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ALTERNATIVE TECHNOLOGY RESOURCES INC

Form 10-Q

May 15, 2002

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United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2002

Commission file number 0-20468

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

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

33 Jewel Court, Portsmouth, N.H. 03801
(Address of principal executive offices)

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

(Former address if changed since last report)

Check whether the registrant (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding
12 months (or for such shorter period that the registrant was required to file
such reports), and (2) has been subject to such filing requirements for the past
90 days. Yes X No

Number of shares of common stock outstanding as of April 30, 2002: 60,941,353

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ALTERNATIVE TECHNOLOGY RESOURCES, INC.
Condensed Balance Sheets
(Unaudited)

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	Assets -----	Fiscal Qu March 200
Current assets:		
Cash and cash equivalents		\$ 1,541
Short-term investments		
Trade accounts receivable		
Interest receivable		
Prepaid expenses and other current assets		147

Total current assets		1,688

Property and equipment:		
Equipment and software		746
Accumulated depreciation and amortization		(236)

Property and equipment, net		509

Prepaid annual license and service fees		236
Other non-current assets		25

		\$ 2,460
		=====
	Liabilities and Stockholders' Equity (Deficit)	
Current liabilities:		
Payable to Healthcare Exchange participants		\$ 305
Trade accounts payable		297
Accrued payroll and related expenses		251
Accrued preferred stock dividends		283
Accounts payable and accrued interest payable to stockholders		706
Other current liabilities		362

Total current liabilities		2,206

Notes payable to stockholder		1,745
Convertible notes payable to stockholder		2,423

Total notes payable to stockholders		4,169

Commitments and contingencies		
Stockholders' equity (deficit):		
Common stock, \$0.01 par value - 100,000,000 shares authorized; 60,941,128 shares issued and outstanding at March 31, 2002 (59,394,844 at June 30, 2001)		609,
Additional paid-in capital		52,211,
Accumulated other comprehensive loss		
Accumulated deficit		(56,736,

Total stockholders' equity (deficit)		(3,915,

		\$ 2,460,
		=====

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See accompanying notes to condensed financial statements.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ALTERNATIVE TECHNOLOGY RESOURCES, INC. Condensed Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2002	2001
Healthcare exchange		
Healthcare exchange revenue	\$ 430,308	\$ -
Healthcare exchange costs	(401,529)	-
	-----	-----
Healthcare exchange gross profit (loss)	28,779	-
Contract programming		
Contract programming revenue	-	46,385
Programmer costs	-	(35,937)
Start-up and other costs	-	(982)
	-----	-----
Contract programming gross profit	-	9,466
Selling, marketing and product development costs	(1,852,186)	(1,227,696)
General and administrative expenses	(673,076)	(640,279)
	-----	-----
Loss from operations	(2,496,483)	(1,858,509)
Other income (expense)		
Interest income	744	114,057
Interest expense to stockholders and directors	(111,673)	(102,789)
	-----	-----
Total other income (expense)	(110,929)	11,268
	-----	-----
Net loss	(2,607,412)	(1,847,241)
Preferred stock dividends in arrears	-	-
	-----	-----
Net loss applicable to common stockholders	\$ (2,607,412)	\$ (1,847,241)
	=====	=====
Basic and diluted net loss applicable to common stockholders per share	\$ (0.04)	\$ (.03)
	=====	=====

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Shares used in per share calculations	61,261,644	59,358,090
	=====	=====

See accompanying notes to condensed financial statements.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ALTERNATIVE TECHNOLOGY RESOURCES, INC.
Condensed Statements of Cash Flows
(Unaudited)

		Nine Month March 2002

Net cash used in operating activities	\$	(6,138,409)

Cash flows used in investing activities:		
Purchases of property and equipment		(244,589)
Purchase of short-term investments		-
Maturities of short-term investments		1,354,159

Net cash provided (used) by investing activities		1,109,570

Cash flows from financing activities:		
Proceeds from sale of common stock		2,743,787
Proceeds from exercise of options and warrants		238,277
Proceeds from notes payable to stockholders		428,902
Payments on notes payable to stockholders		-
Payments on notes payable to directors		-

Net cash provided by financing activities		3,410,966

Net increase (decrease) in cash and cash equivalents		(1,617,873)
Cash and cash equivalents at beginning of period		3,159,017

Cash and cash equivalents at end of period	\$	1,541,144
		=====

See accompanying notes to condensed financial statements.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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ALTERNATIVE TECHNOLOGY RESOURCES, INC.
Notes to Condensed Financial Statements
March 31, 2002
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended June 30, 2001.

In the opinion of management, the unaudited condensed financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary to present fairly the Company's financial position at March 31, 2002 and June 30, 2001, results of operations for the three and nine months ended March 31, 2002 and 2001, and cash flows for the nine months ended March 31, 2002 and 2001. The results for the period ended March 31, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2002.

The Company has incurred operating losses since inception, which have resulted in an accumulated deficit of \$56,736,576 at March 31, 2002. Based on the steps the Company has taken to refocus its operations and obtain additional financing, the Company believes that it has developed a viable plan to address the Company's ability to continue as a going concern, and that this plan will enable the Company to continue as a going concern, at least through the end of fiscal year 2002. The company is currently seeking to raise up to \$12,000,000 by selling up to 5,333,333 shares of its common stock at \$2.25 per share. Through March 31, 2002 the Company has received \$2,773,315 through the sale of 1,232,585 shares pursuant to this offering. Proceeds net of offering costs were \$2,743,786 [see Part I Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"].

There can be no assurance that this plan will be successfully implemented. If the offering is not fully subscribed, the Company may be required to reduce the development efforts of its Healthcare Exchange or be forced into seeking protection under federal bankruptcy laws. As a result, the report of independent auditors on the Company's June 30, 2001 financial statements includes an explanatory paragraph indicating there is substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Note 2 - Financing Arrangements

See Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

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Note 3 - Comprehensive Loss

Total comprehensive loss for the three months ended March 31, 2002 and 2001 was \$2,607,412, and \$1,849,730, and \$7,189,581 and \$6,700,691 for the nine months ended March 2002 and 2001 respectively. Other comprehensive income (loss) represents the net change in unrealized gains (losses) on available-for-sale securities.

Note 4 - Net Loss Per Share

Loss per share amounts for all periods have been presented in accordance with Statement of Financial Accounting Standards Board No. 128, "Earnings per Share." As the Company has reported net losses in all periods presented, basic and diluted loss per share have been calculated on the basis of net loss applicable to common stockholders divided by the weighted average number of common stock shares outstanding without giving effect to outstanding options, warrants, and convertible securities whose effects are anti-dilutive. For the three and nine months ended March 31, 2002 and 2001 there were stock options, stock warrants, and a convertible note payable outstanding, which could potentially dilute earnings per share in the future but were not included in the computation of diluted loss per share as their effect was anti-dilutive in the periods presented.

Note 5 - Recent Accounting Pronouncements

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

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Item 1. Financial Statements

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

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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Management's Discussion and Analysis

The following discussion provides information to facilitate the understanding and assessment of significant changes in trends related to the financial condition of the Company and its results of operations. It should be read in conjunction with the Company's financial statements and the notes thereto and other financial information included elsewhere in the Form 10-K for the fiscal year ended June 30, 2001.

Overview

General

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

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

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

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

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PART I.	FINANCIAL INFORMATION
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company has outsourced to multiple vendors portions of the development and operations of the information systems for its Healthcare Exchange. The Company signed agreements effective in January 2001 with an application services provider to license, support and run software to process medical bills submitted to the Company's Healthcare Exchange. ATR has also signed agreements to receive claims from Providers through electronic clearinghouses and to convert paper claims into electronic formats. ATR is evaluating other potential technology vendors as well.

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

History

Alternative Technology Resources, Inc. was founded as 3Net Systems, Inc. in 1989. In August 1999, James W. Cameron, Jr., the Company's largest stockholder, was named Chairman and Chief Executive Officer. Under his direction the Company identified what it believes to be a significant business opportunity and began developing a business model involving the establishment of a Healthcare Exchange under the name "DoctorandPatient."

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

The Company is using its management's experience in health care and information technology to establish the Healthcare Exchange, which has become the Company's sole focus. At present, the Healthcare Exchange is operating with a limited number of Providers so the Company can refine its model and determine the amount and timing of remaining development efforts. ATR's previous business was recruiting, hiring, and training foreign computer programmers and placing them with U.S. companies. In line with the Company's strategy to focus on the establishment of a Healthcare Exchange for health care services, ATR suspended recruitment of foreign computer programmers in December 1999 and began pursuing the conversion of foreign computer programmers to become employees of ATR's customers. This conversion process was complete as of June 30, 2001, and the Company is no longer in that line of business.

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PART I.	FINANCIAL INFORMATION
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

Revenue Recognition. The Company has developed a proof of concept of its Healthcare Exchange. The Company recognizes revenue for the transaction-processing fee when it is earned and if no other contractual obligations or contingencies exist.

Product Development Costs. In October 1999, the Company began incurring costs to develop its Healthcare Exchange. In accordance with SOP 98-5, "Reporting Costs on Start-Up Activities," start-up costs associated with the Healthcare Exchange have been expensed as incurred.

Stock-Based Compensation. The Company has elected to account for stock-based compensation using the intrinsic value method prescribed by Accounting

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Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price or fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

Prepaid License and Service Fees. Prepaid license and services fees are recorded at cost and amortized on a straight-line basis over the service period of 66 months. Management considers whether indicators of impairment of these assets are present at each balance sheet date and an impairment loss is recorded, if necessary.

Financial Condition

Cash and cash equivalents decreased approximately \$1,617,873 and short-term investments decreased \$1,354,137 since June 30, 2001. At March 31, 2002 substantially all of ATR's cash was invested in money market accounts.

Because the Company is emphasizing the development of the Healthcare Exchange, the results of operation for the nine months ended March 31, 2002 may not be indicative of results of operations for the year ended June 30, 2002.

Results of Operation

Healthcare Exchange

Healthcare Exchange Revenue. The Company developed a proof of concept of its Healthcare Exchange, which began operations with a limited number of Providers in the three-month period ending June 30, 2001. Providers submit bills to ATR, who reprices the bills to the Provider's Healthcare Exchange rate, including adding a transaction-processing fee, and then routes them to Purchasers or their intermediaries. ATR receives payments from Purchasers on behalf of Providers, and then remits payments to Providers. The Company recognizes revenue for the transaction-processing fee when earned and no other contractual obligations or

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contingencies exist. During the three and nine month periods ending March 31, 2002 \$430,308 and \$792,402 of revenue was recognized, respectively. No Healthcare Exchange revenue was generated during the three and nine month periods ending March 31, 2001.

Healthcare Exchange Costs. Healthcare Exchange costs are the direct costs related to the processing of the bills submitted by Providers and payments received from Purchasers. These costs include the salary and other wage and benefit costs of the Healthcare Exchange operations staff and the operating cost of the application services provider. The costs for three and nine month periods ending March 31, 2002 were \$401,529 and \$976,530, respectively. No Healthcare Exchange costs were incurred for the three and nine month periods ending March 31, 2001.

Contract Programming

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

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complete as of June 30, 2001. For the three and nine month periods ending March 31, 2001, \$46,385 and \$272,215 in revenue was generated primarily from sales of programmer services.

Programmer Costs. Programmer costs were salary, and other wage and benefit costs of ATR's programmer employees. Due to the final phase out of contract programming business through conversion of the computer programmers to employees of ATR's customers as of June 30, 2001, as discussed above in "Contract Programming Revenue," no contract programming costs were incurred for the three and nine month periods ending March 31, 2002. There were \$35,937 and \$210,108 in programmer costs for the three and nine month periods ending March 31, 2001.

Start-up and Other Costs. Start-up and other costs represent the costs of recruiting fees, training, and travel for programmer employees coming to the United States from the former Soviet Union for the first time, relocation costs within the United States, and legal and other costs related to obtaining and maintaining compliance with required visas, postings and notifications. Start-up and other costs were expensed as incurred. There were no start-up and other costs for the three and nine month periods ending March 31, 2002 as compared to \$982 and \$9,265 for the three and nine month periods ending March 31, 2001.

Selling, Marketing and Product Development Costs

In October 1999 the Company began incurring costs to develop its Healthcare Exchange. Costs incurred are primarily salary, other wage and benefit costs of ATR's employees and other operational costs associated with recruiting the

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PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

network of healthcare Providers. The cost increase of \$624,490 and \$1,380,225 for the three and nine month periods ending March 31, 2002 compared to the same period in the prior fiscal year is primarily the result of the increase of sales and marketing staff to 71 at quarter end March 31, 2002 from 32 at quarter end March 31, 2001.

General and Administrative Expenses

General and administrative expenses increased \$32,797 for the three-month period ended March 31, 2002 over the same period of the prior fiscal year due to additional support staff and related administrative expenses. The nine month period ending March 31, 2002 decreased \$1,492,883 compared to the same period of the prior fiscal year due primarily to non-cash employee compensation related to the purchase of common stock in the Company's August 2000 private placement by the Company's Chief Executive Officer and related entities and non-cash compensation due to conversion of Series D Preferred Stock into common stock by the Company's Chairman of the Board recorded during the nine-month period ended March 31, 2001. During the nine-month period ending March 31, 2002 non-cash compensation expense of \$135,583, related to the purchase of common stock in the Company's January 2002 private placement by the Company's Chairman, was recorded. The period ending March 31, 2002 reflects an increase of employees and related costs to support development efforts of the Healthcare Exchange.

Other Income (Expense)

Interest Income. Interest income is related to the short-term investment of cash balances. The decrease is the result of reduced cash balances in the three and nine month period ending March 31, 2002 as compared to the same period in fiscal 2001.

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Interest Expense. Interest expense increased \$8,884 and \$24,820 in the three and nine months ended March 31, 2002 primarily due to the increase in Notes Payable to Stockholder and Convertible Notes Payable to Stockholder balances.

Income Taxes

As of June 30, 2001 the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$37 million and \$21 million, respectively. The federal net operating loss carryforwards expire in 2004 through 2020 and the state net operating loss carryforwards expire in 2001 through 2010. The Company also has approximately \$98,000 and \$25,000 of research and development tax credit carryforwards for federal and state income tax purposes, respectively. The federal research and development tax credit carryforwards expire in 2005.

Under certain provisions of the Internal Revenue Code of 1986, as amended, portions of the net operating loss carryforward and research and development tax credit carryforward are subject to annual limitations as a result of changes in the ownership of the company.

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PART I.	FINANCIAL INFORMATION
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Beginning in the three-month period ended June 30, 2001, ATR began limited operations of its Healthcare Exchange. For the nine-months ended March 31, 2002, the Company earned \$792,402 in revenues but incurred a \$7,189,603 loss. Until the Company can generate sufficient revenue to finance its operations, the Company will have to seek other financing. Traditionally, the Company has used a combination of equity and debt financing and internal cash flow to fund operations and finance accounts receivable but has incurred operating losses since its inception, which has resulted in an accumulated deficit of \$56,736,576 at March 31, 2002.

The Company's Healthcare Exchange development efforts will require substantial funds prior to generating sufficient revenues to fund operations and repay debt. The Company believes that it has developed a viable plan to address the Company's ability to continue as a going concern, and that this plan will enable the Company to continue as a going concern, at least through the end of fiscal year 2002. The Company is currently seeking to raise up to \$12,000,000 by selling up to 5,333,333 shares of its common stock at \$2.25 per share in a private placement. The common stock to be issued in the private placement will be restricted securities. In the event that within one year from the final closing the Company sells shares of common stock, or securities exercisable to convertible into common stock, at a price less than \$2.25 per share, the Company will issue additional shares to Investors in an amount such that the overall purchase price will be equal to the lower, subsequent sales price. The forgoing shall exclude common stock that may be issued in connection with a merger, as a dividend, pursuant to the exercise of outstanding options, warrants and other convertible securities and pursuant to options subsequently issued to employees. Through March 31, 2002 the Company has received \$2,773,315 through the sale of 1,232,585 shares pursuant to this offering. Proceeds net of offering costs were \$2,743,786. The proceeds from the private placement will be used to funds operations and repay debt. The Company's Chairman and Chief Financial Officer purchased 222,222 shares of the Company's common stock in the private placement. Because the purchase price of such stock was less than the public trading price on the date of purchase, the Company recorded compensation expense of

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approximately \$135,583 during the quarter ending March 31, 2002.

During the quarter ending March 31, 2002, the Company issued 284,200 shares of common stock through the exercise of warrants for the amount of \$213,150.

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

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On September, 11, 2000, the Company agreed with the Series D Preferred stockholders to exchange all their outstanding Series D shares and \$475,915 in accrued preferred stock dividends into 566,972 shares of common stock based on a purchase price of \$3.00 per common share. The benefit accruing to the Series D Preferred stockholders was recorded in the quarter ended September 30, 2000, approximately \$316,702 in compensation expense and \$862,000 in preferred stock dividends.

The Company has received short-term, unsecured financing to fund its operations in the form of notes payable of \$3,740,450 as of June 30, 2001, from Mr. Cameron and another stockholder. These notes bear interest at 10.25%. On September 11, 2000, the Company agreed with Mr. Cameron to extend the due date on notes payable to him until December 31, 2001, in exchange for an extension fee of 2%. These extended notes total \$1,511,635, including accrued interest and extension fees, and bear interest at 10.25% per annum. Also on September 11, 2000, the Company agreed with the other note holder to extend the due date of his notes until December 31, 2001, in consideration of such notes becoming convertible promissory notes. The convertible promissory notes total \$2,288,815, including accrued interest, bear interest at 10.25% per annum and are convertible into common stock at \$3.00 per share (approximate public trading price on that date) at the note holder's option. On September 1, 2001 the due dates of these notes were extended from December 31, 2001 to December 31, 2002. Mr. Cameron's extended notes total \$1,630,529, including accrued interest and extension fees of 2%, and bear interest at 10.25% per annum. The convertible promissory notes total \$2,423,823, including accrued interest at 10.25% per annum. During the quarter ending March 31, 2002 Mr. Cameron extended to the Company a short-term note of \$115,000 bearing interest at 10.25% per annum with a due date of April 10, 2002. Subsequent to March 31, 2002, this note and accrued interest of \$1,259.31 was paid prior to the due date.

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

Based on the steps the Company has taken to refocus its operations and obtain additional financing, the Company believes that it has developed a viable plan

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to address the Company's ability to continue as a going concern, and that this plan will enable the Company to continue as a going concern through at least the end of fiscal 2002. However, the Company needs to raise additional funds during fiscal 2002. There can be no assurance that this plan will be successfully implemented. If unsuccessful the Company may be required to reduce the development efforts or its Healthcare Exchange or be forced into seeking

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protection under federal bankruptcy laws. As a result, the report of independent auditors on the Company's June 30, 2001 financial statements includes an explanatory paragraph indicating there is substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Effects of Inflation

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has long-term debt in the aggregate amount of \$4,169,352 as of March 31, 2002 payable to two stockholders of the Company. The debt bears interest at 10.25% per annum and is due December 31, 2002. The Company does not believe that any change in interest rates will have a material impact on the Company during fiscal 2002. Further, the Company has no foreign operations and therefore is not subject to foreign currency fluctuations.

PART II. OTHER INFORMATION

Item 1 None

Item 2 Changes in Securities and Use of Proceeds.

(c) On January 9, 2002 the Board of Directors unanimously approved to issue and sell up to 5,333,333 shares of Common Stock at \$2.25 pursuant to a Private Placement. Assuming that the offering is fully subscribed, the Company will receive approximately \$12,000,000 in gross proceeds. This amount is before expenses of the offering of approximately \$100,000 and potential finders fees, which will not exceed 10% of the gross proceeds in the aggregate. We intend to use the net proceeds of the offering (after expenses) to develop our Healthcare Exchange and for other general working capital purposes. Subscription proceeds received as of quarter ending March 31, 2002 are \$2,773,315 through the sale of 1,232,585 shares of common stock. The Company's Chief Financial Officer, James W. Cameron, Jr., purchased 222,222 shares of the Company's common stock in the Private Placement. Because the purchase price of such stock was less than the public trading price on the dates of purchase, the Company recorded compensation expense of \$135,583 in the quarter ending March 31, 2002. The Company is relying on Regulation D, Rule 506, as an exemption from registration.

Item 3, 4, 5, 6 None

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALTERNATIVE TECHNOLOGY RESOURCES, INC.
(Registrant)

Dated: May 13, 2002

/S/ JAMES W. CAMERON, JR.

James W. Cameron, Jr.
Chairman of the Board and Chief Financial Officer
(Principal Executive and Financial Officer)