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ADVANCED RECYCLING SCIENCES INC  
Form 10KSB  
May 15, 2003

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

FORM 10-KSB

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2002  
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[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from to  
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Commission File Number 0-23812  
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ADVANCED RECYCLING SCIENCES, INC.  
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(Name of small business issuer in its chapter)

Nevada  
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95-4255962  
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(State or other jurisdiction of  
incorporation or organization)

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

University Tower, 4199 Campus Drive, Suite 550, Irvine, California 92612  
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(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: (949) 509-6503  
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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  
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(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 [X] 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. [ ]

The issuer's revenue for its most recent fiscal year was: \$0.

The aggregate market value of the issuer's voting stock held as of April  
15, 2002, by non-affiliates of the issuer was \$1,935,587.

As of April 15, 2003 issuer had 24,544,366 shares of its \$.001 par value

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common stock outstanding.

Transitional Small Business Disclosure Format. Yes ☐ No ☒

Documents incorporated by reference: None

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### PART I

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FORWARD

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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.

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ITEM 1. DESCRIPTION OF BUSINESS

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Advanced Recycling Sciences, Inc., ("ARS " or the "Company") is in the business of developing innovative products and technologies in the environmental and recycling industries, with specific emphasis on rubberized asphalt paving, scrap tire and industrial rubber recycling. The principal offices of the Company are located at University Tower, 4199 Campus Drive, Suite 550, Irvine California 92612. 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.

Since March 2001, the Company has been pursuing a business development strategy incorporating technology acquisition, innovation and development, including rubberized asphalt paving, the patented Tires2Oil process, a patented de-icing system for road surfaces and international sales of tire shredding, granulating and aftermarket product manufacturing equipment.

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

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Advanced Surfacing Technologies, Inc. ("AST")

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AST was incorporated in Nevada in May 1997 as Quantum Modified Asphalt

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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 rubberized asphalt paving industry. The Company, through AST intends to focus most of its efforts in the upcoming year to exploiting the growing rubberized asphalt paving, particularly in Europe. The Company has entered into an exclusive agreement with a manufacturer to sell specialized mobile equipment for blending rubber and asphalt at hot mix plants in Europe. The Company will also oversee 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. The Company also intends to establish and operate its own rubberized asphalt paving business in Germany. The AST website can be viewed at <http://www.ast-paving.com>.

### Tires2Oil, Inc.

Tires2Oil, Inc. is a 93% owned subsidiary of the Company. Tires2Oil (TM) was formed as a Nevada corporation on January 17, 2001. The primary responsibility of Tires2Oil(TM) is the continued research, development and exploitation of certain super critical fluid ("SCF-Oil (TM)") tire recycling technology. The SCF-Oil (TM) technology can be used to break down tires into a form of oil and carbon. The oil can be easily upgraded in existing oil refineries. This technology has been proven in the laboratory at University of South Alabama.

Based on laboratory experiments, the Company believes the Tires2Oil process can be applied to the surface of crumb rubber to de-vulcanize it. This treated rubber will be suitable to incorporate into the production of new tires and other molded rubber products, including new tires. When the rubber is re-vulcanized it provides the same characteristics as original rubber. The Tires2Oil website can be viewed at <http://www.tires2oil.com>.

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

Poseidon is currently a wholly-owned subsidiary of the Company. For some time, the Company has intended to finish construction of this state of the art rubber recycling facility in Penkun, located in the state of Mecklenburg-Vorpommern, Germany. This facility was to produce crumb rubber and manufacture a wide range of value-added aftermarket products using technologies licensed or developed by the Company.

Due to difficulties in securing financing to construct this facility, and the Company's belief that its best opportunities lie in the rubberized asphalt paving industry, the Company has temporarily suspended its plans to finish construction of its Poseidon facility until such time as the Company believes funding and demand for crumb rubber and related products so justifies.

Poseidon's website may be viewed at <http://www.poseidon-products.com>.

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

TDI was acquired by the Company in February 2001. The primary purpose of TDI is to research, develop and market its 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>.

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

### Company Products

#### Rubberized Asphalt Paving

The Company believes its best and fastest route to revenues and earnings in the current economic environment lies in the rubberized asphalt paving industry. Asphalt rubber can be used as a binder in various types of asphalt paving construction including surface treatments and hot mixes. It can also be used in crack sealants. Asphalt rubber products can be used wherever conventional asphalt concrete or asphalt surface treatments are used.

As compared to conventional paving grade asphalt, rubberized asphalt provides significantly improved engineering properties. The benefits of rubberized asphalt include:

- increased elasticity and resilience at high temperatures;
- reduced traffic noise;
- improved durability;
- improved resistance to surface initiated and fatigue/reflective cracking;
- reduced temperature susceptibility;
- improved aging and oxidation resistance;
- reduced pavement maintenance costs; and
- improved resistance to rutting.

The use of rubberized asphalt can also result in reduced construction times and savings in energy and natural resources by recycling waste rubber.

The primary disadvantage to rubberized asphalt is the increased unit costs. Typically, rubberized asphalt costs approximately \$12 to \$16 more per ton than conventional mixes. As mobilization and set up of asphalt rubber blending equipment costs as much for small jobs as big ones, larger projects will result in lower per unit costs because the costs can be spread over the greater tonnage.

The rubberized asphalt paving industry is still in the early stages 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 three years, the number U.S. of states specifying and using CRM asphalt paving could potentially increase to as many as thirty.

The rubberized asphalt paving industry is also in the beginning stages of development in Europe. Following more than two years of lobbying, the Company convinced the German state government of Meklenberg-Vorpommern, based on success with rubberized asphalt in the United States, to lay 11 kilometers of pilot rubberized road projects in Schwerin. The rubberized asphalt road pilot project has been successful. The German state government of Schwerin

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has independently identified numerous advantages to rubberized asphalt including two to three times extended life expectancy, reduced noise levels, improved traction and shorter braking distances. The Company believes the success of the pilot project will prompt local governments throughout Germany and other European countries to commit to the installation of additional rubberized asphalt roadways.

The Company has acquired an exclusive license from CEI Enterprises, Inc., of Albuquerque, New Mexico, to market specialized mobile rubberized asphalt hot mix blending equipment throughout Europe. In accordance with the terms of this license, the Company will receive a commission on each piece of CEI equipment sold to a Company client. The Company has spent significant time and effort researching and seeking to establish itself in the rubberized asphalt paving industry. In addition to receiving commissions, the Company will provide consulting and other services to clients for a fee. Finally, the Company intends to generate revenue by acquiring equipment from CEI and entering into the industry, initially in Germany, as a primary and/or subcontractor and then expanding to other markets as demand justifies.

### Tires2Oil(TM) Super Critical Fluid Process

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

The Tires2Oil(TM) process can also be applied to the surface of crumb rubber to de-vulcanize and liquify it. The Company believes this treated, liquified rubber can be used to produce new tires and other rubber products.

The Company had hoped to construct a pilot plant to assist in the further development of this technology. Due to a lack of funding, the Company has not yet begun construction of a pilot plant. When the Company is able to raise adequate funding, it anticipates that construction of a pilot plant will take approximately three months. The pilot plant will be used to develop firm criteria and product data for enabling the construction of full scale production plants. The Company estimates that the cost of establishing a pilot plant will be approximately \$1,120,000.

If sufficient funds can be raised, development of the plant will occur in two phases. The first phase will include construction and set up of the

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pilot plant, as well as process development. The cost to complete the first phase is approximately \$700,000. The cost of the second phase, which will focus on a liquid rubber testing and commercialization program, is estimated at \$420,000. The Company is currently in preliminary negotiations with several parties regarding the possible acquisition of Tires2Oil(TM) from the Company.

Once the Company has a firm understanding of the criteria, data, and production specifications, Tires2Oil(TM) will market and license this technology worldwide.

In connection with the research and development efforts undertaken by Tires2Oil(TM), it believes it has discovered a process to de-vulcanize crumb rubber. When this rubber is re-vulcanized, it provides the product with the same characteristics as original rubber. The Company believes this de-vulcanized rubber can be used to produce a number of molded rubber products, including new tires. The Company is in the initial stages of research and development of this process to de-vulcanize crumb rubber and does not know if this process can be proved up on a commercial scale. Moreover, the Company does not at this time know whether the process can be developed into economically viable uses.

### Crumbing and Aftermarket Product Equipment

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For a number of years, the Company's primary business pursuit was the development and sale of equipment and facilities capable of recycling tires and other rubber scrap to crumb rubber that could in turn be used to create value-added aftermarket products. For several years, the Company has envisioned that its Poseidon Products facility would be the cornerstone of this operation both in terms of operations and as a state of the art facility for use in educating, marketing and demonstrating its full range of tire recycling technologies. While the Company believes a market for tire and waste rubber recycling exists, due to ongoing difficulties in securing financing to construct this facility, the Company has determined to suspend its tire crumbing and aftermarket product operations until such time as market conditions, funding and demand justify the significant expense associated with operating in this industry.

### Roadway Surface De-Icing Technology

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In February 2001, the Company acquired Technology Deevlopment, Inc. ("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. Pursuant to the terms of the agreement the Company entered into at the time it acquired TDI, Dartmouth College was to provide certain information, data, samples, etc., by February 2002, that would allow the Company to create a pilot and allow for real world simulation and testing. To date, the required deliveries have not been made to the Company. The Company is currently in discussion with Dartmouth College regarding this matter. It is unclear at this time when delivery of the required information will occur, if at all. Until such time as satisfactory delivery of this information is made to the Company, the Company cannot proceed with development and commercialization of this technology.

### Research and Development

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During the past year the Company's primary research and development efforts were employed in the development of the Tires2Oil technology. The Company spent approximately \$81,000 in research and development costs in the fiscal year ended December 31, 2002. If the Company has funding, it anticipates incurring significantly greater expenses for research and development during fiscal year 2003.

### Employees

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The Company has a total for four employees, three of whom are part-time. 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 Chief Financial Officer, a Vice President and Treasurer, and Ehrenfried Liebich, the Company's Chief Executive Officer and Chairman of the Board.

### Advisory Board and Scientific Advisory Board

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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 an Advisory Board and a Scientific Advisory Board to assist it in the evaluation and development of new business opportunities and technologies. The following individuals currently serve on the Company's Advisory Board: Wilhelm J. Burke; Bjorn Goosen; Cees Nader and Wolfgang W. Seiler. The Company's Scientific Advisory Board is composed of the following individuals: Pawan Agarwal, Ph.D.; Jagdish Dhawan, Ph.D.; Victor F. Petrenko, Dr.Sci., Ph.D. and Nicholas D. Sylvester, Ph.D. The members of the Advisory Board and the Scientific Advisory Board are not employees of the Company, and each maintains full-time employment with other organizations.

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## ITEM 2. DESCRIPTION OF PROPERTY

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The Company's principal executive offices are located at University Tower, 4199 Campus Drive, Suite 550, Irvine, California 92612. The Company leases approximately 650 square feet of office space at this location for \$2,500 per month. The space is leased on a month to month basis.

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## ITEM 3. LEGAL PROCEEDINGS

### Veplas Manufacturing, Ltd.

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There have been no significant changes in the Company's litigation with Veplas Manufacturing, Ltd., during the quarter ended December 31, 2002.



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FDC Engineering Switzerland performed certain services relating to the original design, engineering and permitting of the Company's proposed Poseidon project facility. The Company's subsidiary Poseidon Products, GmbH disputed these fees. FDC sued Poseidon regarding this matter. FDC recently obtained a judgment against Poseidon Products in the amount of \$46,000. The Company is currently negotiating with FDC to extinguish this liability.

Pauli & Partners  
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Pauli & Partners performed certain business consulting services for the Company's subsidiary, Poseidon. Poseidon disputed certain charges and was unable to reach an amicable solution with Pauli & Partners. Pauli & Partners recently received a judgment against Pauli & Partners in the amount of \$7,500. Poseidon is currently assessing the cost of appealing this judgment to determine the expediency of an appeal versus settlement of the judgment.

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

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No matters were submitted to a vote of the Company's shareholders during the fourth quarter of the fiscal year ending December 31, 2002.

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## PART II

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

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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 Third Segment of the Frankfurt Stock Exchange under German Securities Code Number 882879. As of April 15, 2003, the Company had 771 shareholders holding 24,554,366 common shares. Of the issued and outstanding common stock, 6,164,305 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.

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.

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BID PRICES		ASK PRICES	
HIGH	LOW	HIGH	LOW

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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

2002

First Quarter ended March 31	.70	.40	.85	.60
Second Quarter ended June 30	.51	.15	.60	.21
Third Quarter ended Sept. 30	.45	.13	.62	.175
Fourth Quarter ended Dec. 31	.43	.14	.51	.16

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

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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, 2002.

During the quarter ended December 31, 2002, the Company sold 1,022,736 shares of its common stock to non United States citizens in Europe and Asia. The Company received \$157,243. 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.

During the quarter, Keith J. Fryer exercised certain stock options granted to him in 1997 to purchase 266,667 common shares. The shares were purchased a \$.06 per share for a total purchase price of \$16,000. The shares were issued without registration under the Securities Act of 1933 in reliance on an exemption from registration provided by Section 4(2) of the Securities Act, and from similar applicable state securities laws, rules and regulations exempting the offer and sale of these securities by available state exemptions.

During the quarter the Company issued 150,000, 73,333 and 102,670 restricted common shares to three members of its Advisory Board, Wilhelm J. Burke, Bjorn Goosen and Cees Nader, respectively for services rendered to the Company. The shares were valued at \$.05 per share. The shares were issued without registration under the Securities Act of 1933 in reliance on an exemption from registration provided by Section 4(2) of the Securities Act, and from similar applicable state securities laws, rules and

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regulations exempting the offer and sale of these securities by available state exemptions. No general solicitation was made in connection with the offer or sale of these securities. No funds were received by the Company for these shares.

During the quarter the Company issued 75,000 restricted common shares to three other consultants for services rendered to the Company. The shares were issued without registration under the Securities Act of 1933 in reliance on an exemption from registration provided by Section 4(2) of the Securities Act, and from similar applicable state securities laws, rules and regulations exempting the offer and sale of these securities by available state exemptions. No general solicitation was made in connection with the offer or sale of these securities. No funds were received by the Company for these shares.

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

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#### Liquidity and Capital Resources

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As of December 31, 2002, the Company had cash on hand of \$24,468. The Company raised a total of \$915,473 during 2002 in a Regulation S offering. The Company has received an additional \$56,224 during the first quarter of 2003, as continuing receipts from the Regulation S offering.

A depressed stock market in general and a declining market price for the Advanced Recycling Sciences, Inc. shares in particular led to disappointing results in the 2002 Regulation S offering. The results achieved in the beginning of 2003 have caused management to believe that the 2003 Regulation S offering will generate significantly less than the 2002 offering. Banking conditions in Germany have also added to the Company's inability to secure the financing required to begin construction of the Poseidon plant. The Company's Advanced Surfacing Technology, Inc., ("AST") subsidiary sponsored Crumb rubber modified asphalt tests conducted in August 2002 in Germany were very successful. Management believes that the use of crumb rubber in asphalt will generate substantial demand for crumb rubber and ultimately assist in the ability to finance the Poseidon plant. This will, however, take time.

The Company believes there are significant opportunities in the rubberized asphalt paving industry. The Company, through AST intends to focus most of its efforts in the upcoming year to exploiting the growing demand for rubberized asphalt paving, particularly in Europe. The Company has entered into an exclusive European distribution agreement with a manufacturer to sell specialized mobile equipment for blending rubber and asphalt at hot mix plants. The Company will also oversee 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. The Company also intends to establish and operate its own rubberized asphalt paving business in Germany and later in other parts of Europe. The Company has begun private placement discussions with firms associated with the industry in Germany to raise the funds to support this effort.

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At this point in time, the Company has no ongoing revenue and its ability to raise sufficient capital to meet its cash flow needs is in question. If capital is not raised, it is unlikely the Company will be

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able to remain in business for the next twelve months.

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America, applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Currently, the Company does not have sufficient cash or other liquid assets, nor does it have an established source of revenues to cover its operating costs and to allow it to continue in business as a going concern, therefore, the Company is taking the following approach to meet its liquidity requirements. The Company has an inventory of tire recycling processing and product manufacturing equipment in storage following the closure of the San Diego facility. This equipment was going to be used in the Poseidon project in Germany. The Company is now in the process of selling portions of that inventory to generate cash. The Company does not believe that the cash so generated will be sufficient to meet its overall ongoing needs. The Company is endeavoring to dispose of these assets for the highest valuation it can negotiate. Should the Company be unable to continue in operation, the forced liquidation values for these assets will be less than might be obtained over time. In some cases, the Company has received advances in anticipation of the asset sales. These short-term borrowings will be repaid from the proceeds of the asset sale or the possible sale of a subsidiary. The Company has received an offer (subject to due diligence) to sell its Tires2Oil, Inc., subsidiary. The Company believes that the offered price is sufficient to allow the Company to meet its existing obligations and remain in operation while it develops the AST European business to a point of self-sufficiency the company is also negotiating with a second group where an offer is anticipated. Although the Company is negotiating these transactions in good faith, no assurance can be given that the transaction will be successfully concluded and the anticipated cash will be received.

### Results of Operations

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Comparison of the year ended December 31, 2002, and the year ended December 31, 2001  
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The Company generated a loss of \$1,692,034 in the year ended December 31, 2002, compared to a loss of \$2,042,416 for the year ended December 31, 2001. This \$350,382 (17.15%) decrease is a result of decreases in Depreciation, Travel, Professional Fees, Office Expense and Consulting Fees, partially offset by R&D expenditures and Interest expenses.

The Company had no significant sales in 2001 and no sales in 2002. The Company had equipment sales of \$38,897 in the year ended December 31, 2001. There were no equipment sales in 2002. Crumb rubber sales in 2001 were \$48,662. This sale was the final disposition of crumb rubber inventory and was not repeated in 2002.

Net cash used in operations was \$881,061 during the year ended December 31, 2002 compared to \$1,212,089 in the year ended December 31, 2001. Substantially all of the change is due to the reduction of net loss of \$350,382. Additionally, during 2002, Notes and Interest Receivable decreased \$11,430, and Employee Receivables increased \$21,520 Deposits increased \$2,950. Interest on Notes Payable increased \$5,935 and Prepaid Expenses decreased \$3,791. During the twelve months ended December 31, 2001, Accounts Payable increased \$66,495, Accrued Expenses increased \$52,329, Accounts Receivable decreased by \$59,949, Notes Receivable decreased \$22,570, and Inventory decreased \$37,528. Prepaid Expenses decreased \$129,868.

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Accrued Expenses increased in the year ended December 31, 2002 by \$124,093 compared to an increase of \$52,329 in the year ended December 31, 2001. Accounts Payable increased \$308,948 in the year ended December 31, 2002 compared to an increase of \$66,495 in the twelve months ended December 31, 2001. Officers and Directors of the Company continued to defer salary payments during 2002. The Company recorded the unpaid liability as Accounts Payable. The officers and directors were owed \$233,990 for salaries at December 31, 2002 compared to \$71,720 at December 31, 2001.

Depreciation Expense of \$298,510 for the year ended December 31, 2002, is a reduction of the 2001 expense of \$324,826 by \$26,316. This is due to the disposition of a delivery vehicle and the sale of a portion of the Company's equipment inventory

Travel expenses of \$61,406 for the year ended December 31, 2002, decreased by \$26,406 compared to \$87,812 for the year ended December 31, 2001. This is due to an overall restriction in travel as part of an overall cost reduction program as well as staff downsizing.

Professional fees decreased to \$86,269 in the twelve months ended December 31, 2002 from \$175,032 for the twelve months ended December 31, 2001. This reduction is from a greater reliance on in house services with conservative use of outside professionals.

Office expense of \$30,884 for the twelve months ended December 31, 2002, is a decrease of \$51,337 from the 2001 expenses of \$82,221. This decrease is also a result of a general expense reduction program.

Rent and Utilities expense of \$116,413 in the twelve months ended December 31, 2002 is \$3,422 less than the \$119,835 incurred in 2001. This reduction is due to relocating to a smaller office location in September 2002.

Administrative expenses of \$303,623 for the year ended December 31, 2002 is a \$178,735 decrease from the \$482,358 for the comparable 2001 period. Salaries expense decreased \$68,400 due staff reductions. Payroll Tax, Insurance and Vacation expenses reduced accordingly. Other elements of Administrative expense include Promotion and Trade Show expenses which were reduced from \$17,869 for the twelve months ended December 31, 2001 to \$1,342 in the 2002 year and Freight expenses which were reduced from \$15,183 in 2001 to \$630 in the twelve months ended December 31, 2002.

Consulting expenses of \$555,580 for the year ended December 31, 2002 decreased from the year ended December 31, 2001 expense of \$674,731 by \$119,151. This expense was reduced with the completion of the Business plan for the Poseidon project in Germany in late 2001.

Interest expense of \$82,700 in the twelve months ended December 31, 2002, is an increase of \$73,642 over 2001. This increase is due to a number of short term borrowings during the course of 2002 to cover gaps in the receipts of the Regulation S proceeds and the shortfall of the Regulation S offering.

Research and Development Expenses of \$88,810 were incurred during the twelve months ending December 31, 2002 on the Company's Tires2Oil project. \$65,000 of comparable expenses were included in 2001

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## ITEM 7. FINANCIAL STATEMENTS

/Letterhead/

### Independent Auditors' Report

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, 2002 and 2001, 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 audits.

We conducted our audits in accordance with generally accepted auditing standards, in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advanced Recycling Sciences, Inc., as of December 31, 2002 and 2001, 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.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 19, the Company has incurred significant operating losses over the last four years, and has an accumulated deficit. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 19. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ Bierwolf, Nilson & Associates

Bierwolf, Nilson & Associates  
Salt Lake City, Utah  
March 31, 2003

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	2002	2001
	-----	-----
	Assets	
Current Assets		
-----		
Cash	\$ 24,468	\$ 3,785
Employee Receivable	21,520	-
Deposits	2,950	14,281
Note Receivable	-	11,430
Prepaid Expenses	2,785	6,576
	-----	-----
Total Current Assets	51,723	36,072
Property & Equipment (Note 5)		
-----		
Land (Note 14)	655,845	617,840
Furniture & Fixtures	38,711	38,550
Equipment	1,468,973	1,504,870
Vehicles	-	39,402
Websites	27,123	25,728
	-----	-----
Total Property & Equipment	2,190,652	2,226,390
Less Accumulated Depreciation	(1,024,762)	(768,861)
	-----	-----
Net Property & Equipment	1,165,890	1,457,529
Other Assets		
-----		
Construction in Progress (Note 12)	507,536	535,553
License Rights, net (Note 17)	248,348	313,104
Patent Rights (Note 13)	4,146,261	4,065,000
	-----	-----
Total Other Assets	4,902,145	4,913,657
	-----	-----
Total Assets	\$6,119,758	\$ 6,407,258
	=====	=====

Continued  
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Advanced Recycling Sciences, Inc.  
Balance Sheet  
December 31

	2002	2001
	-----	-----
	Liabilities & Stockholders' Equity	
Current Liabilities		
-----		
Accounts Payable	\$ 834,204	\$ 526,123
Accrued Expenses	185,654	61,561
Notes Payable (Current Portion) (Note 3)	48,173	41,282
Notes Payable - Related Party (Note 6)	196,694	185,130
Capital Lease (Current Portion) (Note 10)	-	17,178
Interest on Note Payable (Note 3)	13,844	7,909

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Total Current Liabilities	1,278,569	839,183
Long Term Liabilities		
Capital Lease (Note 10)	-	12,477
Note Payable (Note 3)	-	6,891
Total Long Term Liabilities	-	19,368
Minority Interest	38,057	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; 23,798,579 & 17,176,913 Shares Issued & Outstanding Respectively	23,799	17,177
Additional Paid In Capital	15,231,076	14,230,009
Paid-in Capital Stock Options	25,543	25,543
Accumulated Deficit	(10,373,723)	(8,681,689)
Accumulated Other Comprehensive Income (Note 9)	(103,563)	(87,071)
Total Stockholders' Equity	4,803,132	5,503,969
Total Liabilities & Stockholders' Equity	\$ 6,119,758	\$ 6,407,258

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

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

	2002	2001
Revenues		
Equipment Sales	\$ -	\$ 38,897
Other Sales	-	48,662
Total Revenues	-	87,559
Cost of Sales	-	37,287
Gross Profit	-	50,272
Expenses		
Depreciation	298,510	324,826
Amortization	64,756	64,756
Travel	61,406	87,812
Professional Fees	86,269	175,032



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Office	30,884	82,221
Rent & Utilities	116,413	119,835
Administrative Expenses	303,623	482,358
Consultant Fees	555,580	674,731
Research & Development	88,810	65,000
	-----	-----
Total Expenses	1,606,251	2,076,571
	-----	-----
Net Income (Loss) from Operations	(1,606,251)	(2,026,299)
Other Income (Expenses)		
-----		
Interest Income	52	1,215
Interest Expense	(82,700)	(9,058)
Other Income	250	-
Gain (Loss) on Sale of Assets	3,296	988
	-----	-----
Total Other Income (Expense)	(79,102)	(6,855)
Minority Interest	6,681	9,262
	-----	-----
Net Income (Loss)	\$ (1,692,034)	\$ (2,042,416)
	=====	=====
Net (Loss) per Share	\$ (.08)	\$ (0.13)
Weighted Average Shares Outstanding	20,353,544	15,873,294
Comprehensive Income		
-----		
Net Loss	\$ (1,692,034)	\$ (2,042,416)
Other Comprehensive Income:		
Foreign Currency Translation	(16,492)	(6,710)
	-----	-----
Comprehensive Income (Loss)	\$ (1,708,526)	\$ (2,049,126)
	=====	=====

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

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## Advanced Recycling Sciences, Inc. Statement of Stockholders' Equity From January 1, 2001 to December 31, 2002

	Common Stock	Stock Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit
	-----	-----	-----	-----	-----
Balance,					
January 1, 2001	12,752,128	\$12,751	\$11,487,815	\$ (80,361)	\$ (6,639,273)
Shares Issued for Patent Rights at \$1.625 per Share	1,446,153	1,446	2,348,554		
Shares Issued for Services at \$.80 per Share	85,000	85	67,915		

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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)		
Foreign Currency Translation				(6,710)	
Net Loss for Year Ended December 31, 2001					(2,042,416)
Balance, December 31, 2001	17,176,913	17,177	14,255,369	(87,071)	(8,681,689)
Shares Issued for Cash at prices from \$.478 to \$.310 per Share	457,833	458	165,791		
Shares Issued for Cash at prices from \$.285 to \$.200 per Share	1,481,300	1,481	344,595		

Continued  
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Advanced Recycling Sciences, Inc.  
Statement of Stockholders' Equity  
For the Years Ended December 31

	Common Stock Stock	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit
Shares Issued for Cash at prices from \$.190 to \$.100 per Share	2,408,040	\$ 2,408	\$ 311,260		
Shares Issued for Cash at prices from \$.099 to \$.075 per Share	927,300	927	80,676		

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Shares Issued for Exercise of 1987 Stock Option at \$.060 per Share	266,670	267	15,733		
Shares Issued for Debt at \$.094 per Share	650,000	650	60,600		
Shares Issued for Services at \$.05 per Share	430,523	431	22,595		
Foreign Currency Translation			(16,492)		
Net Loss for the Year Ended December 31, 2002					(1,692,034)
Balance, December 31, 2002	23,798,579	\$23,799	\$ 15,256,619	\$ (103,563)	\$(10,373,723)

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

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

	2002	2001
Cash Flows from Operating Activities		
Net Profit or (Loss)	\$ (1,692,034)	\$ (2,042,416)
Adjustments to Reconcile Net Profit or (Loss) to Net Cash:		
Amortization & Depreciation	363,266	389,582
Gain on Sale of Fixed Assets	(3,296)	(988)
Non Cash Transactions	61,250	-
Stock Issued for Services	23,026	68,000
Changes in Operating Assets & Liabilities:		
(Increase) Decrease in Accounts Receivable	-	59,949
(Increase) Decrease in Employee Receivable	(21,520)	-
(Increase) Decrease in Interest Receivable	-	722
(Increase) Decrease in Inventory	-	37,528
(Increase) Decrease in Notes & Interest Receivable	11,430	22,570
(Increase) Decrease in Prepaid Expense	3,791	129,868
(Increase) Decrease in Deposits	(2,950)	-
Increase (Decrease) in Accrued Expenses	124,093	52,329
Increase (Decrease) in Accounts Payable	308,948	66,495
Increase (Decrease) in Interest on Notes		

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Payable	5,935	4,272
	-----	-----
Net Cash (Used) by Operating Activities	(818,061)	(1,212,089)
Cash Flows from Investing Activities		
	-----	-----
Land Preparation and Costs	(38,005)	(218,803)
Purchase of Equipment	-	(70,087)
Purchase of Furniture & Fixtures	(161)	(772)
Purchase of Website	(1,395)	(16,078)
Proceeds from Sale of Equipment	47,393	31,054
Increase Costs from Patent Rights	(81,274)	-
	-----	-----
Net Cash (Used) by Investing Activities	(73,442)	(274,686)

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

	2002	2001
	-----	-----
Cash Flows from Financing Activities		
	-----	-----
Proceeds from the Sale of Common Stock (Net)	\$ 915,473	\$ 1,432,321
Payment on Long Term Debt	-	(1,820)
Proceeds from Notes Payable	11,564	-
Increase (Decrease) in Capital Lease	(29,655)	-
Proceeds from Stock Option Exercise	8,123	-
Increase (Decrease) in Minority Interest	6,681	44,738
	-----	-----
Net Cash Provided by Financing Activities	912,186	1,475,239
	-----	-----
Increase (Decrease) in Cash	20,683	(11,536)
Cash at Beginning of Period	3,785	15,321
	-----	-----
Cash at End of Period	\$ 24,468	\$ 3,785
	=====	=====
Disclosures from Operating Activities		
	-----	-----
Interest	\$ 82,700	\$ 9,058
Taxes	-	-

### Significant Non Cash Transactions

During 2002, the Company issued 430,523 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 \$22,595, representing the excess of the cost of the services over the par value of the common stock issued.

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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 2001, 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.

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

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### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2002

#### 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

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- eliminated in consolidation.
- 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.
- 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.

Continued  
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## Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2002

### NOTE 2 - Significant Accounting Policies - continued

- 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.
- L. Research and Development: Research and development costs are charged to expense as incurred.

### NOTE 3 - Notes Payable

The Company has the following notes payable obligations	2002	2001
	-----	-----
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.	133,326	133,402
Short term, unsecured note payable to shareholder, non interest bearing, due on demand.	63,368	51,728
	-----	-----
Total	244,867	233,303
Less Current Maturities	244,867	226,412
	-----	-----
Total Notes Payables	\$ -	\$ 6,891
	=====	=====

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

2003	\$ 244,867
	-----
Total	\$ 244,867
	=====

## 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 \$3,936 per month for a 4,495 square foot facility. The lease expired on February 28, 2002. The Company then leased the space on a month-to-month basis.

On September 9, 2002, the Company signed a lease agreement for an executive office suite in a multi-tenant building for its principal office. The Company pays a minimum of \$2,566 per month for the office space. The lease expires March 31, 2003, thereafter the lease term shall automatically convert to month-to-month with the base rent increasing to the then published rate for offices similarly situated to that of the premises. The building is located at 4199 Campus Drive, Suite 520, Irvine, California 92780.

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## Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2002

## NOTE 4 - Operating Leases - continued

The following is a schedule of future minimum payments under operating leases as of December 31, 2002:

Periods	Amounts
-----	-----
2003	\$ 7,698
	-----
Total	\$ 7,698
	=====

Rent expense entering into the determination of net loss follows:

	Year Ended December 31	
	2002	2001
	-----	-----
Minimum rent on operating leases	\$ 41,751	\$ 45,852
	-----	-----
Total Rent Expense	\$ 41,751	\$ 45,852
	=====	=====

## 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

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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, 2002 and 2001.

Assets	December 31,		Depreciation		Accumulated	
	2002	2001	Expense		Depreciation	
	Cost	Cost	2002	2001	2002	2001
Land	\$ 655,845	\$ 617,840	\$ -	\$ -	\$ -	\$ -
Furniture & Fixtures	38,711	38,550	8,044	11,066	33,945	25,820
Equipment	1,468,973	1,504,870	283,389	290,447	971,899	713,469
Vehicle	-	39,402	-	16,297	-	17,731
Website	27,123	25,728	7,077	7,016	18,918	11,841
Balance	\$ 2,190,652	\$ 2,226,390	\$ 298,510	\$ 324,826	\$ 1,024,762	\$ 768,861

Continued  
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### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2002

#### NOTE 6 - Related Party Transactions

In May 2002, the Company entered into five-year employment agreements with its three officers and directors. Pursuant to the terms of the agreements, Ehrenfried Liebich and Keith Fryer are to receive base salaries of \$168,000 per year. John Pope is to receive a base salary of \$135,000 per year. Because of limited funds, the Company was unable to fully pay these salaries. All unpaid salaries to these individuals have been recorded as accounts payable and will be paid as funds become available. The agreements call for an annual review by the board of directors, with the possibility of increasing the base salary each year. The agreements also provide that each individual is entitled to participate in all Company employee benefit, profit sharing, 401(k), insurance and other perquisite plans and programs. The agreements may be terminated by the Company upon the expiration of the term of the agreement, upon death or disability, for cause and without cause. If an agreement is terminated without cause, the individual is entitled to receive a lump sum payment equal to 24 times the individual's monthly salary plus an amount equal to the individual's monthly salary times the number of years the individual has been an employee of the Company. This lump sum payment is due within 30 days of termination.

The employment agreements also provide that the salaries can be paid to corporations or other entities in the form of consulting fees rather than directly to the officer if he, in his sole discretion, so elects. Salary paid to Mr. Liebich was paid to ERI Associates, Mr. Liebich's private consulting business. Salary paid to Mr. Fryer was paid to Keith Fryer Associates California, Inc., his private consulting business. Salary paid to John Pope was paid to his private consulting business, John F. Pope, Inc.



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In May 2003, Mr. Liebich, Mr. Fryer and Mr. Pope voluntarily agreed to temporarily suspend the Company's obligations under the employment agreements until such time as the operations and cash flow of the Company justify reinstating those agreements.

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.

### NOTE 7 - Research and Development

Research and development expenses were \$88,810 and \$65,000 in 2002 and 2001, respectively.

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### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2002

### NOTE 8 - 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 -----
1992	\$ 440,338	2007
1993	-	2008
1994	198,818	2009
1995	782,181	2010
1996	241,809	2011
1997	-	2017
1998	80,058	2018
1999	2,642,390	2019
2000	2,125,832	2020
2001	2,042,416	2021
2002	1,697,563	2022

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.

	2002 -----	2001 -----
Current Tax Asset Value of Net Operating Loss Carryforwards at Current Prevailing Federal Tax Rate	\$3,075,422	\$ 2,566,153

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Evaluation Allowance	(3,075,422)	(2,566,153)
	-----	-----
Net Tax Asset	\$ -	\$ -
	=====	=====
Current Income Tax Expense	\$ -	\$ -
Deferred Income Tax Benefit	-	-

## NOTE 9 - 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;

Continued  
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Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2002

## NOTE 9 - Options/Warrants for Purchase of Common Stock -continued

Stock Option Plan	2002	
	Number	Weighted
	of Shares	Average
		Exercise
		Price
Outstanding at beginning of year	442,969	\$ .79
Granted	327,223	.21
Exercised	-	-
Canceled	-	-
	-----	-----
Outstanding at end of year	770,192	\$ .54
	=====	=====
Exercisable at end of year	770,192	\$ .54
	=====	=====

Additional paid-in-capital and the related expense was adjusted for the stock options granted during 2002. In accordance with SFAS 123, "Accounting for Stock-Based Compensation", no option expense was recognized for the years ended December 31, 2002 and 2001 since the extension price of the options exceeded the market value of the Company's common stock.

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;

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	2002	2001
	-----	-----
Risk-free interest rate	3.0%	3.5%
Dividend yield	0%	0%
Volatility	100%	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, 2002 is:

## Stock Option Plan

Range of Exercise Price	Options	Weighted Average of Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options	Weighted Average of Exercise Price
-----	-----	-----	-----	-----	-----
\$ .79	442,969	\$ .79	4	442,969	\$ .79
.21	327,223	.21	3.5	327,723	.21

Continued  
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Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2002

## NOTE 10 - Capital Leases

The Company was the lessee of a 1999 Isuzu Truck under a capital lease expiring September 30, 2004. The assets and liabilities under this lease were recorded at the fair market value of the asset. The asset is depreciated over the related lease term.

During January 2002, the truck was repossessed by the lessor and was subsequently sold. The balance due to the lessor, by the Company, due to the foreclosure sale is \$10,371. This amount is included in the accounts payable balance of the Company at December 31, 2002.

## 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, 2002 and 2001.

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

	2002	2001
	-----	-----
Common shares outstanding during the entire period	20,353,544	15,873,294
Weighted-average shares paid for, but not issued during		

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the period.	-	-
Weighted-average number of common shares used in basic		
EPS	20,353,544	15,873,294
dilutive effect of options	-	-
	-----	-----
Weighted-average number of common shares and dilutive		
potential common shares used in diluted EPS	20,353,544	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, 2002 and 2001.

### NOTE 12 - Construction in Progress

Construction in progress of \$507,536 shown on the balance sheet as a non-current asset. The equipment is currently being held in a warehouse in Moberly, Missouri. This equipment was going to be used in the Poseidon project in Germant. The Company is now in the process of selling portions of that inventory to generate cash.

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Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2002

### 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.

During 2002, the Company incurred additional costs related to protectin the patent rights associated with the "de-icing" technology, which amounted to \$81,264. This amount has been capitalized and combined with the original cost of the patent rights.

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 \$38,005 (USD).

### NOTE 15 - Stockholders' Equity

During 2002, the Company issued 266,667 shares of common stock to a director of the Company in satisfaction of 1987 stock options. Accordingly, \$15,733 has been charged to additional paid-in-capital.

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During the year, the Company issued 650,000 shares of common stock in satisfaction of a debt owed by the Company. Additional paid-in-capital has been increased by \$60,600, representing the excess of the value of the note over the par value of the common stock.

### 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.

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Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2002

### 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 chemicals in its process.

Capitalized amounts are amortized over 10 years using the straight-line method of amortization. Scheduled below are the assets, costs and accumulated amortization at December 31, 2002 and 2001.

Licensor	License Costs		Amortization Expense		Accumulated Amortization	
	2002	2001	2002	2001	2002	2001
Rothbury	\$ 497,547	\$ 497,547	\$ 49,756	\$ 49,756	\$ 331,699	\$ 281,943
Faru GmbH	150,000	150,000	15,000	15,000	67,500	52,500

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Total	\$ 647,547	\$ 647,547	\$ 64,756	\$ 64,756	\$ 399,199	\$ 334,443
	=====	=====	=====	=====	=====	=====

## NOTE 18 - Principles of Consolidation

### 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 rubberized asphalt paving industry. The Company, through AST intends to focus most of its efforts in the upcoming year to exploiting the growing rubberized asphalt paving, particularly in Europe. The Company has entered into an agreement with a manufacturer to sell specialized mobile equipment for blending rubber and asphalt at hot mix plants. The Company will also oversee 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. The Company also intends to establish and operate its own rubberized asphalt paving business in Germany.

Continued

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### Advanced Recycling Sciences, Inc. Notes to Financial Statements December 31, 2002

## NOTE 18 - Principles of Consolidation -continued

### Tires2Oil, Inc.

Tires2Oil, Inc. is a 93% owned subsidiary of the Company. Tires2Oil(TM) was formed as a Nevada corporation on January 17, 2001. The primary responsibility of Tires2Oil(TM) is the continued research, development and exploitation of certain super critical fluid ("SCF-Oil(TM)") tire recycling technology. The SCF-Oil(TM) technology can be used to break down tires into a form of oil and carbon. The oil can be easily upgraded in existing oil refineries. This technology has been proven in the laboratory at University of South Alabama.

Based on laboratory experiments, the Company believes the Tires2Oil process can be applied to the surface of crumb rubber to de-vulcanize it. This treated rubber will be suitable to incorporate into the production of new tires and other molded rubber products, including new tires. When the rubber is re-vulcanized it provides the same characteristics as original rubber.

Poseidon Products GmbH ("Poseidon") Poseidon is currently a wholly-owned subsidiary of the Company. For some time, the Company has intended to finish construction of this state of the art rubber recycling facility in Penkun, located in the state of Mecklenburg-Vorpommern, Germany. This facility was to produce crumb rubber and manufacture a wide range of value-added aftermarket products using technologies licensed or developed by the Company.

Due to difficulties in securing financing to construct this facility, and

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the Company's belief that its best opportunities lie in the rubberized asphalt paving industry, the Company has temporarily suspended its plans to finish construction of its Poseidon facility until such time as the Company believes funding and demand for crumb rubber and related products so justifies.

### NOTE 19 - Going Concern

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The Company's financial statements are prepared using generally accepted accounting principles, in the United States of America, applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Currently, the Company does not have significant cash or other material assets, nor does it have an established source of revenues sufficient to cover its operating costs and to allow it to continue as a going concern. The Company does not currently possess a financial institution source of financing and the Company cannot be certain that its existing sources of cash will be adequate to meet its liquidity requirements.

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Advanced Recycling Sciences, Inc.  
Notes to Financial Statements  
December 31, 2002

### NOTE 19 - Going Concern - continued

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The Company has an inventory of tire recycling processing and product manufacturing equipment in storage following the closure of the San Diego facility. This equipment was going to be used in the Poseidon project in Germany. The Company is now in the process of selling portions of that inventory to generate cash. The Company does not believe that the cash so generated will be sufficient to meet its overall ongoing needs. The Company is endeavoring to dispose of these assets for the highest valuation it can negotiate. Should the Company be unable to continue in operation, the forced liquidation values for these assets will be less than might be obtained over time. In some cases, the Company has received advances in anticipation of the asset sales. These short-term borrowings will be repaid from the proceeds of the asset sale or the possible sale of a subsidiary. The Company has received an offer (subject to due diligence) to sell its Tires2Oil, Inc., subsidiary. The Company believes that the offered price is sufficient to allow the Company to meet its existing obligations and remain in operation while it develops the AST European business to a point of self-sufficiency the company is also negotiating with a second group where an offer is anticipated. Although the Company is negotiating these transactions in good faith, no assurance can be given that the transaction will be successfully concluded and the anticipated cash will be received.

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

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None.

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### PART III

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### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS,

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### AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following table sets forth as of December 31, 2002 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	60	Chief Executive Officer	March 1989
		Director	March 1989
Keith J. Fryer	53	President	October 2000
		Chief Operating Officer	October 2000
		Secretary	July 1997
		Director	March 1995
John F. Pope	61	Vice President	March 1989
		Chief Financial Officer	March 1989
		Treasurer	January 1991
		Director	March 1989

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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:

#### Ehrenfried Liebich

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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 Officer and Chairman of the Board of Directors.

#### Keith J. Fryer.

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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 Guilds 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



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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

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Mr. Pope is the Chief Financial Officer, a Vice President, Treasurer 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.

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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 (CMA) and has previously served on the National Board of Directors and currently serves on the National Strategic Planning Committee of The Institute of Management Accountants. 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

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Sudheer Helekar

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Mr. Helekar received a Masters Degree in Mechanical Engineering from Worcester Polytechnic Institute, Massachusetts, in 1968. Mr. Helekar has 38 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,

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environmental energy and conversion of bio-waste to energy and chemicals.

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 reports 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 statements 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. Fryer inadvertently failed to timely file Form 4s disclosing the sell of securities in September 2002. Disclosure of these sales was made on the Form 5 for the year ended December 31, 2002 filed by Mr. Fryer.

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## 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, 2002 the end of the Registrant's last completed fiscal year).

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Annual Compen sation	Long Term Compensation				
					Awards ----- Restr icted Stock Awards	Payouts			
						Options /SARs#	LTIP Payout	Compen sation	
Ehrenfried Liebich CEO/Director	2002	\$77,740	\$ -0-	\$ -0-	\$ -0-	103,971	\$ -0-	\$ -0-	-0-
	2001	132,325	-0-	-0-	-0-	29,227	-0-	-0-	-0-
	2000	129,956	-0-	-0-	-0-	52,666	-0-	-0-	-0-

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Keith Fryer	2002	140,540	-0-	16,000	-0-	103,971	-0-	-0-
President/COO/	2001	171,071	-0-	-0-	-0-	29,227	-0-	-0-
Secretary/Director	2000	132,750	-0-	-0-	-0-	36,259	-0-	-0-
<hr/>								
John F. Pope	2002	96,367	-0-	-0-	-0-	94,751	-0-	-0-
Vice President	2001	110,750	-0-	-0-	-0-	24,007	-0-	-0-
Treasurer/Director	2000	50,000	-0-	-0-	-0-	15,108	-0-	-0-
<hr/>								

## 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.

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## Stock Option and Stock Appreciation Rights Plans

### Options/SAR Grants in Last Fiscal Year

Name	Number of Securities Underlying Options/SARS Granted	% of Total Options/SARS Granted to Employees in Fiscal Year	Exercise or Base Price (\$/sh)	Expiration on Date
Ehrenfried Liebich	103,971	32%	\$.21	06/03/07
Keith Fryer	103,971	32%	\$.21	06/03/07
John Pope	94,751	29%	\$.21	06/03/07

## Termination of Employment and Change of Control Arrangement

In May 2002, the Company entered into five-year employment agreements with its three officers and directors. Pursuant to the terms of the agreements, Ehrenfried Liebich and Keith Fryer are to receive base salaries of \$168,000 per year. John Pope is to receive a base salary of \$135,000 per year. Because of limited funds, the Company was unable to fully pay these salaries. All unpaid salaries to these individuals have been recorded as accounts payable and will be paid as funds become available. The agreements call for an annual review by the board of directors, with the possibility of increasing the base salary each year. The agreements also provide that each individual is entitled to participate in all Company employee benefit, profit sharing, 401(k), insurance and other perquisite plans and programs. The agreements may be terminated by the Company upon the expiration of the term of the agreement, upon death or disability, for cause and without cause. If an agreement is terminated without cause, the individual is entitled to receive a lump sum payment equal to 24 times the individual's monthly salary plus an amount equal to the individual's monthly salary times the number of years the individual has been an

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employee of the Company. This lump sum payment is due within 30 days of termination.

The employment agreements also provide that the salaries can be paid to corporations or other entities in the form of consulting fees rather than directly to the officer if he, in his sole discretion, so elects. Salary paid to Mr. Liebich was paid to ERI Associates, Mr. Liebich's private consulting business. Salary paid to Mr. Fryer was paid to Keith Fryer Associates California, Inc., his private consulting business. Salary paid to John Pope was paid to his private consulting business, John F. Pope, Inc.

In May 2003, Mr. Liebich, Mr. Fryer and Mr. Pope voluntarily agreed to temporarily suspend the Company's obligations under the employment agreements until such time as the operations and cash flow of the Company justify reinstating those agreements.

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To the Company's knowledge, 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.

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### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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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	Amount and Nature of Name of Beneficial Owner	Beneficial Ownership	Percentage of Class
Common	Ehrenfried Liebich University Tower 4199 Campus Drive, Suite 550 Irvine, California 92612	1,415,248 (1)	5.8%
Common	Keith J. Fryer University Tower 4199 Campus Drive, Suite 550 Irvine, California 92612	797,758 (2)	3.3%
Common	John F. Pope (2) University Tower	174,747 (3)	0.7%

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4199 Campus Drive, Suite 550  
Irvine, California 92612

Common	UTEK Corporation 202 South Wheeler Street Plant City, Florida 33566	2,309,453	9.4%
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Common	All Officers and Directors as a Group: (3 persons)	2,387,753	9.7%
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(1) This includes 1,168,919 shares held in the name of Ehrenfried Liebich and options to purchase up to an additional 246,329 common shares within 60 days of the date of this Form 10-KSB.

(2) This includes 577,846 shares held in the name of Keith Fryer, 5,000 shares held of record in the name of his daughter and 1,488 held of record by Keith Fryer Associates, California, Inc., Mr. Fryer may be deemed the beneficial owner of all such shares. This figure also includes options to purchase up to an additional 213,424 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 155,247 common shares within 60 days of the date of this Form 10-KSB.

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### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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None.

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### PART IV

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### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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(a) Reports on Form 8-K.

None.

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

None.

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### ITEM 14. CONTROLS AND PROCEDURES

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(a) Evaluation of Disclosure Controls and Procedures.

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The Company's Chief Executive Officer and Chief Financial Officer has conducted an evaluation of the Company's disclosure controls and procedures as of a date (the "Evaluation Date") within 90 days before the filing of this annual report. Based on his evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms.

(b) Changes in Internal Controls and Procedures.  
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Subsequent to the Evaluation Date, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, nor were any corrective actions required with regard to significant deficiencies and material weaknesses.

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### SIGNATURES

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In accordance with Section 12 of the Securities Exchange Act of 1934, the registrant caused this registration statement to be signed on its behalf, thereunto duly authorized.

Advanced Recycling Sciences, Inc.

Date: April 14, 2003

/S/ Ehrenfried Liebich

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Ehrenfried Liebich,  
Chief Executive Officer

Date: April 14, 2003

/S/ John F. Pope

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John F. Pope,  
Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Ehrenfried Liebich, hereby, certify that:

(1) I have reviewed this annual report on Form 10-KSB of Advanced Recycling Sciences, Inc. (the "Company");

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

(4) The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have:

- (a) designed such disclosure controls and procedures to ensure that material information relating to the Company is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- (b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons fulfilling the equivalent function):

- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

(6) The Company's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies

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and material weaknesses.

Date: May 14, 2003

/S/ Ehrenfried Liebich

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Ehrenfried Liebich,  
Chief Executive Officer

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### CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John F. Pope, hereby, certify that:

(1) I have reviewed this annual report on Form 10-KSB of Advanced Recycling Sciences, Inc. (the "Company");

(2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

(4) The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have:

- (a) designed such disclosure controls and procedures to ensure that material information relating to the Company is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- (b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons fulfilling the equivalent function):

- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

(6) The Company's other certifying officer and I have indicated in this annual report whether or not there were significant changes in



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internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/S/ John F. Pope

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John F. Pope, Chief Financial Officer