,000 warrants which he holds to purchase shares of the Company's common stock. (24) Using 17,612,529 shares of common stock outstanding, which amount assumes the exercise by the officers and Directors of all shares of Preferred Stock which they hold, as described in footnote (7) and the exercise of all warrants to purchase shares of the Company's common stock held by the officers and directors, as described in footnotes (8),(15),(17)(20) and (22). 82 CHANGE IN CONTROL We are unaware of any arrangement or understanding that may, at a subsequent date, result in a change of control of our Company. ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS We believe that all prior related party transactions have been entered into upon terms no less favorable to us than those that could be obtained from unaffiliated third parties. Our reasonable belief of fair value is based upon proximate similar transactions with third parties or attempts to obtain the services from third parties, if such transaction would be available from third parties. All past, ongoing and future transactions with such persons, including any loans from or compensation to such persons, have been or will in the future be approved by a majority of disinterested members of the Board of Directors. We accrue $500,000 per year as salary payable to Malcolm J. Wright, our Chief Executive Officer. Prior to 2004, we accrued $250,000 per year as salary payable to Mr. Wright. We accrue interest at a rate of 12% compounded annually on the salary owed to Mr. Wright. As of December 31, 2005, the aggregate amount of salary payable and accrued interest owed to Mr. Wright was $2,700,000. We also accrue $100,000 per year as salary payable to L. William Chiles, a director of the Company and the President of Hickory, for his services, and interest at a rate of 12% compounded annually beginning in 2005. As of December 31, 2005, the aggregate amount of salary payable to Mr. Chiles was $116,500. We pay or accrue directors' fees to each of our directors in an amount of $18,000 per year for their services as directors. During the last two fiscal years, we have accrued approximately $135,000 in director's fees. We may provide the executive officers of each of our subsidiaries an aggregate bonus of up to 19% of the pre-tax profits, if any, of the subsidiaries in which they serve as executive officers. Malcolm J. Wright will receive 19% of the pre-tax profits of Leisureshare International Ltd, Leisureshare International Espanola SA, American Leisure Homes, Inc., APMG, TDSR, and American Leisure Hospitality Group, Inc. We do not have any agreements with our officers regarding the bonus other than with L. William Chiles. Mr. Chiles is entitled to receive 19% of the profits of Hickory up to a maximum payment over the life of his contract of $2,700,000. As Mr. Chiles' bonus is limited, it is not subject to the buy-out by us (discussed below) as it will cease as soon as the $2,700,000 amount has been paid to him. The executive officers of our other subsidiaries would share a bonus of up to 19% of the pre-tax profits of the subsidiary in which they serve as executive officers. We would retain the right, but not have the obligation to buy-out all of the above agreements after a period of five years by issuing such number of shares of our common stock equal to the product of 19% of the average after-tax profits for the five-year period multiplied by one-third of the price to earnings ratio of our common stock at the time of the buyout divided by the greater of the market price of our common stock or $5.00. We have not paid or accrued any bonus as of the filing of this report. While the terms of Mr. Wright's bonus agreement have been agreed to, such terms have not been memorialized in a formal agreement as of the date of this filing. 83 Since the reverse merger in July of 2002, we have relied almost exclusively upon Malcolm J. Wright for the experience and energy required to cultivate opportunities for us in vacation real estate development. We have accrued salary and other compensation to Mr. Wright up to this point. Therefore, we have entered into agreements with entities owned or controlled by Mr. Wright to secure advancement of our real estate development projects. Malcolm J. Wright is the President and 81% majority shareholder of American Leisure Real Estate Group, Inc. ("ALREG"). We do not own any interest in ALREG. On November 3, 2003, we entered into an exclusive development agreement with American Leisure Real Estate Group to provide development services for the development of The Sonesta Orlando Resort at Tierra Del Sol. Pursuant to this development agreement, it is responsible for all development logistics and we are obligated to reimburse it for all of its costs and to pay it a development fee in the amount of 4% of the total costs of the project paid by it. As of December 31, 2004, it had administered operations and paid bills in the amount of $3,543,784 and received a fee of 4% (or approximately $141,751) under the development agreement, and for the year ended December 31, 2005, it had administered operations and paid bills in approximately the amount of $8,000,000 and had received a fee of 4% of such amount or $320,316. Mr. Wright is also an officer and shareholder of Innovative Concepts, Inc., which operates a landscaping business, M J Wright Productions, Inc., which owns our Internet domain names, Resorts Development Group, LLC which develops resort properties in Orlando including Bella Citta, Los Jardines Del Sol, The Preserve, Tortuga Cay and Sherberth Development LLC, Resorts Construction, LLC with whom we intend to contract to construct part of the Sonesta Resort as described above, Resorts Concepts, LLC which operates a design business, Titan Manufacturing, LLC with whom we intend to purchase roof tiles for our developments, South Beach Resorts LLC in conjunction with Mr. Pauzar and Mr. Maddock which is redeveloping the Boulevard Hotel on South Beach, Miami. Malcolm J. Wright and members of his family are the majority shareholders of Xpress Ltd., a company that has experience marketing vacation homes in Europe. On November 3, 2003, we entered into an exclusive sales and marketing agreement with Xpress to sell the units in The Sonesta Orlando Resort at Tierra Del Sol being developed by us. This agreement provides for a sales fee in the amount of 3% of the total sales prices received by us plus a marketing fee of 1.5%. Pursuant to the terms of the agreement, one-half of the sales fee is payable upon entering into a sales contract (with deposits paid as required by the sales contract) for a unit in the resort and the other half is due upon closing the sale. As of December 31, 2004, we had paid Xpress $3,505,748 of cash, issued Xpress 120,000 shares of Series A Preferred Stock valued at $1,200,000, and transferred to Xpress a 1913 Benz automobile valued at $500,000 in connection with sales fees. For the fiscal year ended December 31, 2005, Xpress was paid a total of $2,654,735 in sales fees. As of December 31, 2005, we had pre- paid Xpress a total of $3,516,000 in sales commissions in connection with approximately $37,666,000 in deposits received on sales in the Sonesta Resorts. In February 2004, Malcolm J. Wright, individually and on behalf of Xpress, and Roger Maddock, individually and on behalf of Arvimex, Inc., entered into contracts with us to purchase an aggregate of 32 town homes for $13,116,800. Mr. Wright and Mr. Maddock paid an aggregate deposit of $1,311,680 and were given a 10% discount that we otherwise would have had to pay as a commission to a 84 third-party real estate broker. Roger Maddock is directly (and indirectly through

Arvimex) the beneficial owner of more than 5% of our common stock. In November 2003, Malcolm Wright, our Chief Executive Officer and Chairman, Gillian Wright our former Director, and our subsidiary, American Leisure, Inc., sold 82.5% of the ownership interests of American Vacation Resorts, Inc. ("AVR"), a vacation club to our current President and Director, Frederick Pauzar, in consideration for an aggregate of $1,500,000 in promissory notes, pursuant to the terms of a Stock Purchase Agreement. In April 2004, pursuant to an amendment to the stock purchase agreement, the parties agreed to substitute seventeen (17) vacation properties located in Kissimmee, Florida, as consideration for the purchase of the interests of AVR, in place of the payment of $1,500,000 in promissory notes. In June 2004, we granted warrants to each of Malcolm J. Wright and L. William Chiles for their services as directors to purchase 100,000 shares (or an aggregate of 200,000 shares) of our common stock at an exercise price of $1.02 per share. Warrants to purchase 75,000 shares have vested to each of them. Warrants to purchase the remaining 25,000 shares will vest to each of them on the next anniversary date of each of their terms as a director, provided they are then serving in said capacity. While the terms of these warrants have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. On February 1, 2005, Gillian Wright resigned as one of our Directors. M J Wright Productions, Inc., of which Mr. Wright is the President, owns our Internet domain names. Mr. Wright and we are negotiating an employment agreement pursuant to which Mr. Wright will serve as our Chief Executive Officer and Chief Financial Officer. We will provide the terms of the employment agreement when it is finalized. In June 2005, we entered into an indemnification agreement with Mr. Wright. In March 2005, we closed on the sale of 13.5 acres of commercial property in Davenport, Polk County, Florida at the corner of U.S. Hwy. 27 and Sand Mine Road. The property was sold for $4,020,000. We paid-off secured debt on the property of $1,300,000 plus accrued interest and other costs. We used the net proceeds for working capital and to pay $1,948,411 of notes payable to related parties attributable to the acquisition and retention of the property. Profits on the sale of this property amounted to approximately $968,000. Thomas Cornish has previously served as a member of our advisory board, which we no longer have. He is the President of the Seitlin Insurance Company. Our board of directors has authorized Seitlin to place a competitive bid to provide insurance for The Sonesta Orlando Resort at Tierra del Sol. During 2004 and 2005, Mr. Cornish provided services on our advisory board in consideration for $1,500 and $3,000, respectively. David Levine has served as a member of our advisory board, which we no longer have. He provided services on our advisory board during 2004 and 2005 in consideration for $3,000 and $1,500, respectively. We reimbursed Mr. Levine for travel expenses in the amount of $1,613 and $8,521 during 2004 and 2005, respectively. Charles J. Fernandez, a member of our advisory board provided services on our advisory board during 2005 for which he was paid $3,000. We authorized warrants to each of Thomas Cornish, Charles J. 85 Fernandez and David Levine to purchase 100,000 shares (or an aggregate of 300,000 shares) of our common stock at an exercise price of $1.02 per share in consideration for their services as advisors. The warrants vested immediately with respect to the purchase of 50,000 shares by each of them. Warrants to purchase the remaining 50,000 shares will vest to by each of them in equal amounts on their next two anniversary dates as advisors. While the terms of these warrant agreements have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. We previously announced Messrs Cornish, Levine and Fernandez as Director nominees, however we currently have no present intention for such individuals to serve on our Board of Directors. In June 2005, Arvimex, Inc., which is controlled by our significant shareholder, Roger Maddock, exercised warrants to purchase 160,000 shares of our common stock at $0.001 per share, for aggregate consideration of $160. In July 2005, we issued 171 shares of Series E preferred stock to The Martin Topolsky Trust in exchange for an equity interest in Around The World Travel Holdings, Inc., consisting of 13,500 shares of its Series A preferred stock and 21,687 shares of its common stock. On July 1, 2005, we granted warrants to L. William Chiles, a Director, to purchase 168,672 shares of our common stock at an exercise price of $1.02 per share and warrants to Malcolm J. Wright, our Chief Executive Officer and Director, to purchase 347,860 shares of our common stock at an exercise price of $1.02 per share. We issued the warrants to Mr. Chiles and Mr. Wright as consideration for them renewing their personal guarantees regarding the loan with Grand Bank & Trust of Florida in connection with our renewal of that loan. South Beach Resorts, LLC, has contracted with one of the Company's subsidiaries Wright Resort Villas & Hotels, Inc. to receive hotel management services for a hotel wish it owns and is redeveloping. Mr. Pauzar, Mr. Wright and Mr. Maddock control the membership interests of the limited liability company which owns and controls South Beach Resorts, LLC. In September 2005, we reported in a Form 8-K filing, our entry into a non-binding term sheet with Vici Marketing Group, LLC ("Vici"), whereby we were to purchase 100% of the assets of Vici in return for 235,000 shares of common stock to members of Vici and up to an additional 2,000,000 shares of the Company's common stock. The acquisition of Vici was anticipated to close by October 30, 2005. We never closed the acquisition with Vici, did not issue Vici any shares, and do not anticipate closing such acquisition in the future. On December 28, 2005 we granted warrants to Malcolm J. Wright, our Chief Executive Officer and Director, to purchase 2,008,500 shares of our common stock at an exercise price of $1.02 per share. We issued the warrants to Mr. Wright as consideration for his personal guarantee regarding the construction and land loans with KeyBank, N.A. While the terms of these warrants have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. 86 In December 2005, in connection with the Stanford Credit Facility, the Company granted SIBL and its designees warrants to purchase 308,000 shares of the Company's common stock at an exercise price of $5.00 per share and warrants to purchase 154,000 shares of the Company's common stock at an exercise price of $0.001 per share, which warrants expire five years from their grant date. (The Stanford Credit Facility and warrants are described in greater detail above). In December 2005 in connection with their guaranty of the Stanford Credit Facility pursuant to the Irrevocable and Unconditional Guaranty, the Company agreed to issue an aggregate of 405,000 warrants to purchase shares of the Company's common stock to certain third party entities. The warrants have an exercise price of $1.02 and expire 5 years from the expiration date of the third parties guaranties. (the Stanford Credit Facility and Irrevocable and Unconditional Guaranty are described in greater detail above). While the terms of these warrants have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. On January 9, 2006, with an effective date of June 14, 2002, the Company entered into an Amended Debt Guarantor Agreement ("Amended Debt Agreement") with Malcolm J. Wright, its Chief Executive Officer and Director and L. William Chiles, a Director of the Company (collectively, Mr. Wright and Mr. Chiles are referred to herein as the "Guarantors"). Pursuant to the Amended Debt Agreement, the Company and the Guarantors agreed to amend the terms of the prior Debt Guarantor Agreement entered into between the parties. The original Debt Guarantor Agreement provided for the Guarantors to receive warrants to purchase shares of the Company's common stock at $2.96 per share in an amount equal to 3% of any Company indebtedness that they personally guarantee. The Amended Debt Agreement decreased the exercise price of the warrants to be issued in connection with any of the Guarantor's guarantees to $1.02 per share (the "Guarantor Warrants"). Under the Amended Debt Agreement, the warrants issued to the

Guarantors are exercisable until five years after the date the Guarantor is no longer obligated to personally guarantee such Company indebtedness. Additionally, under the Amended Debt Agreement, the fee which the Guarantors receive for a pledge of personally owned collateral to secure Company indebtedness was increased from 1% of such total indebtedness guaranteed (as was provided under the original Debt Guarantor Agreement), to 2% of the total amount of indebtedness guaranteed. The 2% fee is paid to the Guarantors in Guarantor Warrants with the same terms and conditions as provided above. Mr. Wright pledged to Stanford 845,733 shares of our common stock which he holds. Stanford is currently in possession of the shares of our common stock that Mr. Wright pledged; however, Mr. Wright retained the power to vote (or to direct the voting) and the power to dispose (or direct the disposition) of those shares. Mr. Chiles had personally guaranteed $2,000,000 of the $6,000,000 received from Stanford and pledged to Stanford 850,000 shares of our common stock held by Mr. Chiles. Stanford released Mr. Chiles from the personal guarantee and released his common stock from the pledge when we closed the $6,000,000 credit facility. Mr. Wright and Mr. Chiles have each also given a personal guarantee regarding a loan in the principal amount of $6,000,000 that was made to Tierra Del Sol Resort Inc. by Grand Bank & Trust of Florida. We have authorized the issuance of warrants to Mr. Wright and Mr. Chiles to purchase 587,860 shares and 168,672 shares, respectively, of our common stock at an exercise price of $1.02 per share. We are under a continued obligation to issue warrants at $1.02 to Messrs. Wright and Chiles for guarantees that they may be required to give on our behalf going forward. 87 Additionally, Mr. Wright has guaranteed the Harborage Note, as described in greater detail under "Description of Business," above, for which he received 42,962 warrants to purchase shares of the Company's common stock at an exercise price of $1.02 per share. While the terms of these warrants have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. In January 2006, in connection with the SIBL Reedy Creek Loan, the Company granted SIBL warrants to purchase 154,000 shares of the Company's common stock at an exercise price of $5.00 per share and warrants to purchase 77,000 shares of the Company's common stock at an exercise price of $0.001 per share, which warrants expire five years from their grant date. In January 2006, in connection with the SIBL Reedy Creek Loan, the Company granted warrants to four separate affiliates of SIBL entitling them to purchase an aggregate of 154,000 shares of the Company's common stock at an exercise price of $5.00 per share and 77,000 shares at an exercise price of $.001 per share. The warrants have a term of five years and are immediately exercisable. In January 2006, in connection with Mr. Wright's guarantee of the Amended Note, the Company agreed to grant Mr. Wright warrants to purchase 240,000 shares of the Company's common stock at an exercise price of $1.02 per share. The warrants are being granted pursuant to an existing agreement between the Company and Mr. Wright and expire 5 years from the expiration date of the guarantees. In addition, the Company has agreed to register the shares underlying the warrants granted to Mr. Wright on its next registration statement. While the terms of these warrants have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. In March 2006, in connection with Mr. Crosbie's appointment as Executive Vice President, General Counsel and Secretary of the Company, Mr. Crosbie was granted 100,000 warrants to purchase shares of the Company's common stock at an exercise price of $1.02 per share. One half of the warrants, or 50,000 vested on March 15, 2006, with the remaining warrants vesting 25,000 at a time on March 15, 2007 and March 15, 2008, assuming he is still a Director of the Company on those dates. While the terms of these warrants have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. In March 2006, we appointed Jeffrey Scott as President of Hickory. In connection with Mr. Scott's appointment, we agreed to grant him warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of $5.00 per share. One half, or 50,000 of Mr. Scott's warrants vested on March 2, 2006, with the remaining 50,000 warrants vesting as follows, 25,000 warrants on March 2, 2007 and the remaining 25,000 warrants on March 2, 2008, assuming Mr. Scott is still employed by the Company on those dates. While the terms of these warrants have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. In March 2006, with an effective date of December 30, 2005, we purchased the minority interest of our now wholly owned subsidiary, Tierra Del Sol, Inc. (the "Minority Interest") from Harborage Leasing Corporation ("Harborage"). The 88 purchase price of the Minority Interest from Harborage was a promissory note for $1,411,705 ("Harborage Note"); the right to receive, without payment, two (2) three-bedroom condominium units to be constructed in Phase 2 of the Tierra Del Sol Resort, or in the event title to both such units is not delivered by December 31, 2007, then, in lieu thereof, payment of $500,000.00 for each such unit that is not transferred by such date; 197,000 shares of the Company's common stock; and warrants to acquire 300,000 additional shares of the Company's common stock at a price of $5.00 per share. The Harborage Note is guaranteed by Malcolm J. Wright, the Company's Chief Executive Officer and Director, for which he received a guaranty fee equal to three percent (3%)_of the amount guaranteed. The Company paid this fee through the grant of 102,321 warrants to purchase shares of the Company's common stock at an exercise price of $1.02 per share. These warrants will expire 5 years from the expiration date of the guaranty. While the terms of these warrants have been agreed to, they have not been memorialized in a formal agreement as of the date of this filing. ITEM 13. EXHIBITS The exhibits listed below are filed as part of this annual report. EXHIBIT NO. DESCRIPTION OF EXHIBIT 2.1 (1) Stock Purchase Agreement 3.1 (2) Articles of Incorporation 3.2 (3) Amended and Restated Articles of Incorporation filed July 24, 2002 3.3 (3) Certificate of Amendment of Amended and Restated Articles of Incorporation filed July 24, 2002 3.4 (3) Amended and Restated Bylaws 4.1 (3) Certificate of Designation of Series A Convertible Preferred Stock 4.2 (5) Certificate of Designation of Series B Convertible Preferred Stock 4.3 (5) Certificate of Designation of Series C Convertible Preferred Stock 4.4 (10) Amended and Restated Certificate of Designation of Series C Convertible Preferred Stock 4.5 (20) Corrected Certificate of Designation of Series E Convertible Preferred Stock, which replaces the Form of Certificate of Designation of Series E Convertible Preferred Stock, filed as Exhibit 1 to the Registrant's Form 8-K on April 12, 2004 89 4.6 (18) Certificate of Designation of Series F Convertible Preferred Stock, which replaces the Form of Certificate of Designation of Series F Convertible Preferred Stock, filed as Exhibit 3.1 to the Registrant's Form 8-K on January 6, 2005 10.1 (3) Stock Option Agreement with L. William Chiles Regarding Hickory Travel Systems, Inc. 10.2 (5) Securities Purchase Agreement with Stanford Venture Capital Holdings, Inc. dated January 29, 2003 10.3 (5) Registration Rights Agreement with Stanford dated January 29, 2003 10.4 (5) Securities Purchase Agreement with Charles Ganz dated January 29, 2003 10.5 (5) Asset Sale Agreement with Charles Ganz dated January 29, 2003 10.6 (5) Registration Rights Agreement with Charles Ganz dated January 29, 2003 10.7 (5) Securities Purchase Agreement with Ted Gershon dated January 29, 2003 10.8 (5) Asset Sale Agreement with Ted Gershon dated January 29, 2003 10.9 (5) Registration Rights Agreement with Ted Gershon dated January 29, 2003 10.10(6) Confirmation of Effective Date and Closing Date of $6,000,000 Line of Credit 10.11(6) Credit Agreement with Stanford for $6,000,000 Line of Credit 10.12(6) First Amendment to Credit Agreement with Stanford for $6,000,000 Line of Credit 10.13(6) Mortgage Modification and Restatement Agreement between Tierra Del Sol Resort Inc., formerly Sunstone

Golf Resort, Inc., formerly Sunstone Golf Resort, Inc. ("TDSR") and Stanford dated December 18, 2003 10.14(6) Registration Rights Agreement with Stanford dated December 18, 2003 10.15(6) Florida Mortgage and Security Agreement securing the $6,000,000 Line of Credit 90 10.16(6) Second Florida Mortgage and Security Agreement securing the $6,000,000 Line of Credit 10.17(6) Security Agreement by Caribbean Leisure Marketing Limited and American Leisure Marketing and Technology Inc. dated December 18, 2003, securing the $6,000,000 Line of Credit 10.18(6) Warrants issued to Daniel T. Bogar to purchase 168,750 shares at $2.96 per share 10.19(7) Warrants issued to Arvimex, Inc. to purchase 120,000 shares at $0.001 per share 10.20(7) Warrant Purchase Agreement with Stanford to purchase 600,000 shares at $0.001 per share and 1,350,000 shares at $2.96 per share 10.21(7) Warrants issued to Arvimex to purchase 270,000 shares at $2.96 per share 10.22(10) Credit Agreement with Stanford for $1,000,000 Credit Facility 10.23(10) Credit Agreement with Stanford for $3,000,000 Credit Facility 10.24(10) Instrument of Warrant Repricing to purchase 1,350,000 shares at $0.001 per share 10.25(10) Warrant Purchase Agreement with Stanford to purchase 500,000 shares at $5.00 per share 10.26(10) Registration Rights Agreement with Stanford dated June 17, 2004 10.27(8) Agreement and First Amendment to Agreement to Purchase Galileo Notes with GCD Acquisition Corp. ("GCD"), dated March 19, 2004 and March 29, 2004, respectively 10.28(8) Assignment Agreement for Security for Galileo Notes 10.29(18) Bridge Loan Note for $6,000,000 issued by Around The World Travel, Inc. in favor of Galileo International, LLC and acquired by the Registrant 10.30(18) Third Amended and Restated Acquisition Loan Note for $6,000,000 issued by Around The World Travel, Inc. in favor of Galileo International, LLC and acquired by the Registrant 10.31(18) Amended and Restated Initial Loan Note for $7,200,000 issued by Around The World Travel in favor of Galileo and acquired by the Registrant 91 10.32(18) Promissory Note for $5,000,000 issued by Around The World Travel, Inc. in favor of CNG Hotels, Ltd. and assumed by the Registrant 10.33(18) Promissory Note for $2,515,000 issued by TDSR in favor of Arvimex and Allonge dated January 31, 2000 10.34(18) Registration Rights Agreement with Arvimex dated January 23, 2004 10.35(13) Development Agreement between TDSR and American Leisure Real Estate Group, Inc. 10.36(14) Exclusive Sales and Marketing Agreement between TDSR and Xpress Ltd. 10.37(15) Asset Purchase Agreement with Around The World Travel, Inc. for TraveLeaders 10.38(16) Operating Agreement between American Leisure Hospitality Group, Inc. and Sonesta Orlando, Inc., dated January 29, 2005 10.39(17) Second Re-Instatement and Second Amendment to Contract of Advantage Professional Management Group, Inc. to sell unimproved land in Davenport, Florida to Thirteen Davenport, LLC 10.40(17) Purchase Agreement between Advantage Professional Management Group, Inc. and Paradise Development Group, Inc. to sell part of unimproved land in Davenport, Florida 10.41(17) First Amendment to Purchase Agreement between Advantage Professional Management Group, Inc. and Paradise Development Group, Inc. to sell part of unimproved land in Davenport, Florida 10.42(17) Assignment of Purchase Agreement, as amended, to Thirteen Davenport, LLC to sell part of unimproved land in Davenport, Florida 10.43(20) Note and Mortgage Modification Agreement dated May 12, 2005, regarding a Promissory Note in the original amount of $985,000 dated January 31, 2000, issued by TDSR in favor of Raster Investments, Inc. and a Mortgage in favor of Raster Investments, Inc. 10.44(20) First Amendment to Asset Purchase Agreement with Around The World Travel, Inc. for TraveLeaders dated March 31, 2005 10.45(21) Management Agreement with Around The World Travel, Inc. dated January 1, 2005 92 10.46(21) License Agreement with Around The World Travel, Inc. dated January 1, 2005 10.47(21) Agreement with Shadmore Trust U/A/D dated April 1, 2004 to acquire common stock, preferred stock and indebtedness of AWT 10.48(21) Promissory Note for $1,698,340 issued by the Registrant in favor of Shadmore Trust U/A/D and dated April 1, 2004 10.49(21) Stock Purchase Agreement dated April 12, 2004 to acquire preferred stock of Around The World Travel, Inc. 10.50(21) Additional $1.25M issued by the Registrant in favor of Stanford and dated November 15, 2004. 10.51(21) Third Amendment to Credit Agreement with Stanford for $1,000,000 and Second Additional Stock Pledge Agreement dated December 13, 2004 10.52(21) Second Renewal Promissory Note for $1,355,000 issued by the Registrant in favor of Stanford and dated December 13, 2004 10.53(21) Agreement dated March 17, 2005, to Terminate Right of First Refusal Agreement and Amend Registration Rights Agreement with Stanford 10.54(22) Warrant Agreement and Warrants to Malcolm J. Wright to purchase 100,000 shares at $1.02 per share 10.55(22) Warrant Agreement and Warrants to L. William Chiles to purchase 100,000 shares at $1.02 per share 10.56(22) Warrant Agreement and Warrants to T. Gene Prescott to purchase 100,000 shares at $1.02 per share 10.57(22) Warrant Agreement and Warrants to Charles J. Fernandez to purchase 100,000 shares at $1.02 per share 10.58(22) Warrant Agreement and Warrant to Steven Parker to purchase 200,000 shares at $1.02 per share 10.59(22) Warrant Agreement and Warrants to Toni Pallatto to purchase 25,000 shares at $1.02 per share 10.60(21) Employment Agreement, as amended, between L. William Chiles and Hickory Travel Systems, Inc. 10.61(21) Employment Agreement between L. William Chiles and the Registrant 93 10.62(21) First Amendment to $3 Million Credit Agreement 10.63(21) Instrument of Warrant Repricing to purchase 100,000 shares at $0.001 per share 10.60(23) Commitment Letter with KeyBank National Association for $96,000,000 for Phase I 10.61(23) Commitment Letter with KeyBank National Association for $14,850,000 for Phase II 10.62(24) Re-Stated Promissory Note for $6,356,740 issued in favor of Around The World Travel, Inc. dated June 30, 2005. 10.63(26) Commitment Letter with KeyBank National Association for $96,000,000 for Phase I 10.63(27) Commitment Letter with KeyBank National Association for $14,850,000 for Phase II 10.64(27) Commitment Letter with KeyBank National Association for up to 72,550,000, with a maximum principal balance of $40,000,000 for Phase 1 dated December 1, 2005 10.65(27) Commitment Letter with KeyBank National Association for up to $14,850,000 for Phase 2 dated December 1, 2005 10.66(28) Construction Loan Agreement with KeyBank National Association for $40,000,000 for Phase 1 dated December 29, 2005 10.67(28) Promissory Note with KeyBank National Association for $40,000,000 10.68(28) Loan Agreement with KeyBank National Association for $14,850,000 for Phase 2 dated December 29, 2005 10.69(28) Promissory Note with KeyBank National Association for $14,850,000 10.70(28) Promissory Note for $4,000,000 issued by TDS Management, LLC in favor of PCL Construction Enterprises, Inc. 10.71(28) Guaranty by the Registrant of the $4,000,000 Promissory Note to PCL Construction Enterprises, Inc. 10.72(28) Guaranty of Malcolm J. Wright guaranteeing the $4,000,000 Promissory Note to PCL Construction Enterprises, Inc. 94 10.73(28) Addendum to Construction Loan Agreement Condominium and Townhouse Project Development 10.74(28) Payment Guaranty Phase 1 10.75(28) Payment Guaranty Phase 2 10.76(28) Amended Debt Guarantor Agreement 10.77(28) Guaranty of Tierra Del Sol (Phase 1), Ltd. guaranteeing the $4,000,000 Promissory Note to PCL Construction Enterprises, Inc. (exhibit 10.7) 10.78(28) Performance and Completion Guaranty 10.79(28) Pledge and Security Agreement 10.80(29) Option Exercise Agreement with Stanford Financial Group Company 10.81(29) Assignment of Interest in Reedy Creek Acquisition Company, LLC 10.82(30) Registration Rights Agreement with SIBL dated January 4, 2006 10.4(30) Credit Agreement with SIBL 10.83(29) $7,000,000 Promissory Note with Bankers Credit Corporation 10.7(29) Modification and Reaffirmation of Guaranty and Environmental Indemnity Agreement 10.84(29) Renewed, Amended and

Increased Promissory Note 10.85(30) Stanford International Bank, Ltd. Warrant for 77,000 shares at $0.001 per share 10.86(30) Stanford International Bank, Ltd. Warrant for 154,000 shares at $5.00 per share 10.87(29) Irrevocable and Unconditional Guaranty 10.88(30) Registration Rights Agreement with SIBL dated December 28, 2005 10.89(29) SIBL $2.1 million note 10.90(30) Partnership Interest Pledge and Security Agreement and Collateral Assignment (Phase 1) 95 10.91(30) Partnership Interest Pledge and Security Agreement and Collateral Assignment (Phase 2) 10.92(30) SIBL Warrant Agreement for 2% Phase 1 interest 10.93(30) SIBL Warrant Agreement for 2% Phase 2 interest 10.94(29) Stanford International Bank, Ltd. Warrant for 154,000 at $0.001 per share 10.95(29) Stanford International Bank, Ltd. Warrant for 308,000 at $5.00 per share 10.96(31) Original Purchase Agreement 10.97(32) First Amendment to Asset Purchase Agreement 10.98(33) Settlement Agreement effective as of December 31, 2005 by and among American Leisure Holdings, Inc., American Leisure Equities Corporation and Around The World Travel, Inc. 10.99(34) Stock Purchase Agreement between Harborage Leasing Corporation and the Company 10.100(34) $1,411,705 Promissory Note payable to Harborage Leasing Corporation 10.101(34) Malcolm J. Wright Guaranty Agreement regarding $1,411,705 Promissory Note with Harborage Leasing Corporation 10.102(34) Harborage Leasing Corporation warrant to purchase 300,000 shares of common stock at $5.00 per share 10.103(35) Third Party Debt Guarantor Agreement 10.104(35) Note Modification Agreement with SIBL 16.1 (3) Letter from J.S. Osborn, P.C. dated August 1, 2002 16.2 (4) Letter from J.S. Osborn, P.C. dated May 22, 2003 16.3 (11) Letter from J.S. Osborn, P.C. dated August 17, 2004 16.4 (11) Letter from Charles Smith 16.5 (11) Letter from Marc Lumer & Company 16.6 (11) Letter from Byrd & Gantt, CPA's, P.A. 96 16.7 (12) Letter from Malone & Bailey, PLLC 16.8 (19) Letter from Bateman & Co., Inc., P.C. 21.1(35) Subsidiaries of American Leisure Holdings, Inc. 31* Chief Executive Officer and Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 32* Chief Executive Officer and Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 99.1 (6) Personal Guarantee by Malcolm J. Wright guaranteeing the $6,000,000 Line of Credit 99.2(25) Press Release issued September 6, 2005, announcing Frederick W. Pauzar as Chief Operating Officer and a Director * Filed herein. (1) Filed as Exhibit 2.1 to the Registrant's Form 8-K on June 28, 2002, and incorporated herein by reference. (2) Filed as Exhibit 3.1 to the Registrant's Form SB-1 on October 20, 2000, and incorporated herein by reference. (3) Filed as Exhibits 3.1, 3.2, 3.3, 3.4 10.2, and 16.1, respectively, to the Registrant's Form 10-QSB on August 19, 2002, and incorporated herein by reference. (4) Filed as Exhibit 16.1 to the Registrant's Form 8-K on May 23, 2003, and incorporated herein by reference. (5) Filed as Exhibits 99.2, 99.1, 99.3, 99.5, 99.6, 99.7, 99.8, 99.9, 99.10 and 99.11, respectively, to the Registrant's Form 10-KSB on May 23, 2003, and incorporated herein by reference. (6) Filed as Exhibits 99.1, 99.2, 99.3, 99.4, 99.7, 99.8, 99.9, 99.10, 99.11 and 99.5, respectively, to the Registrant's Form 8-K on April 1, 2004, and incorporated herein by reference. (7) Filed as Exhibits 99.11, 99.12 and 99.13, respectively, to the Registrant's Form 10-QSB on May 25, 2004, and incorporated herein by reference. (8) Filed as Exhibits 99.1 and 99.2, respectively, to the Registrant's Form 8-K on April 6, 2004, and incorporated herein by reference. 97 (9) Filed as Exhibits 3.1, 10.1, 10.2, 10.3, 10.4, 10.5 and 99.2, respectively, to the Registrant's Forms 8-K/A filed on August 6, 2004, and incorporated herein by reference. (10) Filed as Exhibits 3.1, 10.1, 10.2, 10.3, 10.4, 10.5 and 99.2, respectively, to the Registrant's Forms 8-K/A filed on August 6, 2004, and incorporated herein by reference. (11) Filed as Exhibits 16.2, 16.3, 16.4 and 16.5, respectively, to the Registrant's Forms 8-K/A filed on August 18, 2004, and incorporated herein by reference. (12) Filed as Exhibit 16.1 to the Registrant's Form 8-K on August 18, 2004, and incorporated herein by reference. (13) Filed as Exhibit 10.6 to the Registrant's Form 10-QSB on August 20, 2004, and incorporated herein by reference. (14) Filed as Exhibit 10.6 to the Registrant's Form 10-QSB/A on December 8, 2004, and incorporated herein by reference. (15) Filed as Exhibit 10.1 to the Registrant's Form 8-K on January 6, 2005, and incorporated herein by reference. (16) Filed as Exhibit 10.1 to the Registrant's Form 8-K on February 2, 2005, and incorporated herein by reference. (17) Filed as Exhibits 10.1, 10.2, 10.3 and 10.4, respectively, to the Registrant's Form 8-K on March 14, 2005, and incorporated herein by reference. (18) Filed as Exhibits 4.6, 10.29, 10.30, 10.31, 10.32, 10.33, and 10.34, respectively, to the Registrant's Form 10-KSB on March 31, 2005, and incorporated herein by reference. (19) Filed as Exhibit 16.2 to the Registrant's Form 8-K on March 28, 2005, and incorporated herein by reference. (20) Filed as Exhibits 4.5, 10.43 and 10.44, respectively to the Registrant's Form 10-QSB on May 23, 2005, and incorporated herein by reference. (21) Filed as Exhibits 10.45, 10.46, 10.47, 10.48, 10.49, 10.50, 10.51, 10.52, 10.53, 10.60, 10.61, 10.62, 10.63 and 23.1, respectively, to the Registrant's Form SB-2 on June 30, 2005, and incorporated herein by reference. (22) Filed as Exhibits 10.54, 10.55, 10.56, 10.57, 10.58 and 10.59, respectively, to the Registrant's Form SB-2/A on July 7, 2005, an incorporated herein by reference. (23) Filed as Exhibit 10.1 and 10.2, respectively to the Registrant's Form 8-K on August 18, 2005, and incorporated herein by reference. 98 (24) Filed as Exhibit 10.5 to the Registrant's Form 8-K on August 19, 2005, and incorporated herein by reference. (25) Filed as Exhibit 99.1 to the Registrant's Form 8-K on September 6, 2005, and incorporated herein by reference. (26) Filed as Exhibits to our Report on Form 8-K filed with the Commission on August 18, 2005, and incorporated herein by reference. (27) Filed as Exhibits to our Report on Form 8-K filed with the Commission on December 15, 2005 and incorporated herein by reference. (28) Filed as Exhibits to the Registrant's report on form 8-K on January 12, 2006 and incorporated by reference herein. (29) Filed as Exhibits to the Registrant's report on Form 8-K filed on January 19, 2006 and incorporated herein by reference. (30) Filed as Exhibits to the Company's report on Form 8-K, which was filed with the SEC on March 28, 2006. (31) Filed as Exhibit 10.1 to the Company's report on Form 8-K, which was filed with the SEC on January 6, 2005, and is incorporated herein by reference. (32) Filed as Exhibit 10.44 to the Company's report on Form 10-QSB for the quarter ended March 31, 2005, which was filed with the SEC on May 23, 2005, and is incorporated herein by reference. (33) Filed as Exhibit 10.3 to the Company's report on Form 8-K, which was filed with the SEC on March 2, 2006, and is incorporated herein by reference. (34) Filed as Exhibits to the Company's Report on Form 8-K, which was filed with the SEC on March 29, 2006, and is incorporated herein by reference. (35) Filed as an Exhibit to the Company's Report on Form 10-KSB, which was filed with the SEC on March 31, 2006, and is incorporated herein by reference. (i) In addition to Stanford International Bank, Ltd. ("SIBL"), four individuals were granted warrants in connection with the Option Agreement. Those four individuals, Ronald Stein, Osvaldo Pi, Daniel Bogar and William Fusselman were each granted warrants to purchase 19,250 shares of the Company's common stock at $0.001 per share, and warrants to purchase 38,500 shares of the Company's common stock at $5.00 per share, which warrants are identical to the SIBL warrants attached hereto as Exhibits 10.9 and 10.10, respectively, other than the number of shares which those warrants are exercisable for. 99 ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES. AUDIT FEES The audit and audit related fees billed for audit and review of the Company's annual and quarterly financial statements were $56,000 and $83,257 for the fiscal years ended December 31, 2005 and December 31, 2004, respectively. AUDIT RELATED FEES The Company did not pay any additional fees for the years ended December 31, 2005 and 2004 for assurance and related services reasonably related to the performance of the audit or review of the Company's financials statements. TAX FEES The Company paid $41,990 and $0, in fees for the years ended December 31, 2005 and 2004, respectively, for professional services rendered for tax compliance, tax advice and tax planning. ALL OTHER FEES The Company's principal independent accountants did not bill the Company for any services other than the foregoing for the fiscal years ended December 31, 2005 and December 31, 2004. 100 SIGNATURES In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. AMERICAN LEISURE HOLDINGS, INC. By: /s/ Malcolm J. Wright -------------------------- Name: Malcolm J. Wright Title: Chief Executive Officer and Director Date: October 18, 2006 In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. SIGNATURE TITLE DATE -------- ----- ---- /s/ Malcolm J. Wright Chief Financial Officer, October 18, 2006 ---------------------- Chief Executive Officer, and Malcolm J. Wright Chairman of the Board of Directors /s/ Frederick Pauzar President, Chief Operating Officer, October 18, 2006 ---------------------- and Director Frederick Pauzar /s/ Michael Crosbie General Counsel, October 18, 2006 ---------------------- Executive Vice President, Michael Crosbie and Secretary /s/ L. William Chiles Director October 18, 2006 ---------------------- L. William Chiles 101