

Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

ADVANCED RECYCLING SCIENCES INC  
Form 10KSB  
April 01, 2002

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

FORM 10-KSB

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001  
-----

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from ----- to -----

Commission File Number 0-23812  
-----

ADVANCED RECYCLING SCIENCES, INC.  
-----

(Name of small business issuer in its chapter)

Nevada  
-----

95-4255962  
-----

(State or other jurisdiction of  
incorporation or organization)

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

Park Irvine Business Center 14771 Myford Road,  
Suite B Tustin, California  
-----

92780  
-----

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code (714) 508-1470  
-----

Securities registered pursuant to section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

\$.001 par value, common voting shares  
-----

(Title of class)

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

Check if there is no disclosure of delinquent filers in response to Item  
405 of Regulation S-B is contained in this form, and no disclosure will be  
contained, to the best of registrant's knowledge, in definitive proxy or  
information statements incorporated by reference in Part III of this form  
10-KSB or any amendment to this Form 10-KSB. ☐

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

The issuer's revenue for its most recent fiscal year was: \$87,559.

The aggregate market value of the issuer's voting stock held as of March 27, 2002, by non-affiliates of the issuer was \$9,548,963.

As of March 27, 2002, issuer had 17,476,913 shares of its \$.001 par value common stock outstanding.

Transitional Small Business Disclosure Format. Yes ☐ No ☒

Documents incorporated by reference: The Company's Form 10-KSB for the year December 31, 2000, and the Company's Form 10-QSBs for the quarters ended March 31, 2001, June 30, 2001 and September 31, 2001.

Advanced Recycling Sciences, Inc.  
Annual Report on Form 10-KSB for the Year ended December 31, 2001

---

### TABLE OF CONTENTS

---

#### PART I

ITEM 1	DESCRIPTION OF BUSINESS. . . . .	3
ITEM 2	DESCRIPTION OF PROPERTY. . . . .	12
ITEM 3	LEGAL PROCEEDINGS. . . . .	13
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS. . . . .	13

#### PART II

ITEM 5	MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS. . . . .	13
ITEM 6	MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION. . . . .	15
ITEM 7	FINANCIAL STATEMENTS . . . . .	20
ITEM 8	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE. . . . .	41

#### PART III

ITEM 9	DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS, AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT. . . . .	41
ITEM 10	EXECUTIVE COMPENSATION . . . . .	44
ITEM 11	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. . . . .	46
ITEM 12	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS . . . . .	47

#### PART IV

ITEM 13	EXHIBITS AND REPORTS ON FORM 8-K . . . . .	47
SIGNATURES . . . . .		48

PART I

FORWARD

This Form 10-KSB contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For this purpose any statements contained in this Form 10-KSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "hope," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainty, and actual results may differ materially depending on a variety of factors, many of which are not within the Company's control. These factors include but are not limited to economic conditions generally and in the industries in which the Company and its customers participate; competition within the Company's industry, including competition from much larger competitors; technological advances which could render the Company's products less competitive or obsolete; failure by the Company to successfully develop new products or to anticipate current or prospective customers' product needs; price increase or supply limitations for components purchased by the Company for use in its products; and delays, reductions, or cancellations of orders previously placed with the Company.

ITEM 1. DESCRIPTION OF BUSINESS

Advanced Recycling Sciences, Inc., ("ARS (tm)" or the "Company") is in the business of developing innovative products and technologies in the environmental and recycling industries, with specific emphasis on scrap tire and industrial rubber recycling. The principal offices of the Company are located at the Park Irvine Business Center, 14771 Myford Road, Suite B, Tustin, California 92780. The Company was organized as a corporation in 1968, under the laws of the State of California. In 1988 the Company changed its domicile from California to the State of Nevada and has operated as a Nevada corporation since that time. In March 2001, the Company amended its articles of incorporation to change its name from The Quantum Group, Inc., to Advanced Recycling Sciences, Inc.

In July 2000, the Company enlisted the services of outside investment banking advisors and management consultants to help the Company prepare a coherent and compelling business model. This model, which was adopted by the Company in March 2001, is based on a business development strategy incorporating technology acquisition, innovation and development, including the patented Tires2Oil (tm), de-icing and rubberized asphalt paving technologies, combined with international equipment sales in the fields of tire shredding and granulating, aftermarket product manufacturing and CRM asphalt paving.

The Company hopes to have the necessary funding in place during 2002

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

to move to the implementation phase of its business model.

3

The Company is registered and qualified to do business in the State of California. Its corporate organization is as follows:

### ARS-Tech

-----

ARS-Tech is the division of ARS that will be the primary marketing and sales arm of the Company in the sale of complete tire recycling systems and aftermarket product manufacturing technologies. Through ARS-Tech, the Company will also provide consulting services to clients wishing to engage in the scrap tire and industrial rubber recycling business. You can view the ARS-Tech website at <http://www.ars-tech.com>.

### Poseidon Products GmbH. ("Poseidon")

-----

Poseidon is currently a wholly-owned subsidiary of the Company. Through Poseidon, the Company will finish construction of a state of the art rubber recycling facility in Penkun, in the state of Mecklenburg-Vorpommern. This facility will produce crumb rubber and manufacture a wide range of value-added aftermarket products using technologies licensed or developed by the Company.

Ground breaking on the Poseidon facility occurred on September 17, 1998. Site improvements were begun and foundations for the plant were commenced. Due to difficulties in securing an accompanying bank to sponsor the project, construction of the facility has been delayed. The Company continues to negotiate funding for the facility with several German banks. The Company is also actively seeking a suitable German joint venture partner to help provide partial equity funding, project management, operations assistance and a strong German presence. The Company hopes to have funding in place during the second quarter of 2002. The Company has obtained an additional extension on both the EU grants and the low interest funding commitment from the government of the state of Mecklenburg-Vorpommern.

Poseidon currently has an office in Penkun and is developing a marketing plan to introduce and sell its manufactured products in Germany and Europe. Assuming sufficient funding is obtained, the Company believes the Poseidon facility will be completed and operational by early next year. The Company expects to have a clearer understanding as to when the Poseidon facility will be finished and operational during the second quarter of 2002.

As the Poseidon facility will incorporate much of the rubber recycling equipment and aftermarket product technologies the Company has to offer, and will have the capacity to process up to 3 million tires or 30,000 tons of scrap tire rubber per year, the Company intends to use the Poseidon facility as a showcase for sales of future full scale tire recycling plants. The Company expects Poseidon to be a significant revenue driver for the Company's ongoing technology sales and development program. Poseidon's website may be viewed at <http://www.poseidon-products.com>.

### Tires2Oil, Inc.

-----

Tires2Oil, Inc., is a wholly owned subsidiary of the Company. Tires2Oil (tm) was formed as a Nevada corporation on January 17, 2001. The primary responsibility of Tires2Oil (tm) will be the continued research, development and exploitation of certain super critical fluid ("SCF") tire recycling technology owned by the Company. The SCF technology is used to

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

break down tires into a clean form of synthetic crude oil which can be easily upgraded in existing oil refineries. This technology has been proven in the laboratory at University of South Alabama. Tires2Oil (tm) will continue to focus its efforts into determining whether this technology can be feasible on a commercial scale. The Tires2Oil website can be viewed at <http://www.tires2oil.com>.

4

### Advanced Surfacing Technologies, Inc. ("AST")

-----

Advanced Surfacing Technologies, Inc., ("AST") was incorporated in Nevada in May 1997 as Quantum Modified Asphalt Xcetera, Inc., a wholly owned subsidiary of the Company. The name was changed to Advanced Surfacing Technologies, Inc., in March 2001.

The Company believes there are significant opportunities in the asphalt paving industry. Among those opportunities, is a potentially large market for crumb rubber to be used in producing crumb rubber modified ("CRM") asphalt paving. This will include the use of specialized mobile equipment for the mixing of crumb rubber and asphalt at hot mix plants, overseeing technology transfer programs to international clients, on-site project management and seminars to educate both public and private sector engineers about the Company's products and services. Through AST, the Company will seek to exploit these opportunities. The AST website can be viewed at <http://www.ast-paving.com>.

### Technology Development, Inc. ("TDI")

-----

Technology Development, Inc., ("TDI") was acquired by the Company in February 2001. TDI will research, develop and market other technologies in the asphalt paving industry, including the worldwide exclusive licence to certain ground surface applications of a novel ice adhesion modification or "de-icing" technology the Company received when it acquired Technology Development, Inc., from UTEK Corporation. TDI is a wholly owned subsidiary of the Company. The TDI website can be found at <http://www.no-ice.com>.

### Other Subsidiaries

-----

### Advanced Environmental Technologies, Limited ("AET")

-----

Advanced Environmental Technologies, Limited ("AET") is a wholly owned subsidiary of the Company. AET was incorporated pursuant to the laws of the province of Alberta, Canada on April 21, 1997 as QEST Industries, Inc. The Company changed the name in March 2001. AET will provide engineering support services to tire recycling facilities in both North and South America. These services will be provided via the Company's strategic alliance with Sultech Engineering, a Calgary based engineering concern. The Company will pay Sultech on an as needed, job by job basis.

### Eurectec, Inc. ("Eurectec")

-----

Eurectec, Inc. ("Eurectec") is a wholly owned subsidiary of Advanced Recycling Sciences, Inc. In February 2002, the Company, through Eurectec reached a resolution of its litigation with Tyre's Ecology, Inc., the successor in interest to CISAP SpA of Italy. Pursuant to terms of the settlement agreement, Tyre's Ecology has delivered all drawings, specifications and handbooks, and assigned all right, title and interest in the C-3000 compact tire and industrial rubber granulating equipment to Eurectec. Tyre's also issued a non interest bearing promissory note for 25,000 Euro due and payable on June 30, 2002. The Company is negotiating for the purchase of Tyre's C-3000 spare parts inventory and may forgive all

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

or part of the note in exchange for that inventory. The Company intends to have the C-3000 re-engineered to include various improvements made by the Company. Upon completion, the Company will seek to license the manufacture of C-3000 units which will be sold by the Company worldwide.

Bay Area Recycling, Inc.  
-----

At this time, the Company has decided to focus its efforts in other areas of its business as is not actively pursuing the construction of a crumb rubber manufacturing facility in Northern California.

5

The Company also has a portal website at <http://www.tirerecycling.com>.

### Market For The Company's Products

In 2001 there were almost 300,000,000 tires discarded in the United States. There are currently between two and three billion tires stockpiled in the United States and an estimated 1,000,000,000 tires discarded annually worldwide. Although millions of tires are discarded every year, there has been no consensus on the best way to dispose of the tires. Waste tires continue to accumulate in huge tire dumps throughout the world. One of the early governmental responses to this problem was to require the tires be shred into small pieces. This measure was taken to help reduce the size of the tire dumps, the potential for fires, and the health hazards which existed because of mosquitoes and rodents which inhabit these tire dumps. The European Union has issued a directive banning landfilling of all tires, whether whole or shredded, by the year 2007.

In an effort to induce recycling of tires in the United States, many states have enacted laws charging recycling fees on all new tire sales. The fees are deposited into state operated funds which are used for grants to fund tire recycling technology research projects and to compensate tire recyclers for recycling tires. In addition, the federal and state governments have created a market for recycled rubber by enacting statutes which require that new road construction include a certain percentage of recycled rubber in the roads. A typical street one mile long and 30 feet wide using a 1.5 inch topping will use approximately 39,000 pounds (19.5 tons) of crumb rubber. An interstate highway one mile long and 72 feet wide using a 3 inch topping will require 186,000 pounds (93 tons) of crumb rubber in the topping mix.

Several different methods for disposing of or recycling tires have been attempted. At one point, a market developed for shredded tires as fuel in cement kilns and electric power plants, however, most states have prohibited or strictly limited tire burning because of its adverse environmental impact. In addition, it has been recognized that tire burning is an inadequate use of the valuable rubber resource contained in the tires.

In an effort to reclaim valuable resources from tires, attempts have been made to recover oil from tires through pyrolysis. Pyrolysis is a process of heating tires to very high temperatures and extracting the petroleum content from the rubber. To date pyrolysis systems have not reached commercial viability because of the substantial capital investment required to construct such systems, the high operating cost and low efficiency of such systems when compared to the price of crude oil.

Another system being offered by some of the Company's competitors is a cryogenic process which freezes the tires to very cold temperatures using liquid nitrogen, then the brittle rubber can be broken free of the steel and fabric content of the tire. Cryogenic systems are expensive, costing

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

from four to twenty million dollars. To date, the Company is not aware of any facility using a cryogenic system that is not subsidized by government grants or private grants from producers of liquid nitrogen. Although this process uses much more sophisticated technology, the process tends to be cumbersome and expensive to operate. Moreover, if the equipment is shut down for maintenance or repairs the entire system must be taken off line for a period of days. Another disadvantage of such systems is that the crumb rubber made by the cryogenic process has reduced elasticity, which limits the usefulness of the crumb rubber for aftermarket products.

6

Other systems use efficient shredding equipment, but rely on hammermill technology for granulating the shredded rubber. These systems tend to be very large, noisy and inefficient, largely because hammermill technology was designed for other industrial applications and has not been readily adaptable for use in tire recycling.

In addition to the fact that there is no agreed upon best method for recycling scrap tires, another of the challenges facing the tire recycling industry has been the lack of reasonably priced equipment for the production of crumb rubber, particularly given the production capacity of such equipment and the prevailing market prices of crumb rubber. Prices of crumb rubber vary according to the mesh (size) of the rubber. The 2001 issue of Scrap Tire and Rubber Users Directory, published by Recycling Research Institute, provided information regarding historical market prices of tire-derived materials, including crumb rubber. In 2000-2001, the average price of crumb rubber with a mesh of minus 10 was \$.055 - .20 per pound. This is the size most commonly used in asphalt paving. Aftermarket products manufactured from press equipment use rubber of approximately minus 30 mesh, which for 2000-2001 was priced at \$.09 - .32 per pound. Very finely ground crumb rubber which is suitable for devulcanization is usually minus 80-100 mesh. In 2000-2001 crumb this size ranged in price from \$.18 - .80 per pound.

Another obstacle to market development has been the limited and uncertain demand for crumb rubber. Without an established market for crumb rubber and reasonably predictable prices for crumb rubber there is no way to assure a recycler that he could recover his capital investment or make a profit on a recycling operation. In turn manufacturers have been reluctant to specify the use of crumb rubber in products because of the lack of a broad and consistent supply of high quality crumb rubber at predictable prices.

Moreover, the tire recycling industry is highly competitive, no single competitor holds a dominant market position. Some of the Company's competitors have longer operating histories and are financially stronger than the Company. There are several companies that offer various pieces of equipment to recyclers such as shredders, slitters and granulating equipment. Few companies, however, offer complete recycling systems which include all the equipment required to process whole tires to crumb rubber and in turn use crumb rubber to produce aftermarket products and CRM asphalt paving.

### Products

Crumbing Equipment

Eco Granulating System

-----

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

The Company believes the system it sells has several advantages over the systems offered by competitors, including (i) lower initial cost of a system; (ii) higher operating efficiencies and lower operating expense; (iii) less maintenance down time; and (iv) recycling at ambient temperatures resulting in high quality crumb rubber output.

7

The Company sells a complete tire recycling and granulating production system that integrates individual pieces of tire recycling equipment made by various manufacturers. This system reduces scrap automobile and truck tires to useful and valuable crumb rubber, reusable steel scrap and nylon fluff. The system as designed follows common processing steps accepted in the industry. The process begins by sending the tires and industrial scrap rubber through a shredder. In the next step, the shredded material is fed to a grizzly which extracts approximately 90% of the steel from the shredded tires and further reduces the size of the material to minus one inch. Then the material is processed through a magnetic separator which removes the steel shred and a pneumatic aspiration system which removes the nylon fibers. The product is processed through a granulator which further reduces the shred to approximately 4 mm and removes any remaining steel and fabric. Finally, the crumb rubber is processed through a granulator which reduces the product to particle sizes ranging from 0 to .5 mm, .5 mm to 2 mm, 2 mm to 4 mm. The Company will also offer as an option, a supercollider which will reduce the crumb rubber to .25 mm.

The system the Company markets does not require the Company to manufacture any equipment. The equipment used in the system e.g., shredders, grizzlies, grinders and granulators is manufactured by other companies. If necessary, third party contractors can manufacture any equipment or parts required to integrate the individual pieces of equipment into a unified recycling system.

### Compact Granulating Equipment

Pursuant to the settlement agreement the Company recently reached with Tyre's Ecology, Inc., the successor in interest to CISAP S.p.A., the Company has acquired all drawings, specifications and handbooks, and all right, title and interest in the C-3000 compact rubber granulating equipment. The Company intends to re-engineer this equipment to incorporate various improvements and improve reliability. Upon completion of re-engineering, the compact granulating equipment will be capable of reducing up to 3,000 tons of scrap automobile and light truck tires and industrial scrap rubber into crumb rubber. The compact granulating equipment will have smaller output capacity than the larger recycling equipment sold by the Company, but will have the advantage of being less expensive and expandable with demand. The Company intends to make the re-engineered compact granulating equipment compatible with other recycling and aftermarket product manufacturing equipment it sells. This should allow for the construction of smaller output full cycle scrap rubber recycling and aftermarket product facilities.

### SuperCollider - Impact 500 Technology

During 1997, the Company worked on the in-house development of a compact SuperCollider machine designed to take large mesh size crumb rubber produced by the EGS System and buffings from tire retreading and pulverize it into fine powder in order to open up several new markets. These markets



## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

include extrusion products, press products and products combining super-fine crumb and plastic. The Company finalized the engineering for the SuperCollider and concluded the development, prototype work and initial performance testing during 1998 and early 1999. After testing the initial prototype, the Company decided not to sell the SuperCollider into the market until a number of improvements could be made. During 1999, the Company made those improvements and began additional testing. The first SuperCollider was installed and operational at the Donovan Correctional Facility. It has since been removed and is awaiting shipment to Germany where it will be installed at the Poseidon Facility.

8

### Aftermarket Product Equipment

The Company also sells press equipment which can be used to process crumb rubber into value added aftermarket products including door mats, anti-fatigue mats, cattle and heated floor mats, roofing products, trailer liners, carpet underlay. Other products such as speed bumps, sports surfaces such as tennis and other ball game courts, gymnastic and running track surfaces, and playground safety surfaces can also be manufactured using crumb rubber. The Company also markets a slicer machine capable of peeling pre-cast cylinders of solid crumb rubber for use in making continuous roll sheeting material.

### Rothbury Technology

-----

The Company has the exclusive worldwide manufacturing and marketing rights to a process for giving a mixture of crumb rubber granulates, resins and other additives heat conductive characteristics for use in products such as heatable floor coverings, livestock and pet mats and underlayments developed by Rothbury Engineering Limited, Great Britain. In 2001, patents relating to this technology in Europe and the United States were issued to the Company in accordance with the licensing agreement.

The Rothbury technology relies on a heating filament, which operates on either AC or DC electricity, imbedded in a rubber underlayment. These products can be operated more cost effectively than interior forced air and radiant heating systems. In exterior applications, the heated rubber products provide superior heat conducting properties to other available technology such as heating coils in concrete. These heated products give manufacturers new products and a new market for crumb rubber.

### Crumb Rubber Modified ("CRM") Asphalt Paving

#### Crumb Rubber Modified/Asphalt Mixing Equipment

-----

The crumb rubber modified ("CRM") asphalt paving industry is still in the early stage of development. Currently, the Company knows of seven states which have done sufficient testing of CRM asphalt to no longer consider it experimental. The testing performed by Arizona, California, Florida, New Mexico, Nebraska, Tennessee and Texas has shown that the application of asphalt rubber systems significantly increases the life of the roadway surface while reducing the maintenance costs and life-cycle costs. These states are all increasing their overall use of various CRM asphalt systems. The Rubber Pavement Association believes that within the next four years, the number of states specifying and using CRM asphalt paving could potentially increase to as many as thirty.

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

The Company has spent significant time and effort researching and seeking to establish itself in the CRM asphalt paving industry. The Company will seek to establish itself as a premier provider of crumb rubber/asphalt mixing equipment to contractors in the asphalt paving industry.

9

### Roadway Surface De-Icing Technology

-----

In February 2001, the Company acquired TDI. TDI had two primary assets: a worldwide exclusive license for the ground surface applications of a patented novel ice adhesion modification technology developed at Dartmouth College's Thayer School of Engineering; and a \$200,000 pre-paid credit for additional research and development of the technology by the Dartmouth College engineering professor who developed the technology. De-icing using this technology is accomplished through a novel electrochemical decomposition technology which the Company believes can be applied to roadways, bridges, airport runways, tarmacs and other surfaces exposed to cold environments. The Company anticipates that this technology will be capable of being retro-fitted to existing surfaces, as well as being used in new construction.

The Company's rights are limited to ground surface applications. Dartmouth College sold Goodrich the license rights to use this technology in aerospace and marine applications. Torvec, Inc., purchased the license rights for land-based vehicle applications.

During the last year, Victor S. Petrenko, Dr.Sci., Ph.D., Research Professor of Engineering and Professor of Physics, Thayer School of Engineering has continued work on the development of this technology. Dr. Petrenko recently finished the work covered by the \$200,000 pre-paid credit and issued his report to the Company. Based on Dr. Petrenko's report, the Company believes that this technology can be commercially developed. As soon as funding is available, the Company will create a pilot to allow for real world simulation and testing. The Company anticipates the cost of constructing the project and performing testing will be \$500,000. The Company hopes to have sufficient funding in place before year end.

### Tires2Oil (tm) Super Critical Fluid Process

-----

In June 2000, the Company acquired the exclusive worldwide licensing rights to certain Super Critical Fluid ("SCF-Oil (tm)") tire recycling technology developed and patented by the University of South Alabama. Through a simple one-step process, this technology can be used to produce synthetic crude oil which can easily be upgraded in existing oil refineries. In addition to synthetic crude oil, the process also produces carbon black, which has a number of manufacturing uses or with further processing can be converted to activated carbon used in water and air purification system technologies. The Company believes this technology will provide another environmentally conscious means of recycling scrap tires.

Based on preliminary laboratory results achieved at the University of South Alabama, this SCF-Oil (tm) process appears to be capable of producing significantly more oil per ton of processed tires than currently existing processes such as pyrolysis. The Company believes this technology, unlike currently existing technologies, represents the first commercially feasible

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

tires to oil recycling process. To date, this technology has been demonstrated only in the laboratory.

The Company continues to work with Dr. William Farone of Applied Power Concepts, Inc of Anaheim, California to develop the commercial processes and equipment for the Tires2Oil (tm) pilot plant. The Company has suspended development of the pilot plant due to a lack of funding. The Company hopes to have funding in place for the pilot plant by the end of the second quarter of 2002. Construction of the pilot plant is expected to take approximately three months. The Company hopes to have the pilot plant completed by the end of the third quarter of 2002. The pilot plant will be used to develop firm criteria and product data for enabling the construction of full scale production plants. The estimated cost of establishing this pilot plant is \$1,000,000.

10

Once the Company has a firm understanding of the criteria, data, and production specifications, Tires2Oil (tm) will market and license this technology worldwide. The Company may also seek to set up its own full scale production plants. The current estimated cost of building a full scale production plant is between \$11,000,000 and \$13,000,000.

### Research and Development

During the past year the Company's primary research and development efforts were employed in the development of the Tires2Oil (tm) technology. The Company spent \$65,000 in research and development costs in the fiscal year ended December 31, 2001. If the Company has funding, it anticipates incurring significantly greater expenses for research and development during fiscal year 2002.

### Marketing and Sales

The Company has been most successful marketing and selling outside of the United States where attractive incentives are offered to investors by way of government grants, low interest loans and tax advantaged investment programs.

The Company continues to rely principally on the efforts of its officers and directors to generate sales. Historically, the Company's principal method of marketing has been through direct sales by officers of the Company and independent commissioned sales representatives worldwide. The Company believes its active participation in trade shows and trade organizations is providing strong industry connections and marketing opportunities. The Company is also advertising in technical and trade journals and articles and on the Company's new website. Finally, the Company believes its Poseidon facility will provide an excellent marketing platform for products and technologies the Company sells.

The Company is a member of a number of associations related to the tire, rubber and recycling industries including the Rubber Pavements Association located in Mesa, Arizona, the International Tire and Retreading Association, headquartered in Louisville, Kentucky (ITRA), ETRA (the "European Tire Recycling Association") headquartered in Paris, France and is a founding member of the International Recycling Federation located in Bonn, Germany. In addition, the Company is listed in the Scrap Tire Users Directory, an Recycling Research Institute annual publication which is a business reference guide to the tire recycling industry.

Despite significant effort, to date the Company has been unable to establish consistent sales volume. The Company credits this to a number of

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

factors. First, although the problem of waste tires has existed for decades, the tire recycling industry is still in its early stages of development worldwide. No single response to the problem of waste tires has become generally accepted. While momentum in the industry seems to favor tire recycling, which reclaims the rubber resource, no single technology or method has achieved market dominance. Under these conditions, potential purchasers are slow to buy. Second, because of limited sales, manufacturers of recycling equipment do not carry large inventories of equipment, which significantly lengthens the sales cycle. Third, due to inconsistent sales volume, the Company has had limited capital and has maintained only a limited marketing and sales staff. While these factors have made it difficult for the Company to create consistent cash flow and compete successfully in the industry, they also form significant barriers to entry by competitors who will face many of the same challenges.

11

As part of its strategic reorganization during the third quarter 2000, the focus of the Company's business will be technology acquisition and development driven. The Company will seek to vertically integrate these technologies into its own planned operations in Germany and the United States, thus providing multiple potential revenue streams in the future.

### Employees

Currently the Company has five employees other than its officers and directors, its independent outside sales persons and an outside consultants. The Company relies heavily on the efforts of its President and Chief Operating Officer, Keith J. Fryer. It also relies upon the services of John F. Pope, the Company's Treasurer, a Vice President and Director, and Ehrenfried Liebich, the Company's Chief Executive Officer and Chairman of the Board.

### Scientific Advisory Board

Consistent with the Company's goal to become a leader in the development and commercialization of technologies for the scrap rubber recycling and crumb rubber modified asphalt paving, the Company has established a Scientific Advisory Board to assist it in the evaluation and development of new technologies. The following individuals currently serve on the Company's Scientific Advisory Board: Victor F. Petrenko, Dr.Sci., Ph.D., Jagdish Dhawan, Ph.D., Pawan Agarwal, Ph.D. and Nicholas D. Sylvester, Ph.D. The members of the Scientific Advisory Board are not employees of the Company, and each maintains full-time employment with other organizations.

Dr. Petrenko was compensated for his services to the Company by Dartmouth College pursuant to the \$200,000 pre-paid research and development credit with Dartmouth College acquired by the Company when it purchased TDI. The other Scientific Advisory Board members each received Company common stock for services to be rendered to the Company.

---

## ITEM 2. DESCRIPTION OF PROPERTY

---

On March 1, 2002, the Company renewed its lease agreement to lease an

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

industrial condominium in a multi-tenant building for use as its principal executive office. The Company pays \$4,270.25 per month for 4,495 square foot facility. The lease expires on February 28, 2003. The building is located at Park Irvine Business Center, 14771 Myford Road, Building B, Tustin, California 92780. The space the Company is leasing is sufficiently large to accommodate all of its administrative and storage needs.

12

---

### ITEM 3. LEGAL PROCEEDINGS

---

Tyre's Ecology S.r.l.

On February 18, 2002, the Company entered into a settlement agreement resolving the litigation between Eurectec and Tyre's Ecology S.r.l., in the Court in Pistoia, Italy. Under the terms of the settlement agreement, Tyre's had delivered all drawings, specifications and handbooks and assigned all rights, title and interest in its C-3000 compact tire and industrial rubber granulator to the Eurectec. Tyre's also issued a non interest bearing promissory note for 25,000 Euro due and payable on June 30, 2002. The Company is negotiating for the purchase of Tyre's C-3000 spare parts inventory and may forgive all or part of the note in exchange for that inventory.

Veplas Manufacturing, Ltd.

There have been no significant changes in the Company's litigation with Veplas Manufacturing, Ltd., during the quarter ended December 31, 2001.

---

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

---

No matters were submitted to a vote of the Company's shareholders during the fourth quarter of the fiscal year ending December 31, 2001.

---

## PART II

---

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

---

The Company's common stock is listed on the NASD OTC Bulletin Board under the symbol "ARYC." The Company's common stock is also listed on the

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Third Segment of the Frankfurt Stock Exchange under German Securities Code Number 882879. As of March 27, 2002, the Company had 612 shareholders holding 17,476,193 common shares. Of the issued and outstanding common stock, 5,079,938 are free trading, the balance are "restricted securities" shares as that term is defined in Rule 144 promulgated by the Securities and Exchange Commission. The Company has never declared a dividend on its common shares.

13

The published bid and ask quotations for the previous two fiscal years are included in the chart below. These quotations represent prices between dealers and do not include retail markup, markdown or commissions. In addition, these quotations do not represent actual transactions.

	BID PRICES		ASK PRICES	
	HIGH	LOW	HIGH	LOW
	-----	-----	-----	-----
2000				
First Quarter ended March 31	2.50	1.25	2.75	1.4375
Second Quarter ended June 30	2.50	1.25	2.6875	1.375
Third Quarter ended Sept. 30	2.125	.78125	2.25	.96875
Fourth Quarter ended Dec. 31	1.6875	.4375	1.78125	.59375
2001				
First Quarter ended March 31	1.625	.5625	1.71875	.71875
Second Quarter ended June 30	1.30	.70	1.55	1.00
Third Quarter ended Sept. 30	1.50	.70	1.70	.87
Fourth Quarter ended Dec. 31	.75	.37	.95	.51

The foregoing figures were furnished to the Company by Pink Sheets, LLC., 304 Hudson Street, 2nd Floor, New York, New York 10013.

### Recent Sales of Unregistered Securities

No instruments defining the rights of the holders of any class of registered securities have been materially modified, limited or qualified.

The following securities, which are not registered under the Securities Act of 1933, were issued since the Company's last quarterly report for the quarter ended December 31, 2001.

During the quarter ended December 31, 2001, the Company sold 552,500 shares of its common stock to non United States citizens in Germany. The Company received \$265,200. These shares were sold pursuant to Regulation S promulgated by the Securities and Exchange Commission under the Securities Act of 1933. The Company did not offer the securities to any person in the United States, any identifiable groups of U.S. citizens abroad, or to any U.S. Person as that term is defined in Regulation S. At the time the buy orders were originated, the Company reasonably believed the Buyers were outside of the United States and were not U.S. Persons. The Company reasonably believed that the transaction had not been pre-arranged with a buyer in the United States. The Company has not nor will engage in any "Directed Selling Efforts" and reasonably believes the Buyers have not nor will engage in any "Directed Selling Efforts." The Company reasonably believed the Buyers purchased the securities for their own accounts and for investment purposes and not with the view towards distribution or for the

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

account of a U.S. Person.

During the quarter ended December 31, 2001, the Company sold 16,410 shares of its common stock to non United States citizens in Asia. The Company received \$8,861. These shares were sold pursuant to Regulation S promulgated by the Securities and Exchange Commission under the Securities Act of 1933. The Company did not offer the securities to any person in the United States, any identifiable groups of U.S. citizens abroad, or to any U.S. Person as that term is defined in Regulation S. At the time the buy orders were originated, the Company reasonably believed the Buyers were

14

outside of the United States and were not U.S. Persons. The Company reasonably believed that the transaction had not been pre-arranged with a buyer in the United States. The Company has not nor will engage in any "Directed Selling Efforts" and reasonably believes the Buyers have not nor will engage in any "Directed Selling Efforts." The Company reasonably believed the Buyers purchased the securities for their own accounts and for investment purposes and not with the view towards distribution or for the account of a U.S. Person.

During the quarter ended December 31, 2001, the Company issued 765,385 restricted common shares to retire the mortgage on certain real property owned by Poseidon. The balance on the mortgage at the time of retirement was \$306,154. The mortgage was held by a non-affiliated third party in Germany. The shares were not publicly offered. The shares were issued pursuant to exemptions from registration under Section 4(2) of the Securities Act of 1933. The Company received no cash for the shares.

During the first quarter of 2002, the Company sold 300,000 shares of its common stock to non United States citizens in Germany. The Company received \$70,000. These shares were sold pursuant to Regulation S promulgated by the Securities and Exchange Commission under the Securities Act of 1933. The Company did not offer the securities to any person in the United States, any identifiable groups of U.S. citizens abroad, or to any U.S. Person as that term is defined in Regulation S. At the time the buy orders were originated, the Company reasonably believed the Buyers were outside of the United States and were not U.S. Persons. The Company reasonably believed that the transaction had not been pre-arranged with a buyer in the United States. The Company has not nor will engage in any "Directed Selling Efforts" and reasonably believes the Buyers have not nor will engage in any "Directed Selling Efforts." The Company reasonably believed the Buyers purchased the securities for their own accounts and for investment purposes and not with the view towards distribution or for the account of a U.S. Person.

The Company hereby incorporates by reference the Form 10-QSBs it filed on May 15, 2001, August 14, 2001, and November 16, 2001, for information regarding sales of unregistered securities made during the first three quarters of 2001.

---

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS AND RESULTS OF OPERATIONS

---

Liquidity and Capital Resources

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

As of December 31, 2001, the Company had cash on hand of \$3,785. The Company raised a total of \$1,408,831 during 2001 in two Regulation S offerings. The Company has received an additional \$164,000 during February and March 2002, as the initial receipts of funds from the first of two new 2002 Regulation S offerings. The 2002 Regulation S offerings are anticipated to raise a total of between \$4,500,000 and \$5,500,000 depending on market conditions. The Company is also in discussion with a United States Investment Banking firm to raise an additional \$3,000,000 via a private placement. This private placement is contingent on the Company's registering the securities with the SEC. The proceeds from this private placement are anticipated during the third quarter of 2002. This funding, should it materialize, would be utilized to implement the Company's business development strategy.

15

### Results of Operations

Comparison of the year ended December 31, 2001, and the year ended December 31, 2000

The Company generated a loss of \$2,055,330 in the year ended December 31, 2001, compared to a loss of \$2,067,883 for the year ended December 31, 2000. This \$12,552 (0.6%) decrease is a result of increased depreciation and amortization expenses, as well as increased administrative expenses offset by reductions in all other expense categories.

The Company had no significant sales in 2001 or 2000. The Company had equipment sales of \$38,897 in the year ended December 31, 2001 compared to \$31,709 in equipment sales in 2000. Crumb rubber sales in 2001 were \$48,662 compared to \$82,003 in crumb rubber and crumb rubber product sales for the twelve months ended December 31, 2000. \$12,500 in consulting fees was generated in the U.S. operations and \$70,615 was earned in Poseidon (Germany) during the year ended December 31, 2000. The Company had no revenue from consulting fees in 2001.

Historically, the majority of the Company's equipment sales were recorded when equipment was shipped and title passed to the buyer. Typical sales were by letter of credit, with the funds released by the bank when the equipment was placed for shipment with the carrier. Historically, payment for the Company's equipment sales have been made on the basis of 10% due at the time of sale, 80% due on shipment of the equipment and 10% due on the completion of installation. This has resulted in the Company receiving its revenue in large lump sums at irregular intervals rather than smaller amounts at frequent intervals. Equipment purchased for the use of a subsidiary or joint venture is recorded as a purchase of assets with no revenue or inter-company profit generated upon the transfer to the operating entity. The Company revised its equipment sales approach during 2000. In the future, the Company will receive fees for the design, configuration and specification of certain pieces of equipment. The Company will receive revenue from the sale of scrap tire shredding and granulating equipment, aftermarket product manufacturing equipment and rubberized asphalt paving blending equipment. In most cases, the sale will be made directly from the specified supplier to the client. The manufacturer will warrant its equipment directly to the buyer. The acquisition of the Tires2Oil (tm) technology and the de-icing technology directs a significant portion of the Company's future revenue generation activities to a technology transfer emphasis rather than equipment sales.



## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Net cash used in operations was \$1,260,864 during the year ended December 31, 2001 compared to \$1,458,733 in the year ended December 31, 2000. During 2001, Accounts Receivable decreased by \$59,949, Notes Receivable decreased \$22,570, and Inventory decreased \$37,528. Prepaid Expenses decreased \$132,868 and Deposits decreased by \$17,128. During the twelve months ended December 31, 2000, Accounts Receivable increased by \$33,748, Equipment increased by \$248,245. Inventory decreased \$101,941. Customer Deposits decreased \$295,183 and Deposits decreased by \$687,487.

During the year ended December 31, 2000 the Company acquired three major pieces of tire recycling and aftermarket product manufacturing equipment from Fonds Concepts, in Atzendorf, Germany for shares and credit against the Deposits account. This equipment was being held in Germany pending shipment to the Poseidon project in Penkun, Germany. The equipment was valued at \$1,835,211. Two of the three pieces of equipment did not meet the required specifications and were returned to the seller in November 2001. The seller returned the proportionate shares. The remaining piece of equipment does meet Company requirements and was retained. This transaction reduced the Equipment Inventory account by \$1,360,365.

16

Inventory consisted of purchased crumb rubber originally intended for the Company's QCAL San Diego facility. The inventory was sold in the first quarter of 2001.

Accrued expenses increased in the year ended December 31, 2001 by \$52,324 compared to a decrease of \$74,806 in the year ended December 31, 2000. Accounts Payable increased \$74,035 in the year ended December 31, 2001 compared to a decrease of \$201,429 in the twelve months ended December 31, 2000.

The value of the land owned by the Company's subsidiary (Poseidon) in Germany was increased from \$149,119 at December 31, 2000 to \$617,840 at December 31, 2001. \$218,803 of this increase was expended during the twelve months ended December 31, 2001. The balance of the increase is a result of a reclassification of cost incurred in the preparation of the land for construction. \$128,810 of these costs had previously been categorized as a depreciable asset cost and \$121,800 had been prepaid in the year ended December 31, 2000.

.. Prepaid Expenses declined from \$139,444 at December 31, 2000 to \$6,576 at December 31, 2001 due to the recognition of the Land preparation costs and the non-renewal of insurance on certain vehicles sold by the Company.

Depreciation Expense of \$324,826 for the year ended December 31, 2001, exceeds the 2000 expense of \$275,886 by \$48,940. This is due to additions of equipment of \$70,087 and Website design costs of \$16,078 plus the full year depreciation of the 2000 additions to the equipment.

Travel expenses of \$87,812 for the year ended December 31, 2001, decreased by \$3,349 compared to \$91,161 for the year ended December 31, 2000. This decrease is a timing difference on foreign travel. This reduction should not be viewed as a trend, as travel expenses are expected to increase with additional foreign travel in 2002.

Professional fees decreased to \$175,032 in the twelve months ended December 31, 2001 from \$239,823 for the twelve months ended December 31, 2000. The twelve months ended December 31, 2000 had been effected by

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

the legal activities regarding patent research and related matters for both the Tires2Oil (tm) license and the preparatory work for the purchase of the de-icing technology license in the first quarter of 2001. Patent protection expense due Dartmouth College under the De-Icing license has been specifically identified as patent expenses in the administrative expense category in 2001.

Office expense of \$82,221 for the twelve months ended December 31, 2001, is a decrease from the 2000 expenses of \$115,293. This decrease is due to the non-repetition of expenses related to the QCAL close out in July 2000.

Rent and Utilities expense of \$119,835 in the twelve months ended December 31, 2001 is \$ 32,704 less than the \$152,539 incurred in 2000. This reduction is due to the closing of the San Diego facility operated by the Company's subsidiary, QCAL, in July 2000.

17

Administrative expenses of \$578,796 for the year ended December 31, 2001 is a \$275,504 increase from the \$303,282 for the comparable 2000 period. This increase is due to the addition of patent expenses relating to the De-Icing technology of \$32,000, Research and Development expenses of \$65,000, a Vacation Expense accrual of \$47,000 and equipment freight expenses of \$15,000 for which there were no comparable year 2000 expenses. Salaries expense increased \$40,000 due to the change in status from consultant to full time employee. Promotion and trade show expenses increase from \$7,000 in the twelve months ended December 31, 2000 to \$18,000 in 2001.

Consulting expenses of \$674,731 for the year ended December 31, 2001 decreased from the year ended December 31, 2000 expense of \$793,890 by \$119,159. This expense was reduced by the closing of the QCAL facility and by the hiring of the Tires2Oil (tm) project manager as a full time employee. He previously worked for the Company as a consultant.

Options Issued expense of \$39,067 was recognized in 1999, and Options Issued expense of \$19,146 was recognized in the year ended December 31, 2000, for the 2000 employee incentive stock option program. The 1999 and 2000 option plans were cancelled in 2001 and the 2001 plan adopted. The Company incurred no Options Issued expense in 2001 as a result of the adjustments necessary to reflect the cancellation of the 1999 and 2000 plans.

Comparison of the year ended December 31, 2000, and the year ended December 31, 1999

The Company generated a loss of \$2,007,696 in the year ended December 31, 2000, compared to a loss of \$2,642,390 for the year ended December 31, 1999. This \$634,694 (24%) reduction in loss is a result of general reductions in General and Administrative expenses and the closing of the Company's subsidiary operation in San Diego, California. Company had no significant sales in either year. The Company had \$31,709 in equipment sales and \$82,003 in crumb rubber and crumb rubber product sales for the twelve months ended December 31, 2000. \$12,500 in consulting fees was generated in the U.S. operations and \$70,615 was earned in Poseidon (Germany) during the year ended December 31, 2000, compared to \$17,821 in domestic consulting fees in 1999. The Company had no revenue from sales of equipment in 1999. No revenue from license fees was generated in either the year ended December 31, 2000 or 1999. Due to the emphasis on technology

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

transfer, no license fee income is anticipated until a full scale Tires2Oil (tm) plant is operational. Such plant will not be begun until and in less the pilot plant proves successful.

Net cash used in operations was \$1,458,733 during the year ended December 31, 2000 compares to \$836,692 in the year ended December 31, 1999. During 2000, Accounts Receivable increased by \$33,748, Equipment increased by \$248,245. Inventory decreased \$101,941. Customer Deposits decreased \$295.183 and Deposits decreased by \$687,487. Cash used in operations in 1999 was from an increase in Accounts Receivable of \$2,747,576. Deposits decreased by \$755,717, offset by a decrease in Customer Deposits of \$1,897,779. Accrued Expensed decreased by \$366,041 while Accounts Payable decreased by \$71,684.

During the year ended December 31, 2000 the Company acquired three major pieces of tire recycling and aftermarket product manufacturing equipment from Fonds Concepts, in Atzendorf, Germany for shares and credit against the deposits account. This equipment is being held in Germany pending shipment to the Poseidon project in Penkun, Germany. The equipment is valued at \$1,835,211. No comparable transaction occurred in 1999. (Two of the three pieces of equipment were returned to the seller in November 2001)

18

Inventory consists of purchased crumb rubber originally intended for the Company's QCAL San Diego facility. This crumb rubber was purchased from the Company's licensee in Mexico. With the closing of the San Diego facility, the crumb rubber inventory was written down to current market wholesale values. The inventory was sold in the first quarter of 2001.

Franchise Taxes payable balance at December 31, 1999 was \$103,548. The Company had delayed payment of this balance pending clarification of certain collections and timing differences. The Company resolved the timing difference and collection questions during the year ended December 31, 2000 and eliminated the reserve.

Accrued expenses decreased in the year ended December 31, 2000 by \$74,806 compared to a decrease of \$366,041 in the year ended December 31, 1999. Accounts payable declined \$201,429 in the year ended December 31, 2000 compared to a decrease of \$71,684. These reductions are primarily due to the availability of funds as a result of the 2000 Regulation S offering.

The carrying value of the land owned by the Poseidon joint venture was reduced to \$149,119 at December 31, 2000 from \$157,753 at December 31, 1999. This reduction is as a result of the decline in valuation of the German Mark against the US Dollar. As this re-valuation is of an existing asset, no loss is reported for operating statement purposes

Depreciation Expense of \$275,886 for the year ended December 31, 2000, exceeds the 1999 expense of \$144,222 by \$131,664. This is due to the equipment purchased and manufactured for the QCAL operation.

Travel expenses of \$91,161 for the year ended December 31, 2000, decreased by 45% or \$76,113 compared to \$167,274 for the year ended December 31, 1999. This decrease is due to eliminating marketing activities in support of the QCAL operation.

Professional fees increased from \$210,483 for the twelve months ended December 31, 1999, to \$239,823 for 2000. This increase is due, primarily, to the legal activities regarding patents and related matters for both the Tires2Oil (tm) license and the preparatory work for the purchase of the de-

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

icing technology license in the first quarter of 2001. Additionally, legal support for the Company's current and in-formation overseas joint venture were increased as these projects move closer to maturity.

Office expenses of \$115,293 for the twelve months ended December 31, 2000, are a \$17,937 increase from the 1999 expenses of \$97,356. This increase is primarily due to expenses at the QCAL operation in the first half of 2000.

Administrative expenses of \$293,282 for the year ended December 31, 2000 are significantly lower than the \$814,361 for the comparable 1999 period. This reduction is due to closing the San Diego operation in midyear 2000, and cessation of QCAL marketing activities.

Consulting expenses of \$793,890 for the year ended December 31, 2000 increased from the year ended December 31, 1999 expense of \$715,663 by \$78,227. This increase is primarily due to the hiring of a consultant for the Tires2Oil (tm) project, offset by the reduction of consultants associated with the QCAL marketing activities and fee increases from the Company's Vice President- Finance.

Options expense of \$39,067 was recognized in 1999 as a result of the Board of Directors approval of the 1999 employee incentive stock option program. Options expense of \$19,146 was recognized in the year ended December 31, 2000, for the 2000 employee incentive stock option program. The year 2000 expense is less than the 1999 expense due to the reduced price of the Company's stock and slightly fewer options issued.

19

---

### ITEM 7. FINANCIAL STATEMENTS

---

#### ADVANCED RECYCLING SCIENCES, INC. CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001  
&  
DECEMBER 31, 2000

/Letterhead/

Independent Auditors' Report

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

-----  
To the Board of Directors of:  
Advanced Recycling Sciences, Inc.

We have audited the accompanying balance sheets of Advanced Recycling Sciences, Inc., (a Nevada corporation), as of December 31, 2001 and 2000, and the related statements of operations, retained earnings, and cash flows for the 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 audit.

We conducted our audit in accordance with generally accepted auditing standards, in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advanced Recycling Sciences, Inc., as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles, in the United States of America.

/S/ Bierwolf, Nilson & Associates

Bierwolf, Nilson & Associates  
March 22, 2002

Advanced Recycling Sciences, Inc.  
Balance Sheet  
December 31

	2001	2000
	-----	-----
Assets		
Current Assets		
-----		
Cash	\$ 3,785	\$ 15,321
Accounts Receivable	-	59,949
Interest Receivable	-	722
Inventory	-	37,528
Equipment Inventory (Note 12)	718,938	1,835,211
Deposit	14,281	31,409
Note Receivable	11,430	34,000
Prepaid Expenses	6,576	139,444
	-----	-----
Total Current Assets	755,010	2,153,584
Property & Equipment (Note 5)		
-----		
Land (Note 14)	617,840	149,119

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Furniture & Fixtures	38,550	33,339
Equipment	1,504,870	1,732,639
Vehicles	39,402	81,485
Websites	25,728	9,650
	-----	-----
Total Property & Equipment	2,226,390	2,006,232
Less Accumulated Depreciation	(768,861)	(416,809)
	-----	-----
Net Property & Equipment	1,457,529	1,589,423
Other Assets		
-----		
License Rights (Note 17)	647,544	647,554
Patent Rights (Note 13)	4,065,000	1,715,000
	-----	-----
Total Other Assets	4,712,544	2,362,544
Less Accumulated Amortization	(334,443)	(269,685)
	-----	-----
Net Other Assets	4,378,101	
2,092,859		
	-----	-----
Total Assets	\$ 6,590,640	\$ 5,835,866
	=====	=====

Continued  
F-3

## Advanced Recycling Sciences, Inc. Balance Sheet December 31

	2001	2000
	-----	-----
Liabilities & Stockholders' Equity		
Current Liabilities		
-----		
Accrued Expenses	\$ 61,561	\$ 9,237
Accounts Payable	526,123	452,088
Notes Payable (Current Portion) (Note 3)	154,582	98,953
Interest on Note Payable (Note 3)	7,909	3,637
	-----	-----
Total Current Liabilities	750,175	563,915
Long Term Liabilities		
-----		
Capital Lease (Note 10)	29,655	31,475
Note Payable (Note 3)	78,721	605,937
	-----	-----
Total Long Term Liabilities	108,376	637,412

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Minority Interest	44,738	-
Stockholders' Equity		
-----		
Preferred Stock, 5,000,000 Shares Authorized; Par Value of \$.001 per Share; Zero Shares Issued and Outstanding	-	-
Common Stock 50,000,000 Shares Authorized; Par Value of \$.001 Per Share; 17,176,913 & 12,752,128 Shares Issued & Outstanding Respectively	17,177	12,751
Additional Paid In Capital	13,807,412	11,128,925
Paid-in Capital Stock Options	25,543	-
Accumulated Deficit (Note 21)	(8,075,710)	(6,426,776)
Accumulated Other Comprehensive Income (Note 9)	(87,071)	(80,361)
	-----	-----
Total Stockholders' Equity	5,687,351	4,634,539
	-----	-----
Total Liabilities & Stockholders' Equity	\$ 6,590,640	\$ 5,835,866
	=====	=====

The accompanying notes are an integral part of these financial statements.  
F-4

## Advanced Recycling Sciences, Inc. Statement of Operations For the Years Ended December 31

	2001	2000
	-----	-----
Revenues		
-----		
Equipment Sales	\$ 38,897	\$ 31,709
Other Sales	48,662	82,003
Other Income	-	83,115
	-----	-----
Total Revenues	87,559	196,827
Cost of Sales	37,287	141,160
	-----	-----
Gross Profit	50,272	55,667
Expenses		
-----		
Commission	-	4,249
Depreciation	324,826	275,886
Amortization	64,756	64,756
Travel	87,812	91,161
Professional Fees	175,032	239,823
Office	82,221	115,293
Rent & Utilities	119,835	152,539
Administrative Expenses	578,796	303,282
Consultant Fees	674,731	793,890
Interest	9,058	13,298

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Options Issued Expense	-	19,146
	-----	-----
Total Expenses	2,117,067	2,073,323
	-----	-----
Net Income (Loss) from Operations	(2,066,795)	(2,017,656)
Other Income (Expenses)		
	-----	-----
Interest Income	1,215	991
Leasehold Abandonment	-	(51,218)
Gain (Loss) on Sale of Assets	988	-
	-----	-----
Total Other Income (Expense)	2,203	(50,227)
Minority Interest	9,262	-
	-----	-----
Net Income (Loss)	\$ (2,055,330)	\$ (2,067,88)
	=====	=====
Net (Loss) per Share	\$ (0.13)	\$ (0.21)
Weighted Average Shares Outstanding	15,873,294	9,940,519

The accompanying notes are an integral part of these financial statements.  
F-5

## Advanced Recycling Sciences, Inc. Statement of Stockholders' Equity From January 1, 2000 to December 31, 2001

	Common Stock Stock	Amount	Paid-In Capital	Comprehensive Income	Accumulated Deficit
	-----	-----	-----	-----	-----
Balance, January 1, 2000	9,033,123	\$ 9,033	\$6,692,776	\$	\$ (4,358,893)
Shares Issued for Services at \$1.75 per Share	1,515	2	2,649		
Shares Issued for Patent Rights at \$1.75 per Share	980,000	980	1,714,020		
Shares Issued for Services at \$0.78 per Share	26,618	26	20,736		
Shares Issued for Assets at \$2.125 per Share	577,386	577	1,226,368		
Shares Issued for Services at \$1.625 per Share	10,000	10	16,240		



# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Shares Issued for Cash at \$1.00 per Share	1,510,970	1,511	1,509,459
Cost of Shares Issued			(332,413)
Shares Issued for Services at \$1.75 per Share	22,856	23	39,975
Shares Issued for Services at \$1.010 per Share	40,000	40	40,360
Shares Issued for Services at \$0.687 per Share	50,000	50	34,300
Shares Issued for Services at \$1.75 per Share	11,428	11	19,989
Shares Issued for Conversion Of Debt at \$0.250 per Share	473,232	473	117,835
Shares Issued for Services at \$0.500 per Share	15,000	15	7,485

Continued  
F-6

## Advanced Recycling Sciences, Inc. Statement of Stockholders' Equity From January 1, 2000 to December 31, 2001

	Common Stock Stock	Amount	Paid-In Capital	Comprehensive Income	Accumulated Deficit
Options Issued			19,146		
Foreign Currency Translation				(80,361)	
Net Loss for Year Ended December 31, 2000					(2,067,883)
Balance, December 31, 2000	12,752,128	12,751	11,128,925	(80,361)	(6,507,137)
Prior Period Adjustment					486,757
Shares Issued for Patent Rights at \$1.625 per Share	1,446,153	1,446	2,348,554		

Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Shares Issued for Services at \$.80 per Share	85,000	85	67,915		
Shares Issued for Cash (Asian Reg-S) at \$.54 per Share	1,457,464	1,458	782,373		
Share Issued for Cash (Euro Reg-S) at \$.48 per Share	1,311,250	1,311	623,689		
Shares Issued for Debt at \$.40 per Share	765,385	766	305,388		
Shares Canceled for Asset Return	(640,467)	(640)	(1,360,365)		
Options Adjusted			(63,524)		
Foreign Currency Translation			(6,710)		
Net Loss for Year Ended December 31, 2001					(2,055,330)
Balance, December 31, 2001	17,176,913	\$ 17,177	\$ 13,832,955	\$ (87,071)	\$ (8,075,710)

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

F-7

Advanced Recycling Sciences, Inc.  
Statement of Cash Flows  
For the Years Ended December 31

	2001	2000
Cash Flows from Operating Activities		
Net Profit or (Loss)	\$ (2,055,330)	\$ (2,067,883)
Adjustments to Reconcile Net Profit or (Loss) to Net Cash:		
Options Issued	(63,524)	19,146
Amortization & Depreciation	389,582	340,642
Gain on Sale of Fixed Assets	(988)	-
Stock Issued for Services	68,000	280,219
Changes in Operating Assets & Liabilities:		
(Increase) Decrease in Accounts Receivable	59,949	(33,748)
(Increase) Decrease in Interest Receivable	722	722
(Increase) Decrease in Inventory	37,528	101,941
(Increase) Decrease in Deposit on Inventory	-	(31,409)
(Increase) Decrease in Notes Receivable	22,570	35,253
(Increase) Decrease in Prepaid Expense	132,868	(112,500)
(Increase) Decrease in Deposits	17,128	687,487

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Increase (Decrease) in Accrued Expenses	52,324	(74,806)
Increase (Decrease) in Accounts Payable	74,035	(201,429)
Increase (Decrease) in Interest on Notes Payable	4,272	(3,637)
Increase (Decrease) in Customer Deposits	-	(295,183)
Increase (Decrease) in Taxes Payable	-	(103,548)
	-----	-----
Net Cash (Used) by Operating Activities	(1,260,864)	(1,458,733)

## Cash Flows from Investing Activities

Land Preparation and Costs	(218,803)	-
Purchase of Equipment	(70,087)	(248,245)
Purchase of Website	(16,078)	-
Purchase of Furniture & Fixtures	(772)	-
Proceeds from Sale of Equipment	31,054	-
	-----	-----
Net Cash (Used) by Investing Activities	(274,686)	(248,245)

Continued

F-8

## Advanced Recycling Sciences, Inc. Statements of Cash Flows For the Years Ended December 31

	2001	2000
	-----	-----
Cash Flows from Financing Activities		
	-----	-----
Proceeds from the Sale of Common Stock (Net)	\$1,481,096	\$1,177,046
Payment on Long Term Debt	(1,820)	(31,250)
Increase (Decrease) in Notes Payable	-	333,569
Increase (Decrease) in Minority Interest	44,738	-
	-----	-----
Net Cash Provided by Financing Activities	1,524,014	1,479,365
	-----	-----
Increase (Decrease) in Cash	(11,536)	(227,613)
Cash at Beginning of Period	15,321	242,934
	-----	-----
Cash at End of Period	\$ 3,785	\$ 15,321
	=====	=====
Disclosures from Operating Activities		
	-----	-----
Interest	\$ 9,058	\$ 13,298
Taxes	-	-
	-----	-----
Significant Non Cash Transactions		
	-----	-----

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

During 2001, the Company issued 85,000 shares of common stock in exchange for consulting services rendered. The cost of the services has been charged to operations, and additional paid-in capital has been increased by \$67,915, representing the excess of the cost of the services over the par value of the common stock issued.

During the year, the company issued 1,446,153 shares of common stock to purchase patent rights for "de-icing" technology. Additional paid-in capital has been increased by \$2,348,554, representing the excess of the cost of the assets over the par value of the common stock.

A stockholder of the company converted a note due to him of \$306,153, for 765,385 shares of common stock. Accordingly, \$305,388, has been charged to additional paid-in capital.

During November 2001, the Company rescinded a transaction where stock was issued for fixed assets. The fixed assets did not meet Company specifications, and the related shares were returned to the Company and canceled. The number of shares returned was 640,467 which resulted in a reduction of additional paid-in capital of \$1,360,365.

F-9

Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2001

### NOTE 1 - Corporate History

-----

The Company was organized on December 2, 1968, under the laws of the state of California as Acquatic Systems, Inc. On June 27, 1989, the Company merged with Country Maid, Inc., a Nevada Corporation, the Corporate domicile was changed to the state of Nevada. On September 18, 1992, the name of the Company was changed to The Quantum Group, Inc. On March 26, 2001, the Company filed an Amendment to the Articles of Incorporation changing it's name to Advanced Recycling Sciences, Inc. The Company is registered and qualified to do business in the state of California.

### NOTE 2 - Significant Accounting Policies

-----

- A. The Company uses the accrual method of accounting.
- B. Revenues and directly related expenses are recognized in the period when the goods are shipped to the customer.
- C. The Company considers all short term, highly liquid investments that are readily convertible, within three months, to known amounts as cash equivalents. The Company currently has no cash equivalents.
- D. Primary Earnings Per Share amounts are based on the weighted average number of shares outstanding at the dates of the financial statements. Fully Diluted Earnings Per Shares shall be shown on stock options and other convertible issues that may be exercised within ten years of the financial statement dates.
- E. The inventory is stated at the lower of cost or market. The inventory is a single recycling system that the Company intends to sell as a system. The Company is currently pursuing several prospects to sell the system.
- F. Consolidation Policies: The accompanying consolidated financial statements include the accounts of the company and its majority - owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

- G. Foreign Currency Translation / Remeasurement Policy: Assets and liabilities that occur in foreign countries are recorded at historical cost and translated at exchange rates in effect at the end of the year. Income Statement accounts are translated at the average exchange rates for the year. Translation gains and losses shall be recorded as a separate line item in the equity section of the financial statements.
- H. Depreciation: The cost of property and equipment is depreciated over the estimated useful lives of the related assets. The cost of leasehold improvements is depreciated (amortized) over the lesser of the length of the related assets or the estimated lives of the assets. Depreciation is computed on the straight line method for reporting purposes and for tax purposes.
- I. Issuance of Subsidiary's Stock: The Company has elected to account for shares issued by its subsidiary as an equity transaction.

Continued  
F-10

Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2001

### NOTE 2 - Significant Accounting Policies -continued-

- J. 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- K. As permitted by SFAS #123 "Accounting for Stock-Based Compensation," the Company has elected to account for the stock option plans as a compensation cost when options were issued at equal to or more than fair market value.

### NOTE 3 - Notes Payable

The Company has the following notes payable obligations

	2001	2000
	-----	-----
Note payable to bank due April 29, 2003, plus interest payable annually at 12.32%, secured by the equipment.	\$ 35,649	\$ 35,649
Note payable to bank due April 29, 2002, plus interest payable annually at 12.32%, secured by the equipment.	12,524	12,524
Various unsecured short term, related party notes payable, non interest bearing due on demand	185,130	170,250
Short term note payable to a Venture Capital Group, (Germany) 6% interest rate, due on demand	-	424,740
	-----	-----
Total	233,303	643,163

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Less Current Maturities	226,412	27,548
	-----	-----
Total Notes Payables	\$ 6,891	\$ 615,615
	=====	=====

Following are maturities of long-term debt for each of the next five years;

2002	\$ 226,412
2003	6,891
2004	-
2005	-
	-----
Total	\$ 233,303
	=====

Continued

F-11

Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2001

## NOTE 4 - Operating Leases

On March 1, 2000, the Company renewed its lease agreement to lease an industrial condominium in a multi-tenant building for use as its principal executive office. The Company pays \$3,821 per month for a 4,495 square foot facility. The lease expires on February 28, 2002 and has a renewal option for an additional year. The building is located at Park Irvine Business Center, 14771 Myford Road, Building B, Tustin, California 92780. The space the Company is leasing is sufficiently large enough to accommodate all of its administrative and storage needs. Prior to March 1, 2000, the Company rented the same facility on a month to month arrangement.

Total Lease Commitments	Year	Amount
	-----	-----
	2002	\$ 7,642
		-----
Total		\$ 7,642
		=====

## NOTE 5 - Depreciation

The Company capitalizes the purchase of equipment and fixtures for major purchases in excess of \$1,000 per item. Capitalized amounts are depreciated over the useful life of the assets using the straight-line method of depreciation.

Scheduled below are the assets, costs and accumulated depreciations at December 31, 2001 and 2000.

	December 31,		Depreciation		Accumulated	
	2001	2000	Expenses		Depreciation	
Assets	Cost	Cost	2001	2000	2001	2000
	-----	-----	-----	-----	-----	-----
Land	\$ 617,840	\$ 149,119	\$ -	\$ -	\$ -	-
Furniture						

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

& Fixtures	38,550	33,339	11,066	4,224	25,820	10,551
Equipment	1,504,870	1,732,639	290,447	252,148	713,469	374,048
Vehicle	39,402	81,485	16,297	16,297	17,731	27,385
Website	25,728	9,650	7,016	3,217	11,841	4,825
<hr/>						
Balance	\$ 2,226,390	\$ 2,006,232	\$ 324,826	\$ 275,886	\$ 768,861	\$ 416,809
<hr/>						

## NOTE 6 - Related Party Transactions

-----

In August 1998 and January 1999, the Company loaned \$30,000 and \$10,000 respectively, to John Pope, a director and officer of the Company. Both notes are at an interest rate of 9% per annum. Both notes have been extended and are now due and payable on December 31, 2002. As of March 27, 2002, Mr. Pope has repaid \$32,500.

In 2001 and 2000, officers and shareholders of the Company loaned the Company a total of \$133,402. The notes are unsecured, non interest bearing, and due on demand.

Continued  
F-12

Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2001

## NOTE 7 - Net Operating Loss Carryforward for Income Tax Purposes

-----

The Company has incurred losses that can be carried forward to offset future earnings if conditions of the Internal Revenue Codes are met. These losses are as follows:

Year of Loss	Amount	Expiration Date
<hr/>		
1992	\$ 440,338	2007
1993	-0-	2008
1994	198,818	2009
1995	782,181	2010
1996	241,809	2011
1997	-0-	2017
1998	80,058	2018
1999	2,642,390	2019
2000	2,067,883	2020
2001	2,055,330	2021

The Company has adopted FASB 109 to account for income taxes. The Company currently has no issues that create timing differences that would mandate deferred tax expense. Net operating losses would create possible tax assets in future years. Due to the uncertainty as to the utilization of net operating loss carryforwards an evaluation allowance has been made to the extent of any tax benefit that net operating losses may generate.

2001

2000

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Current Tax Asset Value of Net Operating Loss Carryforwards at Current Prevailing Federal Tax Rate	\$ 2,552,642	\$ 1,882,343
Evaluation Allowance	(2,552,642)	(1,882,343)
Net Tax Asset	\$ -	\$ -
Current Income Tax Expense	\$ -	\$ -
Deferred Income Tax Benefit	-	-

Continued  
F-13

## Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2001

### NOTE 8 - Options / Warrants for Purchase of Common Stock

During 2001, the Company canceled the 2000 and 1999 stock option incentive plans. The Company adopted a plan which provides for the grant of options to officers, consultants and employees to acquire shares of the Company's common stock at a purchase price equal to or greater than fair market value as of the date of the grant. Options are exercisable six months after the grant date and expire five years from the grant date. The plan calls for a total of 1,000,000 shares to be held for grant, with no more than 200,000 shares being granted in each year of the plan. A summary of activity follows;

2001 Stock Option Plan	2001	
	Weighted Average Number of Shares	Exercise Price
Outstanding at beginning of year	-	\$ -
Granted	442,969	.79
Exercised	-	-
Canceled	-	-
Outstanding at end of year	442,969	.79
Exercisable at end of year	442,969	\$ .79

Compensation expense was adjusted by \$63,524 to reflect the proper valuation of the stock options.

The fair value of the option grant was established at the date of grant using the Black-Sholes option pricing model with the following weighted average assumptions;

2001 2000



# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Risk-free interest rate	3.5%	9.0%
Dividend yield	0%	0%
Volatility	50%	50%
Average expected term (years to exercise date)	1/2	1/2

Employee stock options outstanding and exercisable under this plan as of December 31, 2001 is:

## 2001 Stock Option Plan

Range of Exercise Price	Options	Weighted Average of Exercise Price	Weighted Average Remaining Contractual Life (yrs)	Options	Average of Exercise Price
\$ .79	442,969	\$ .79	4	442,969	\$ .79

Continued  
F-14

Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2001

## NOTE 9 - Other Comprehensive Income/Loss

As of January 1, 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) No., 130, "Reporting Comprehensive Income". SFAS No., 130, establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Company's net income or shareholders' equity. SFAS No., 130 requires other comprehensive income to include foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gain or loss from available-for-sale securities.

A summary of the components of other comprehensive income for the year ended December 31, 2001 is as follows;

	Before-Tax Amount	Income Tax	After-Tax Amount
Net Loss	\$ (2,055,330)	\$ -	\$ (2,055,330)
Foreign Currency Translation	(87,071)	\$ -	\$ (87,071)
Net change in unrealized gain (loss) on available-for-sale securities	-	-	-
Total Other Comprehensive Income (Loss)	\$ (2,142,401)	\$ -	\$ (2,142,401)
	=====	=====	=====

## NOTE 10 - Capital Leases

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

The Company is the lessee of a 1999 Isuzu Truck under a capital lease expiring September 30, 2004. The assets and liabilities under this lease are recorded at the fair market value of the asset. The asset is depreciated over the related lease term. Depreciation of the asset under capital lease is included in depreciation expense for 2001.

Minimum future lease payments under capital leases as of December 31, 2001, for each of the next five year and in the aggregate are:

2002	\$ 17,178
2003	9,499
2004	7,124
2005	-
	-----
Total Lease Payments	\$ 33,801
Less Amount Representing Interest	(4,146)
	-----
Net Lease Payments	\$ 29,655
	=====

Continued

15

### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2001

#### NOTE 11 - Net Earnings (Loss) Per Share

-----  
Basic earnings (loss) per common share (BEPS) is based on the weighted-average number of common shares outstanding during each period. Diluted earnings (loss) per common share is based on shares outstanding (computed as under BEPS) and dilutive potential common shares. Shares from the exercise of the outstanding options were not included in the computation of diluted loss per share, because their inclusion would have been antidilutive for the years ended December 31, 2001 and 2000.

The following data shows the shares used in the computing loss per common share including dilutive potential common stock;

Common shares outstanding during the entire period	15,873,294
Weighted-average shares paid for, but not issued during the period.	-
	-----
Weighted-average number of common shares used in basic EPS	15,873,294
dilutive effect of options	-
	-----
Weighted-average number of common shares and dilutive potential common shares used in diluted EPS	15,873,294
	=====

Shares from the exercise of the outstanding options were not included in the computation of diluted loss per share because their inclusion would have been antidilutive for the year ended December 31, 2001.

#### NOTE 12 - Equipment Inventory

-----

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

During 2001, the Company returned two pieces of equipment that were purchased from Fonds Concepts (Atzendorf) through the cancellation of shares that were issued when the equipment was acquired. Equipment inventory of \$718,938 shown on the balance sheet as a current asset represents inventory acquired that is expected to be placed in service at the Poseidon Products GmbH tire recycling facility in Penkun, Mecklenburg-Vorpommern. The Company anticipates that the assets will be placed in service, and the plant will be fully operational during 2002.

Continued

F-16

### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2001

#### NOTE 13 - Patent Rights

-----

On February 19, 2001, the Company purchased the patent rights to an asphalt "de-icing" technology. This technology was acquired from UTEK Corporation by issuing 1,446,153 shares of Advanced Recycling Sciences, Inc.'s common stock. Patent rights of \$2,350,000 shown on the balance sheet as a "non-current" asset represents the rights, acquired to the technology that will be used in the future.

On May 24, 2000, the Company purchased the patent rights to the Tires2Oil technology. This technology was acquired from UTEK Corporation by issuing 980,000 shares of The Quantum Group, Inc.'s common stock. Patent rights of \$1,715,000 shown on the balance sheet as a non current asset represents the rights acquired to the technology that will be used in the future.

#### NOTE 14 - Land and Land Preparation

-----

During the current year, the Company's subsidiary located in Penkun, in the state of Mecklenburg-Vorpommern, Germany, incurred costs associated with the surveying and preparation of the land where the Poseidon Products recycling facility will be constructed. The Company has incurred and capitalized costs in the amount of \$218,803 (USD). There was also a reclassification of \$249,918 to the land category made during the year that was previously categorized as equipment.

#### NOTE 15 - Subsequent Events

-----

In January 2002, the Company signed an underwriting agreement with an investment banking firm in Barcelona, Spain. This agreement calls for the investment bankers to market new issue common stock on behalf of the Company commencing in February 2002. The securities will be marketed outside the United States and are exempt from registration under Regulation "S" of the Securities and Exchange Act of 1933. The Company anticipates that it will raise up to two million dollars in the underwriting. As of March 25, 2002, \$164,000 has been received. The marketing effort will continue through the balance of 2002.

In March 2002, the Company entered into a similar agreement with an investment banking firm in Hamburg, Germany. The underwriting will commence in April 2002. The Company anticipates that up to three million

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

dollars will be raised in this underwriting, depending on market conditions. This underwriting agreement is for a period of six months.

Continued  
F-17

### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2001

#### NOTE 16 - SuperCollider Impact 500 Technology

During 1997, the Company worked on the in-house development of a compact SuperCollider machine designed to take large mesh size crumb rubber produced by the EGS System and buffings from tire retreading and pulverize it into fine powder in order to open up several new markets. These markets include extrusion products, press products and products combining super-fine crumb and plastic. The Company finalized the engineering for the SuperCollider and concluded the development, prototype work and initial performance testing during 1998 and early 1999. After testing the initial prototype, the Company decided not to sell the SuperCollider into the market until a number of improvements could be made. During 1999, the Company made those improvements and began additional testing. The first SuperCollider was installed and operational at the Donovan Correctional Facility. It has since been removed and is awaiting shipment to Germany where it will be installed at the Poseidon Facility.

#### NOTE 17 - License Rights

The Company is currently renegotiating its exclusive worldwide license agreement with Faru GmbH., Dresden, Germany ("Faru"). Faru is the patent holder of the REVULCON (R) technology. This technology enables the production of high density, smooth finish rubber moldings and extrusions, including new tires, by adding REVULCON (R) compound. This is done by a process of devulcanizing the rubber, returning it to a state where it can be utilized in new products and re-vulcanized. The reactivated rubber waste can be processed without further additives to rubber products like mats, plates, solid rubber tires, components for fall protection, elements for sound and vibration deadening, blocking and insulating layers against heat and moisture. Profiles and other goods can be made by extrusion or injection molding when the revulcanized rubber is mixed with fresh rubber or plastics. While there are other companies developing and marketing competing technology, the REVULCON (R) technology is the only one that does not introduce or use of chemicals in its process.

The cost and associated amortization of the rights of the license is as follows;

Licensor	License Cost	Amortization Expense 2001	Accumulated Amortization
Rothbury	\$ 497,547	\$ 49,756	\$ 281,943
Faru GmbH	150,000	15,000	52,500
Total	\$ 647,547	\$ 64,756	\$ 334,443

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Continued  
F-18

## Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2001

### NOTE 18 - Legal Proceedings

-----

On February 18, 2002, the Company entered into a settlement agreement resolving the litigation between Eurectec and Tyre's Ecology S.r.l., in the Court in Pistoia, Italy. Under the terms of the settlement agreement, Tyre's had delivered all drawings, specifications and handbooks and assigned all rights, title and interest in its C-3000 compact tire and industrial rubber granulator to the Eurectec. Tyre's also issued a non interest bearing promissory note for 25,000 Euro due and payable on June 30, 2002. The Company is negotiating for the purchase of Tyre's C-3000 spare parts inventory and may forgive all or part of the note in exchange for that inventory.

### NOTE 19 - Principles of Consolidation

-----

In June 1997, SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" was issued for fiscal year beginning after December 31, 1997, with earlier application permitted. The Company has elected to adopt SFAS No. 131, effective with the fiscal years ended December 31, 1998. Adoption of SFAS No. 131 did not have a material impact on the Company's financial statements.

The Company's subsidiaries are described as follows;

#### Poseidon Products GmbH. ("Poseidon")

-----

Poseidon is currently a wholly-owned subsidiary of the Company. Through Poseidon, the Company will finish construction of a state of the art rubber recycling facility in Penkun, in the state of Mecklenburg-Vorpommern. This facility will produce crumb rubber and manufacture a wide range of value-added aftermarket products using technologies licensed or developed by the Company.

Ground breaking on the Poseidon facility occurred on September 17, 1998. Site improvements were begun and foundations for the plant were commenced. Due to difficulties in securing an accompanying bank to sponsor the project, construction of the facility has been delayed. The Company continues to negotiate funding for the facility with several German banks. The Company is also actively seeking a suitable German joint venture partner to help provide partial equity funding, project management, operations assistance and a strong German presence. The Company hopes to have funding in place during the second quarter of 2002. The Company has obtained an additional extension on both the EU grants and the low interest funding commitment from the government of the state of Mecklenburg-Vorpommern.

Poseidon currently has an office in Penkun and is developing a marketing plan to introduce and sell its manufactured products in Germany and Europe. Assuming sufficient funding is obtained, the Company believes the Poseidon facility will be completed and operational by early next year. The Company expects to have a clearer understanding as to when the Poseidon

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

facility will be finished and operational during the second quarter of 2002.

Continued  
F-19

### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2001

#### NOTE 20 - Principles of Consolidation -continued-

-----

As the Poseidon facility will incorporate much of the rubber recycling equipment and aftermarket product technologies the Company has to offer, and will have the capacity to process up to 3 million tires or 30,000 tons of scrap tire rubber per year, the Company intends to use the Poseidon facility as a showcase for sales of future full scale tire recycling plants. The Company expects Poseidon to be a significant revenue driver for the Company's ongoing technology sales and development program.

#### Tires2Oil, Inc.

-----

Tires2Oil, Inc., is a wholly owned subsidiary of the Company. Tires2Oil (tm) was formed as a Nevada corporation on January 17, 2001. The primary responsibility of Tires2Oil (tm) will be the continued research, development and exploitation of certain super critical fluid ("SCF") tire recycling technology owned by the Company. The SCF technology is used to break down tires into a clean form of synthetic crude oil which can be easily upgraded in existing oil refineries. This technology has been proven in the laboratory at University of South Alabama. Tires2Oil (tm) will continue to focus its efforts into determining whether this technology can be feasible on a commercial scale.

#### Advanced Surfacing Technologies, Inc. ("AST")

-----

AST was incorporated in Nevada in May 1997 as Quantum Modified Asphalt Xcetera, Inc., a wholly owned subsidiary of the Company. The name was changed to Advanced Surfacing Technologies, Inc., in March 2001.

The Company believes there are significant opportunities in the asphalt paving industry. Among those opportunities, is a potentially large market for crumb rubber to be used in producing crumb rubber modified ("CRM") asphalt paving. This will include the use of specialized mobile equipment for the mixing of crumb rubber and asphalt at hot mix plants, overseeing technology transfer programs to international clients, on-site project management and seminars to educate both public and private sector engineers about the Company's products and services.

#### Technology Development, Inc. ("TDI")

-----

TDI was acquired by the Company in February 2001. TDI will research, develop and market other technologies in the asphalt paving industry, including the worldwide exclusive licence to certain ground surface applications of a novel ice adhesion modification or "de-icing" technology the Company received when it acquired Technology Development, Inc., from

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

UTEK Corporation. TDI is a wholly owned subsidiary of the Company.

Continued  
F-20

### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2001

#### NOTE 20 - Principles of Consolidation -continued-

##### Other Subsidiaries

##### Advanced Environmental Technologies, Limited ("AET")

AET is a wholly owned subsidiary of the Company. AET was incorporated pursuant to the laws of the province of Alberta, Canada on April 21, 1997 as QEST Industries, Inc. The Company changed the name in March 2001. AET will provide engineering support services to tire recycling facilities in both North and South America. These services will be provided via the Company's strategic alliance with Sultech Engineering, a Calgary based engineering concern. The Company will pay Sultech on an as needed, job by job basis.

##### Eurectec, Inc., ("Eurectec")

Eurectec is a wholly owned subsidiary of Advanced Recycling Sciences, Inc. In February 2002, the Company, through Eurectec reached a resolution of its litigation with Tyre's Ecology, Inc., the successor in interest to CISAP SpA of Italy. Pursuant to terms of the settlement agreement, Tyre's Ecology has delivered all drawings, specifications and handbooks, and assigned all right, title and interest in the C-3000 compact tire and industrial rubber granulating equipment to Eurectec. Tyre's also issued a non interest bearing promissory note for 25,000 Euro due and payable on June 30, 2002. The Company is negotiating for the purchase of Tyre's C-3000 spare parts inventory and may forgive all or part of the note in exchange for that inventory. The Company intends to have the C-3000 re-engineered to include various improvements made by the Company. Upon completion, the Company will seek to license the manufacture of C-3000 units which will be sold by the Company worldwide.

#### NOTE 21 - Prior Period Adjustments

The accompanying financial statements for 2001 have been restated to correct an error related to depreciation expense and related accumulated depreciation to decrease net loss for 2000 by \$56, 553, (\$.01 per share). The remaining \$430,204 was to correct errors in inter-company elimination entries made for the subsidiaries of the Company for the year ended 2000. This entry has no net effect on the net loss of the Company. Retained earnings at the beginning of the 2001 have been adjusted for the effects of the restatement on prior years.

F-21

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE

During 2000, the Company's Certified Public Accountant, Darrell Schvaneveldt of Schvaneveldt and Associates died. His practice was acquired by Crouch, Bierwolf & Associates, the Company's current Certified Public Accountants. During 2001, Crouch, Bierwolf & Associates changed its name to Bierwolf, Nilson & Associates.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS,  
AND CONTROL PERSONS; COMPLIANCE WITH  
SECTION 16(a) OF THE EXCHANGE ACT

The following table sets forth as of December 31, 2001 the name, age, and position of each executive officer and director and the term of office of each director of the Corporation.

Name	Age	Position	Director or Officer Since
Ehrenfried Liebich	59	Chief Executive Officer Director	March 1989 March 1989
Keith J. Fryer	52	President Chief Operating Officer Secretary Director	October 2000 October 2000 July 1997 March 1995
John F. Pope	59	Vice President Treasurer Director	January 1991 January 1991 March 1989

All officers hold their positions at the will of the Board of Directors. All directors hold their positions for one year or until their successors are elected and qualified.

Set forth below is certain biographical information regarding each of the Company's executive officers and directors:



## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Ehrenfried Liebich. Mr. Liebich is the Chief Executive Officer and Chairman of the Board of Directors of the Company. Mr. Liebich first became involved with the Company in March 1989. Mr. Liebich was born and educated in Germany. After his formal secondary education in Germany he joined the Merchant Marine, which he left as a Ship's Officer with the Court Line, London, U.K. Mr. Liebich immigrated to Canada in 1965 where he started various businesses in the areas of real estate, investment, chemical distribution and electronics. In March of 1989 he became the President, a Director and controlling shareholder of the Company. Following a management reorganization in October 2000, Mr. Liebich became the Chief Executive Office and Chairman of the Board of Directors.

Keith J. Fryer. Mr. Fryer is the President, Chief Operating Officer, Secretary and a Director of the Company. Mr. Fryer first became involved with the Company in August 1992. Mr. Fryer was educated in England and graduated from the Cheshire College of Further Education with a City and Guild of London Institute Diploma in Construction and Site Surveying. He also studied at Cranfield and Dunchurch UK Management Colleges and became a Member of the Institute of Marketing London in 1974. Mr. Fryer became a Chartered Member of the Institute in 1989. He is a life member of the Wig & Pen Club, The Strand, London. Mr. Fryer successfully operated Keith Fryer Associates England, a business he formed in 1986, that provided marketing consulting services in various business areas. In 1992, Mr. Fryer established Keith Fryer Associates California, Inc., a marketing consulting firm. Following a management reorganization in October 2000, Mr. Fryer became the President and Chief Operating Officer of the Company. He became the Secretary in July 1997, and a Director of the Company in March 1995.

John F. Pope. Mr. Pope is the Treasurer, a Vice President and a Director of the Company. Mr. Pope began his professional career in 1963 as an auditor in public accounting and subsequently on the corporate staff of Olivetti Underwood in New York. He joined Burger King Corporation in Miami, Florida, in 1968 and progressed to the position of Controller, Company Stores Division. He joined Orange Julius International, Inc., Santa Monica, California, in 1974 as Vice President, Finance and a Director for the parent company and its national and international subsidiaries.

In 1980, Mr. Pope became President of Inflation Management, Inc., Los Angeles, California. From February 1982 until February 1984 he was Vice President, Finance of Aerobic Dancing, Inc. In 1984 he became Senior Vice President of Animated Playhouses Incorporated and Subsidiaries, before moving to become Executive Vice President Finac International, Inc., an investment and venture capital firm in Torrance, California.

From 1986 through November 1987, Mr. Pope acted as Vice President Finance and Administration for ASI Sign Systems of Marina Del Rey, Inc. After leaving ASI Sign Systems in late 1987, Mr. Pope became an independent financial consultant assisting a number of domestic and international public and private companies in franchising, financial structure, and internal and SEC reporting. He continues to serve on the Board of Directors of several companies he helped to become public companies, including currently serving as the interim President and a Director of the New Anaconda Company.

In 1989, Mr. Pope became a founding member of the Board of Directors of the Quantum Group, Inc. Mr. Pope is a Certified Management Accountant

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

(CMA) and served on the National Board of Directors of The Institute of Management Accountants, where he served on the National Strategic Planning Committee. He has also been Certified in Financial Management (CFM) by the same institute. He is a Certified Public Accountant (CPA) and a member of the American Institute of Certified Public Accountants (AICPA). He has been a member of a number of other professional and civic organizations, including the Curriculum Steering Committee, School of Accountancy, University of Southern California.

### Key Employees

Sudheer Helekar. Mr. Helekar received a Masters Degree in Mechanical Engineering from Worchester Polytechnic Institute, Massachusetts, in 1968. Mr. Helekar has 37 years experience in developing new technologies to commercial hardware. He developed the Solar Stirling Engine from concept to commercial hardware within eighteen months. He has also helped develop various solar and ethanol plant concepts, as well as, several turbines and energy systems. He also has experience with cryogenic systems, conventional pyrolysis, carbon activation and power generation. Prior to joining the Company, Mr. Helekar spent eight years as an environmental consultant for Alton Geoscience, where he was primarily responsible for environmental audits, environmental energy and conversion of bio-waste to energy and chemicals.

### Scientific Advisory Board

Victor F. Petrenko, Dr.Sci., Ph.D. Dr. Petrenko received a Masters Degree in Engineering Physics and Electronics from the Moscow Institute of Physics and Technology, Moscow, U.S.S.R. in 1970. He earned a Ph.D. in Experimental Physics from the Institute of Physical Problems, Academy of Science, Moscow, U.S.S.R. in 1974. Since 1991, Dr. Petrenko has worked as a Research Professor of Engineering at the Thayer School of Engineering, Dartmouth College. Dr. Petrenko has been closely involved with the research, development and patenting of the novel ice adhesion modification or "de-icing" technology recently acquired by the Company. Dr. Petrenko holds six U.S. and two International patents.

Jagdish Dhawan, Ph.D. Dr. Dhawan received a Masters Degree in Chemical Engineering from the University of Kanpur, India in 1969. He earned a Ph.D. in Chemical Engineering from the University of Mississippi in 1974. Dr. Dhawan is a Professor at the University of South Alabama, where he has taught since 1983. From 1995 to 1998, he also served as a consultant to the Center for Legislative Energy & Environmental Research, Irving Texas. Dr. Dhawan is the primarily responsible for developing the Tires2Oil (tm) recycling process.

Pawan Agarwal, Ph.D. Dr. Agarwal received his Ph.D. from the Department of Metallurgical and Materials Science and Engineering, University of Pittsburgh in 1975. He has been employed with Exxon-Mobil Chemical Company for the past 20 years, where he has held a variety of positions. Currently, he is oversees the research work of 12 scientists at the Baytown Polymers Center of Exxon-Mobil. Dr. Agarwal is known for his work in the field of rubber chemicals and polymers. He currently holds 33 U.S. patents.

Nicholas D. Sylvester, Ph.D. Dr. Sylvester received his Ph.D. in Chemical Engineering from Carnegie-Mellon University in 1968. Since 1996, Dr. Sylvester has been employed as a professor of chemical engineering at

## Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

the University of South Alabama, where he teaches at both graduate and undergraduate levels. He is also a special member of the College of Engineering Strategic Planning Committee. Prior to joining the University of South Alabama, Dr. Sylvester held numerous positions at the University of Akron and the University of Tulsa.

There are no family relationships between any of the Company's officers and directors. In addition, none of the officers and directors have been involved in legal proceeding which require disclosure in this annual report of the Company.

### Compliance with Section 16(a) of the Exchange Act

Directors and executive officers are required to comply with Section 16(a) of the Securities Exchange Act of 1934, which requires generally that such persons file reports regarding ownership of and transactions in securities of the Company on Forms 3, 4, and 5. A Form 3 is an initial statement of ownership of securities, which is to be filed by the officers and directors owning shares in the Company within 10 days after the effective date of the Company's filing on Form 10-SB. Form 4 is to report changes in beneficial ownership and is due on or before the tenth day of the month following any month in which they engage in any transaction in the Company's common stock. Form 5 covers annual statement of changes in beneficial ownership which is due 90 days after the fiscal year end of the Company.

Based solely on a review of Forms 3 and 4 and amendments thereto furnished to the Company during its most recent fiscal year, and Forms 5 and amendments thereto furnished to the Company with respect to the most recent fiscal year, it appears that Mr. Liebich inadvertently failed to timely file Form 4s disclosing the sell of securities in September and November 2001. Disclosure of these sales was made on the Form 5 Mr. Liebich filed for the year ended December 31, 2001.

## ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain summary information concerning the compensation paid or accrued over each of the Registrant's last three completed fiscal years to the Company's, or its principal subsidiaries, chief executive officers during such period (as determined at December 31, 2001 the end of the Registrant's last completed fiscal year).

44

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Restr- icted Stock Awards	Long Term Compensation Awards Options /SARS#	Long Term Compensation Payouts	
		Salary	Bonus	Other Annual Compen- sation			LTIP Payout	All Other Compen- sation
-----	-----	-----	-----	-----	-----	-----	-----	-----

# Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

Ehrenfried								
Liebich	2001	\$-0-	\$-0-	\$132,325	\$-0-	\$29,227	\$-0-	\$-0-
CEO/Director	2000	-0-	-0-	129,956	-0-	52,666	-0-	-0-
	1999	-0-	-0-	169,573	-0-	52,696	-0-	-0-
Keith Fryer (1)	2001	-0-	-0-	171,071	-0-	29,227	-0-	-0-
President/COO/	2000	-0-	-0-	132,750	-0-	36,259	-0-	-0-
Secretary/Director	1999	-0-	-0-	95,000	-0-	36,198	-0-	-0-
John F. Pope (2)	2001	-0-	-0-	110,750	-0-	24,007	-0-	-0-
Vice President	2000	-0-	-0-	50,000	-0-	15,108	-0-	-0-
Treasurer/Director	1999	-0-	-0-	27,500	-0-	14,999	-0-	-0-

(1) Keith Fryer provided consulting services to the Company through Keith Fryer Associates California, Inc., his private consulting business. The salary figures represent amounts paid by the Company to Keith Fryer Associates California, Inc. These services were provided on terms at least as favorable as could have been negotiated with an independent third party.

(2) John Pope provided consulting services to the Company through his private consulting business, John F. Pope, Inc. The salary figures represent amounts paid by the Company to John F. Pope, Inc., for Mr. Pope's services to the Company as an officer and director overseeing the financial affairs of the Company. These services were provided on terms at least as favorable as could have been negotiated with an independent third party.

## Bonuses and Deferred Compensation

The Company does not have any bonus, deferred compensation or retirement plan. Such plans may be adopted by the Company at such time as deemed reasonable by the board of directors. The Company does not have a compensation committee, all decisions regarding compensation are determined by the board of directors.

## Stock Option and Stock Appreciation Rights Plans

The Company hereby incorporates by reference the Form 10-KSB filed on April 2, 2001, for information regarding stock options granted during the first quarter of 2001.

The Company granted no options during the second, third and fourth quarters of 2001.

## Termination of Employment and Change of Control Arrangement

There are no compensatory plans or arrangements, including payments to be received from the Company, with respect to any person named in cash compensation set out above which would in any way result in payments to any such person because of his resignation, retirement, or other termination of such person's employment with the company or its subsidiaries, or any change in control of the Company, or a change in the person's responsibilities following a changing in control of the Company.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN  
BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of March 27, 2002 the name and the number of shares of the Registrant's Common Stock, par value \$0.001 per share, held of record or beneficially by each person who held of record, or was known by the Registrant to own beneficially, more than 5% of the 17,176,913 issued and outstanding shares of the Registrant's Common Stock, and the name and shareholdings of each director and of all officers and directors as a group.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
Common	Ehrenfried Liebich 14771 Myford Road Building B Tustin, California 90744	1,311,277 (1)	7.5%
Common	Keith J. Fryer 14771 Myford Road Building B Tustin, California 90744	713,787 (2)	4.1%
Common	John F. Pope (2) 14771 Myford Road Building B Tustin, California 90744	79,996 (3)	.05%
Common	UTEK Corporation 202 South Wheeler Street Plant City, Florida 33566	2,309,453	13.2%
Common	All Officers and Directors as a Group: (3 persons)	2,105,060	12%

This includes options to purchase up to an additional 142,358 common shares within 60 days of the date of this Form 10-KSB.

(2) This includes 25,000 shares held of record by his three children and 1,488 held of record by Keith Fryer Associates, California, Inc., all of which he may be deemed to be a beneficial owner of. This figure also includes options to purchase up to an additional 376,121 common shares within 60 days of the date of this Form 10-KSB.

(3) This includes 19,500 shares which are held of record by John F. Pope, Inc. Mr. Pope may be deemed to be a beneficial owner of the shares because he has shared investment power of the shares. This figure also includes options to purchase up to an additional 60,496 common shares within 60 days

Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

of the date of this Form 10-KSB.

ITEM 12. CERTAIN RELATIONSHIPS AND  
RELATED TRANSACTIONS

In August 1998 and January 1999, the Company loaned \$30,000 and \$10,000 respectively, to John Pope, a director and officer of the Company. Both notes are at an interest rate of 9% per annum. Both notes have been extended and are now due and payable on December 31, 2002. As of March 27, 2002, Mr. Pope has repaid \$32,500.

There were no other related party transactions occurred during 2001.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K.

None.

(b) Exhibits. The following exhibits are included as part of this report:

None.

47

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf of the undersigned, thereunto duly authorized.

Advanced Recycling Sciences, Inc.  
a Nevada corporation

Dated: March 29, 2002

By: /s/ Keith J. Fryer

Keith J. Fryer, President

DATE

NAME AND TITLE

SIGNATURE

Edgar Filing: ADVANCED RECYCLING SCIENCES INC - Form 10KSB

March 29, 2002

Keith J. Fryer

By: /s/ Keith J. Fryer

President/COO/  
Director/Secretary

-----  
Keith J. Fryer

March 29, 2002

John F. Pope

By: /s/ John F. Pope

Vice President/  
Treasurer/Director

-----  
John F. Pope