

QUANTUM GROUP INC /FL  
Form 10QSB  
June 19, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-QSB**

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

**FOR THE PERIOD ENDED: April 30 , 2006**

**THE QUANTUM GROUP, INC.**

(Exact name of registrant as specified in its charter)

<b>NEVADA</b>	<b>000-31727</b>	<b>20-0774748</b>
(State or other jurisdiction of incorporation or organization)	Commission File Number	(IRS Employer Identification No.)

**3460 Fairlane Farms Road, Suite 4, Wellington, Florida 33414**

(Address, including zip code, of principal executive offices)

**(561) 798-9800**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter

period that the registrant was required to file such reports), and (2) has been subject to such filings for the past 90 days. YES  NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

As of June 14, 2006 the number of the Company's shares of par value \$.001 common stock outstanding was 24,242,860.

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**PART I FINANCIAL INFORMATION****Item 1.****Financial Statements****THE QUANTUM GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEET****AS OF APRIL 30, 2006****(A DEVELOPMENT STAGE ENTERPRISE)****(UNAUDITED)****ASSETS****CURRENT ASSETS**

Cash	\$ 12,130
Deferred financing costs	674,467
Prepaid other	90,900

<b>TOTAL CURRENT ASSETS</b>	<b>777,497</b>
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PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$51,351	130,388
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GOODWILL	23,300
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**OTHER ASSETS**

Software	250,000
Other	9,567

<b>TOTAL ASSETS</b>	<b>\$ 1,190,752</b>
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**LIABILITIES AND DEFICIENCY IN ASSETS****CURRENT LIABILITIES**

Accounts payable	\$ 145,882
Accrued liabilities	234,963
Accrued payroll and payroll taxes	974,606

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Notes payable and accrued interest - shareholders	425,134
Loans payable - current portion	214,637
Other current liabilities	60,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,055,222</b>
<b>LONG TERM DEBT</b>	
Loans payable	130,891
Loans payable-shareholders	175,000
Capital lease obligation - net of current portion	1,366
<b>TOTAL LONG TERM DEBT</b>	<b>307,256</b>
<b>TOTAL LIABILITIES</b>	<b>2,187,479</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>DEFICIENCY IN ASSETS ACCUMULATED DURING DEVELOPMENT STAGE</b>	<b>(996,727 )</b>
<b>TOTAL LIABILITIES AND DEFICIENCY IN ASSETS</b>	<b>\$ 1,190,752</b>

See accompanying notes to condensed consolidated financial statement

**THE QUANTUM GROUP, INC.****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****(A DEVELOPMENT STAGE ENTERPRISE)****FOR THE SIX MONTH ENDED APRIL 30, 2006 AND 2005**

	<b>For the three months ended</b>		<b>For the six months ended</b>		<b>For the period</b>
	<b>April 30,</b>	<b>April 30,</b>	<b>April 30,</b>	<b>April 30,</b>	<b>July 24, 2001</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>(inception)</b>
					<b>to</b>
					<b>April 30,</b>
					<b>2006</b>
Revenues	\$ 7,873	\$	\$ 8,744	\$	\$ 9,863
Medical Costs	\$ 7,873	\$	\$ 8,744	\$	\$ 9,863
Gross Profit	\$	\$	\$	\$	\$
General and administrative expenses					
Salaries and employee costs	\$ 420,353	\$ 250,131	\$ 815,897	\$ 533,755	\$ 2,819,747
Consulting expense	34,418	49,195	82,258	104,272	539,078
Occupancy	17,173	14,676	34,266	28,603	141,356
Interest	89,260	8,064	115,803	17,750	220,186
Depreciation & amortization	12,072	4,773	21,206	8,361	51,352
Other general & administrative expenses	135,474	74,415	242,029	130,417	973,878
Total Expenses	\$ 708,750	\$ 401,254	\$ 1,311,459	\$ 823,158	\$ 4,745,597
Net expenses representing net loss	\$ (708,750 )	\$ (401,254 )	\$ (1,311,459 )	\$ (823,158 )	\$ (4,745,597 )

Basic and diluted (loss) per common share	\$ (0.03 )	\$ (0.02 )	\$ (0.06 )	\$ (0.04 )
Weighted average number of common shares outstanding	23,773,727	19,737,823	23,276,495	19,162,529

See accompanying notes to condensed consolidated financial statement



## THE QUANTUM GROUP, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN DEFICIENCY IN ASSETS  
ACCUMULATED DURING THE DEVELOPMENT STAGE

APRIL 30, 2006

(UNAUDITED)

	Preferred Stock par value \$.001 per share 30,000,000 authorized		Common Stock par value \$.001 per share 170,000,000 authorized		Additional Paid-in Capital	Warrants	Deferred Compensation	Allocated Shares for Deferred Compensation	Accumula Deficit
	# of Shares	Amount	# of Shares	Amount					
			3,296,885	3,297	168,351		(531,192 )	327,150	(460,5
			1,188,122	1,188	276,690				
able			300,000	300	164,700				
			197,269	197	172,551		172,748	(172,748 )	
ed							83,975		
tion			25,000	25	23,475				
	100,000	100	9,300,000	9,300					
dical	100,000	100	4,000,000	4,000					
n							(45,950 )	45,950	
					79,800		(79,800 )		
	200,000	\$ 200	18,307,276	\$ 18,307	\$ 885,567		\$ (400,219 )	\$ 200,352	\$ (1,119,9
			3,590,128	3,590	1,295,944				
			176,325	176	134,373		232,765	(232,765 )	
tion			114,000	114	108,716				
cash			317,572	318	179,750				

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(200,000 ) \$ (200 )

					91,379		
	200,000	200	169,800	145,000			
					(57,683 )	57,683	
			16,350		(16,350 )		(1,853,6
\$	22,705,301	\$ 22,705	\$ 2,790,500	\$ 145,000	\$ (150,108 )	\$ 25,270	\$ (3,434,1
	270,000	\$ 270	\$ 113,930				
	11,300	\$ 11	\$ 7,819		\$ 7,830	\$ (7,830 )	
	39,000	\$ 39	\$ 31,236				
					\$ 12,267		
	85,000	\$ 85	\$ 49,915				
	400,000	\$ 400	\$ 176,850				
	15,800	\$ 16	\$ 12,064		\$ 12,080	\$ (12,080 )	
	1,500	\$ 1	\$ 2,599				
				\$ (145,000 )			
					\$ 9,500		
					\$ 13,500	\$ (13,500 )	
					\$ (108,000 )	\$ 108,000	
	715,000	\$ 715	\$ 642,785				\$ (1,311,4
\$	24,242,901	\$ 24,242	\$ 3,827,698	\$	\$ (202,931 )	\$ 99,860	\$ (4,745,5

See accompanying notes to condensed consolidated financial statement



**THE QUANTUM GROUP, INC.****(A DEVELOPMENT STAGE ENTERPRISE)****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTH PERIODS ENDED APRIL 30, 2006 AND 2005****(UNAUDITED)**

	<b>Six Months Ended April 30, 2006</b>	<b>Six Months Ended April 30, 2005</b>	<b>July 24, 2001 (Inception) to April 30, 2006</b>
<b>OPERATING ACTIVITIES</b>			
Net (loss)	\$ (1,311,459 )	\$ (823,158 )	(4,745,597 )
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	21,206	8,361	51,352
Amortization of deferred compensation	41,677	43,660	355,463
Issuance of stock for compensation	33,875	127,422	320,584
Issuance of stock in lieu of cash			65,463
Loss on conversion of debt to common stock			135,000
Changes in operating assets and liabilities:			
Decrease (increase) in other assets	61,015	682	53,867
Increase in accounts payable and accrued liabilities	349,233	282,173	1,395,424
Total adjustments	507,006	462,298	2,377,153
Net cash used in operating activities	(804,453 )	(360,860 )	(2,368,444 )
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(13,968 )	(108,411 )	(134,249 )
Purchase of software			(90,000 )
Net cash used in investing activities	(13,968 )	(108,411 )	(224,249 )
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans	468,750	(20,647 )	659,440
Proceeds from issuance of common stock	291,450	463,204	1,953,861
Repayments on debt	(4,420 )	(1,535 )	(8,478 )
Net cash provided by financing activities	755,780	441,022	2,604,823
Net increase (decrease) in cash	(62,641 )	(28,249 )	12,130
Cash at beginning of period	74,771	35,968	
Cash at end of period	\$ 12,130	\$ 7,719	\$ 12,130
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ 5,895	\$ 29,094	\$ 62,034

Supplemental disclosures of non-cash investing and financing activities:

Assumption of Liabilities of Transform Pack International, Inc.	\$	\$	\$	120,852
Common stock and preferred stock issued in connection with acquisitions	\$	\$	\$	23,300
Capital lease obligations incurred on purchases of equipment	\$	\$	\$	10,358
Conversion of convertible note into common stock	\$	\$	\$	30,000
Acquisition of Biocard assets	\$	\$	\$	250,000
Issuance of stock as prepaid interest on loans	\$	693,500	\$	63,000
Note payable - auto	\$	36,953	\$	36,953

See accompanying notes to condensed consolidated financial statement

**THE QUANTUM GROUP, INC.**

**(A DEVELOPMENT STAGE ENTERPRISE)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2006**

**(UNAUDITED)**

**Note 1:**

**Description of Company**

On May 28, 2003, Transform Pack International, Inc. (the Company) merged with Quantum HIPAA Consulting, Inc ( Quantum ). On January 30, 2004, the shareholders of the Company approved the reincorporation of the Company under the name of The Quantum Group, Inc. ( QTUM ). The shareholders approved a 1 for 10 reverse stock split. The Company is a development stage company with nominal revenues. The Company's business model is to become a provider of services to the healthcare industry in three complementary areas: providing *healthcare services* to consumers; *developing new technologies* for the healthcare delivery system; and *outsourcing* administrative responsibilities for physicians, Managed Care Organizations, healthcare facilities and physician associations.

***Basis of Presentation***

The condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and Regulation SB. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

The accompanying condensed consolidated financial statements are unaudited. However, in the opinion of management, they include all adjustments necessary for a fair presentation of financial position, results of operations and cash flows. All adjustments made during the six months ended April 30, 2006, were of a normal, recurring nature. The amounts presented for the six months ended April 30, 2006, are not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year. Additional information is contained in the Annual Report on Form 10-KSB of the Company for the year ended October 31, 2005, which should be read in conjunction with this quarterly report.

***Going Concern***

The Company has minimal revenues to date. Since its inception, the Company has been dependent upon the receipt of capital investment to fund its continuing activities. In addition to the normal risks associated with a new business venture, there can be no assurance that the Company's business plan will be successfully executed. The Company's ability to execute its business model will depend on its ability to obtain additional financing and achieve a profitable level of operations. There can be no assurance that sufficient financing will be obtained. Nor can any assurance be made that the Company will generate substantial revenues or that the business operations will prove to be profitable. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**Note 2:**

**Summary of Significant Accounting Policies**

*Cash Equivalents*

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. At April 30, 2006 there were no cash equivalents.

*Property and Equipment*

Furniture and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to five years.

*Research and Development Costs*

Research and development costs are charged to expense when incurred.

**THE QUANTUM GROUP, INC.**

**(A DEVELOPMENT STAGE ENTERPRISE)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2006**

**(UNAUDITED)**

**Note 2:**

**Summary of Significant Accounting Policies (Continued)**

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

*Income Taxes*

The Company has not recognized any future tax benefit arising from net operating loss carry forwards in the accompanying condensed consolidated financial statements in accordance with the provisions of SFAS No. 109, as the realization of this deferred tax benefit is not likely. A 100% valuation allowance has been established to offset the entire amount of the Company's net deferred tax asset.

*Goodwill*

On an annual basis, management assesses the composition of the Company's assets and liabilities, as well as the events that have occurred and the circumstances that have changed since the most recent fair value determination. If events occur or circumstances change that would more likely than not reduce the fair value of goodwill below its carrying amount, goodwill will be tested for impairment. The Company will recognize an impairment loss if the carrying value of the asset exceeds the fair value determination. There was no impairment of goodwill as of April 30, 2006.

*Principles of Consolidation*

The accompanying condensed consolidated financial statements for the period ended April 30, 2006 include the accounts of The Quantum Group, Inc. and its subsidiaries, Renaissance Health Systems, Inc. and Quantum Medical Technologies, Inc.

*Revenue Recognition*

The Company has entered into a full risk contract with a Health Maintenance Organization (HMO). Commencing when the Company has 300 patients, the Company will receive a monthly fee for each patient that chooses one of the Company's physicians as their primary care physician. The fixed fee is based on a percentage of the premium the



HMO receives. Revenue under this agreement is generally recorded in the period services are rendered at the rates then in effect, with quarterly adjustments. The Company started treating patients in September 2005, but has not reached the 300 minimum by April 30, 2006. The Company has recorded income relating to the primary care physician s charges for the six month period ended April 30, 2006. Medical costs associated with the revenue were equal to the revenue.

***Stock Compensation***

The company has adopted Statement of Financial Accounting Standards No. 123 ( SFAS 123 ), Accounting for Stock-Based Compensation. SFAS 123 encourages the use of a fair-value-based method of accounting for stock-based awards, under which the fair value of stock options is determined on the date of grant and expensed over the vesting period. Under SFAS 123, companies may, however, measure compensation costs for those plans using the method prescribed by Accounting Principles Board Opinion No. 25 ( APB No. 25 ), Accounting for Stock Issued to Employees. Companies that apply APB No. 25 are required to include pro forma disclosures of net earnings and earnings per share as if the fair-value-based method of accounting had been applied. The Company elected to

**THE QUANTUM GROUP, INC.****(A DEVELOPMENT STAGE ENTERPRISE)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****APRIL 30, 2006****(UNAUDITED)****Note 2:****Summary of Significant Accounting Policies (Continued)**

account for such plans under the provisions of APB No. 25. The Company accounts for stock options granted to consultants under SFAS 123.

Had the compensation expense for the stock option plan been determined based on the fair value of the options at the grant date consistent with the methodology prescribed under Statement of Financial Standards No. 123, Accounting for Stock Based Compensation, at April 30, the Company's net loss and loss earnings per share would have been affected to the pro forma amounts indicated below:

	<b>2006</b>	<b>2005</b>
Net loss		
As reported	\$ (1,311,459 )	\$ (365,145 )
Pro forma	\$ (1,464,724 )	\$ (381,745 )
Loss per share		
As reported	\$ (0.06 )	\$ (0.11 )
Pro forma	\$ (0.06 )	\$ (0.11 )

The fair value of each option was estimated on the date of grant using the fair market value option-pricing model with the following assumptions:

Risk-free interest rate	3%
Expected life (years)	3
Expected volatility	1.50
Expected dividends	None

***New Accounting Pronouncements***

In December 2004, the FASB issued SFAS No. 123R Share-Based Payment ( SFAS 123R ), a revision to SFAS

No. 123 Accounting for Stock-Based Compensation ( SFAS 123 ), and superseding APB Opinion No. 25 Accounting for Stock Issued to Employees and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period of the first fiscal year beginning on or after December 15, 2005. The Company believes that the effect of the adoption of SFAS 123R will increase expenses by approximately \$750,000 over a period ending October 31, 2009.

**Note 3:**

**Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts payable, notes payable and accrued liabilities approximate their fair value because of the short maturity of these financial instruments.

**Note 4:**

**Loss Per Share**

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares for the period. The computation of diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares, such as options, had been issued. Diluted loss per share is not presented as the effects would be anti-dilutive.

The Company has 539,826 warrants, with exercise prices ranging from \$0.27 to \$0.50 per share, and 1,411,635 with exercise prices ranging from \$0.40 to \$1.50 per share, exercisable at April 30, 2006.

**THE QUANTUM GROUP, INC.**

**(A DEVELOPMENT STAGE ENTERPRISE)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2006**

**(UNAUDITED)**

**Note 5:**

**Incentive Equity and Stock Option Plan**

In October 2003 the Company adopted a stock option plan. The purpose of the stock option plan was to increase the employees and non-employee director's proprietary interest in Quantum and to align more closely their interests with the interests of the shareholders of Quantum, as well as to enable Quantum to attract and retain the services of experienced and highly qualified employees and non-employees directors.

Options granted under this plan may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or options that do not so qualify. Any incentive option must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of the our common stock must be at least 110% of such fair market value as determined on the date of the grant.

The term of each option and the manner in which it may be exercised is determined by the board of directors, provided that no option may be exercisable more that 10 years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more that 10% of the our common stock, no more than five years after the date of the grant. The board of directors shall determine the exercise price of non-qualified options.

The Company has reserved 5,000,000 shares of common stock under the plan. The board of directors or a committee of the board of directors will administer the plan including, without limitation, the selection of the persons who will be granted plan options under the plan, the type of plan options to be granted, the number of shares subject to each plan options and the plan option price.

The per share exercise price of shares granted under the plan may be adjusted in the event of certain changes in the total purchase price payable upon the exercise in full of options granted under the plan. Officers, directors and key employees of and consultants to Quantum will be eligible to receive non-qualified options under the plan. Only officers, directors and employees of Quantum who are employed by Quantum or by any subsidiary thereof are eligible to receive incentive options.

The Company has elected to account for the stock options under the Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The Company accounts for stock options granted to consultants under Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based

Compensation.

A summary of options during the six months ended April 30, 2006 and 2005 is shown below:

	2006			2005		
	Incentive Stock Grants	Options Number of Share	Weighted Average Exercise Price	Common Stock Grants	Options Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of the period	60,000			60,000		
Granted						
Exercised						
Forfeited						
Outstanding at April 30,	60,000			60,000		
Exercisable at April 30, Available for issuance at April 30 under the plan		4,940,000			4,940,000	

**THE QUANTUM GROUP, INC.**

**(A DEVELOPMENT STAGE ENTERPRISE)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2006**

**(UNAUDITED)**

**Note 6:**

**Other Common Stock Transactions**

***Deferred Compensation***

The Company, from time to time, grants shares of common stock to employees, directors and advisors in lieu of or as partial compensation for services performed for the Company. These shares vest over two and three year periods. The value of the stock was determined by the closing market price at the date of grant. The Company recognized \$16,622 and \$147,697 in compensation expense related to these stock grants for the six month periods ended April 30, 2006 and 2005. As of April 30, 2006, the Company has 1,411,635 vested options with exercise prices ranging from \$0.40 to \$1.50 per share and expiring in years between 2008 to 2011. The Company has granted an additional 1,062,452 options which have not been vested as of the quarter ended April 30, 2006 with exercise prices ranging from \$0.50 to \$1.50 and expiring in years between 2009 and 2014. These options vest between the years 2006 through 2009.

The Company recorded \$108,000 and \$327,150 of unearned compensation during the six month periods ended April 30, 2005 and 2004, respectively, on the grants of stock and recorded the unvested shares as Deferred Compensation - Allocated Shares in the equity section of the balance sheet

***Equity Financing***

In December 2004, the Company agreed to sell 370,370 shares of common stock for \$100,000. The Company paid a placement company \$13,000 in a cash commission and 37,037 warrants exercisable at \$0.27.

In December 2004, the Company entered into an agreement with a placement company to raise capital. The placement company was to receive a 13% cash commission on the gross proceeds received from the issuance of the shares and 10% stock warrants exercisable at the price of stock sold. During the three month period ended April 30, 2005, the Company received \$100,000 for 250,000 shares of common stock. The Company paid \$13,000 in cash as commissions and issued 25,000 warrants exercisable at \$0.40.

In July 2005, the Company issued a private placement memorandum to sell 3,000,000 shares of common stock for \$1,500,000. The Company paid a 13% commission on the gross proceeds received from the issuance of the shares and one stock warrant exercisable at the price of stock sold for every \$10 raised. During the six months ended April 30, 2006, the Company received \$335,000 for 670,000 shares of common stock. The Company paid \$43,550 in cash as

commissions and issued 13,500 warrants. During the quarter ended April 30, 2006, the placement agent and the Company agreed that the warrant compensation should be based upon the number of shares issued rather than the dollars raised, which is consistent with prior agreements with the placement agent. The Company issued an additional 94,630 warrants.

On April 27, 2006 the Company entered into Financing Agreement for Sale of Bridge Securities. Under the terms of the agreement the Company issued 666,667 shares to the lender and 33,333 shares to the placement agent on March 13, 2006 and recorded the amount as deferred financing costs. (See Note 7)

***Stock Compensation***

From time to time, the Company issues stock to employees as length of service rewards and performance rewards. Additionally, the Company will issue shares to consultants in lieu of cash compensation. These stock issuances are not included in the Company's Incentive Equity and Stock Option Plan. The total shares issued were 40,500 and 97,976 shares for the six month periods ended April 30, 2006 and 2005, respectively.

**THE QUANTUM GROUP, INC.**

**(A DEVELOPMENT STAGE ENTERPRISE)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2006**

**(UNAUDITED)**

**Note 7:**

**Notes Payable**

On November 30, 2005, the Company entered into a 13% 2-year callable loan agreement for \$100,000. The terms of the loan agreement include quarterly interest payments and is callable by the lender if any interest payment is not paid within 15 days of being notified by the lender that the interest payment is late. Additional compensation includes 70,000 shares of common stock. If the Company repays the loan within the first 365 days, the lender will return 17,500 of the shares and if the loan is repaid during the second year, the lender will return 3,000 shares. The Company also paid \$6,500 in commissions to a placement agent.

Between March 14 and April 28, 2006 the Company entered into three 8% Promissory Notes for a total of \$200,000 with the same lender. The notes were due upon the closing of a \$501,000 bridge loan which was in negotiation. On April 27, 2006 the Company entered into Financing Agreement for Sale of Bridge Securities. In exchange for \$501,000, the Company agreed to a \$501,000 8% Secured Promissory Note and 666,667 shares of the Company's common stock. The Promissory Note matures the earlier of the 80<sup>th</sup> day following funding or the second business day following the closing of an aggregate of \$1,000,000 of gross proceeds of the Company's \$3,000,000 Private Placement. Additionally, the Company issued 33,333 shares of its common stock to the lender as a document preparation fee and will pay \$50,000 and issue a five year warrant to purchase 66,667 shares at \$0.20 per share to a placement agent. Repayment of the Secured Promissory Note shall be secured by a lien on all tangible and intangible assets of the Company to be evidenced by a Security Agreement in form and substance satisfactory to the lender. The agreement was closed subsequent to the quarter ended April 30, 2006. (See Notes 6 and 10)

**Note 8:**

**Related Party Transactions**

On November 1, 2002, the Company entered into an agreement with a shareholder to purchase certain intellectual property integral to the Company's business. In exchange, the company issued a three (3) year installment note for \$179,080 with an interest rate of eighteen percent (18%) per annum. The price of the sale was equal to the cost the shareholder incurred to develop the property purchased. The note is payable monthly starting January 2003. The Company is in technical default as the Company has not made scheduled payments on the note. The Company is accruing interest, at 18% per annum, monthly on the unpaid principal balance and has classified the note as current as per the agreement, the principal balance outstanding is \$149,235. The Company paid \$0 and \$28,529 in interest during



the six month period ended April 30, 2006 and 2005, respectively. The interest accrued is \$60,459 and \$57,401 at April 30, 2006 and 2005, respectively.

On December 17, 2005, the Company entered into a 8% 45-day loan agreement for \$100,000 from a shareholder of the Company. Additional compensation includes 15,000 shares of the common stock. Subsequent to the due date, an agreement was reached whereby the Company will pay the lender 15,000 shares per month of the Company's stock until the note is paid in full and 30,000 shares have been issued as of April 30, 2006. The lender loaned an additional \$25,000 in February, 2006 on the same terms as the original note. The note is due upon the funding of the Company's private placement memorandum dated May 15, 2006. The husband of the lender was elected to the Board of Directors of the Company on February 9, 2006. The Company also paid \$6,500 commissions to a placement agent. The Company and the lender have agreed to convert this loan to similar terms as the Financing Agreement for Sale of Bridge Securities. The Company will issue 166,667 shares at the conversion of the debt.

On November 14, 2005, a shareholder advanced the Company \$50,000. During the quarter ended April 30, 2006, the Company and the shareholder agreed to an 8% interest rate on the unpaid balance and the Company will issue 10,000 shares of common stock.

**THE QUANTUM GROUP, INC.**

**(A DEVELOPMENT STAGE ENTERPRISE)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2006**

**(UNAUDITED)**

**Note 9:**

**Acquisition of Software**

On December 16, 2004, Quantum Medical Technologies, Inc. entered into an agreement to purchase application systems provider software from a Florida Limited Liability Corporation for \$80,000. The software was in developmental stage and has received HIPPA certification. The purchase price is to be paid over a period of 120 days from the date of closing. Upon review and testing by an independent software development company, management has determined that certain representations by the seller were not met and therefore the Company has not made any additional and will not make further payments on the \$60,000 outstanding balance payment. The Company is seeking to renegotiate or rescind the purchase with the seller.

**Note 10:**

**Subsequent Events**

On May 5, 2006, the Company closed on the \$501,000 Financing Agreement for Sale of Bridge Securities. From the funds received, the Company repaid the three Promissory Notes for \$200,000 and accrued interest of \$1,436 and paid the placement agent \$50,000 commission. On June 15, 2006, the Company and the lender agreed to an addendum to the Financing Agreement for the Sale of Bridge Securities, increasing the amount the Company was lent by \$150,000 to \$651,000.

On June 15, 2006, the Company issued a \$3,000,000 Private Placement Memorandum. The offering is for a minimum of 20 units (\$1,000,000) and a maximum of 60 units (\$3,000,000). Each unit consists of a \$50,000 10% Convertible Debenture and a five year warrant to purchase 50,000 shares of common stock exercisable at the conversion price of the Debenture. The conversion price is equal to the lesser of \$1.00 per share or 80% of the offering price of the Company's subsequent public offering or a private offering of \$3,000,000 or more. The maturity date of the Debentures is the earlier of the one year anniversary from the date the funds are disbursed to the Company or the completion of a secondary public offering. In conjunction with the offering, the Company has agreed to pay a placement agent a 10% commission of the gross proceeds, an unaccountable expense reimbursement of 3% and a five year warrant to purchase 10,000 shares of the Company's common stock at an exercise price equal to the conversion price of the Debentures for every unit sold.



**Item 2.**

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**General**

The discussion and analysis set forth below should be read in conjunction with our Condensed Consolidated Financial Statements and the related notes thereto appearing elsewhere in this quarterly report. The information presented for the six months ended April 30, 2006 and 2005, was derived from unaudited financial statements, which, in our opinion, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation.

**Forward Looking Statements**

This Report on Form 10-QSB contains certain forward-looking statements. When used in this report, press releases and elsewhere by the management of the Company from time to time, the words "believes", "anticipates", and "expects" and similar expressions are intended to identify forward-looking statements that involve certain risks and uncertainties. Additionally, certain statements contained in this discussion may be deemed forward-looking statements that involve a number of risks and uncertainties. Among the factors that could cause actual results to differ materially are the following: the ability of the Company to meet its working capital and liquidity needs, economic trends for consumer advertisers, the availability of long-term credit, unanticipated changes in the U.S. and international economies, business conditions and growth in e-commerce and the timely development and acceptance of new products, the impact of competitive products and pricing, and other risks detailed from time to time in the Company's SEC reports. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the results of any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

**Going Concern**

The Company is a development stage company that over the last three years has expensed material sums in creating procedures, manuals and systems to assist the medical community in the implementation of medical regulations. Though the Company has materially finished developing its training programs, additional updates and deployment will be required.

As shown in the accompanying condensed financial statements, the Company has incurred recurring losses and negative cash flows from its development and organization activities and has negative working capital and shareholders' deficit. Under normal conditions, these conditions raise substantial doubt about the Company's ability to continue as a going concern.

There can be no assurance that the Company will be able to successfully implement its plans to generate additional investor interest and raise additional capital, or if such plans are successfully implemented, that the Company will achieve its goals.

Furthermore, if the Company is unable to raise additional funds, it may be required to modify its growth and developmental plans, and even be forced to severely limit development operations completely.

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments to reflect the possible future effects of the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty. See Liquidity and Capital Resources, below.

### **Results of Operations**

#### *Six months ended April 30, 2006 and 2005*

The expenses for the six months ended April 30, 2006 were \$1,311,459 compared to \$823,158 for the six month period ended April 30, 2005. The increase of \$488,301 was primarily due to an increase of \$282,142 in personnel related costs which include salaries and the amortization of deferred compensation.

*Three months ended April 30, 2006 and 2005*

The expenses for the three months ended April 30, 2006 were \$708,750 compared to \$401,254 for the three month period ended April 30, 2005. The increase of \$307,496 was primarily due to an increase of \$170,222 in personnel related costs which include salaries and the amortization of deferred compensation.

**Liquidity and Capital Resources**

At April 30, 2006, the Company had working capital deficit of \$1,102,725 as compared to a working capital deficit of \$1,248,607 at April 30, 2005.

Cash inflow from financing activities was \$755,780 for the six months ended April 30, 2006, compared to \$441,022 for the six months ended April 30, 2005. The increase was primarily due to the sale of common stock to outside investors as detailed below. The Company has closed a \$501,000 bridge financing and issued a \$3,000,000 Private Placement Memorandum since the end of the second quarter, April 30, 2006. On June 5, 2006, the Company signed a letter of intent to acquire a Miami-based billing and collections company. Additionally, the Company executed a Management Agreement and has assumed control of the day to day operations of this billing company until an acquisition can be consummated. The billing company realized unaudited revenue of \$254,660 and net profit of \$3,005 for the year ended December 31, 2005. The Company will need to secure additional financing during the next 12 months in order to implement its business plan.

On November 30, 2005, the Company entered into a 13% 2-year callable loan agreement for \$100,000. The terms include interest to be paid quarterly and is callable by the lender if any interest payment is not paid within 15 days of being notified by the lender that the interest payment is late. Additional compensation includes 70,000 shares of common stock. If the Company repays the loan with the first 365 days, the lender will return 17,500 of the shares and if the loan is repaid during the second year, the lender will return 3,000 shares. The Company also paid \$6,500 in commissions to a placement agent.

On December 17, 2005, the Company entered into a 8% 45-day loan agreement for \$100,000 from a shareholder of the Company. Additional compensation includes 15,000 shares of the common stock. Subsequent to the due date, an agreement was reached whereby the Company will pay the lender 15,000 shares of the Company's stock per month until the note is paid in full and the Company has issued 30,000 shares of common stock as of April 30, 2006. The lender loaned an additional \$25,000 in February, 2006 on the same terms as the original note. The note is due upon the funding of the Company's private placement memorandum dated May 15, 2006. The husband of the lender was elected to the Board of Directors of the Company on February 9, 2006. The Company also paid \$6,500 commissions to a placement agent. The Company and the lender have agreed to convert this loan to similar terms as the Financing Agreement for Sale of Bridge Securities. The Company will issue 166,667 shares at the conversion of the debt.

Between March 14 and April 28, 2006, the Company entered into three 8% Promissory Notes for a total of \$200,000 with the same lender. The notes were due upon the closing of a \$501,000 bridge loan which was in negotiation. On April 27, 2006 the Company entered into Financing Agreement for Sale of Bridge Securities. In exchange for \$501,000, the Company agreed to a \$501,000 8% Secured Promissory Note and 666,667 shares of the Company's common stock. The Promissory Note matures the earlier of the 80<sup>th</sup> day following funding or the second business day following the closing of an aggregate of \$1,000,000 of gross proceeds of the Company's \$3,000,000 Private Placement. Additionally, the Company issued 33,333 shares of its common stock to the lender for as a document preparation fee and paid \$50,000 and issued one five year warrant to purchase 66,667 shares at \$0.20 per share to a placement agent. The agreement was closed subsequent to the quarter ended April 30, 2006

On May 15, 2006, the Company prepared a \$3,000,000 Private Placement Memorandum. The offering is for a minimum of 20 units (\$1,000,000) and a maximum of 60 units (\$3,000,000). Each unit consists of a \$50,000 8% Convertible Debenture and a five year warrant to purchase 50,000 shares of common stock at an exercisable at the conversion price of the Debenture. The conversion price is equal to the lesser of \$1.00 per share or 80% of the offering price of the Company's subsequent public offering or a private offering of \$3,000,000 or more. The maturity date of the Debentures is the earlier of the one year anniversary from the date the funds are disbursed to the Company or the completion of a secondary public offering. In conjunction with the offering, the Company has agreed to pay a placement agent a commission 10% of the gross proceeds, an unaccountable expense reimbursement of 3% and a five year warrant to purchase 10,000 shares of the Company's common stock at an exercise price equal to the conversion price of the Debentures for every unit sold.

The Company has executed agreements with three managed care organizations (MCO), covering 11 counties in Florida. The Company has started to recognize a minimal amount of revenue through the second quarter ended April 30, 2006 from one of the contracts. Revenue from this contract will significantly increase when the Company goes to full risk, which will occur when the managed care organization reaches 300 members in the 3 counties which the Company has contracted. The Company will start generating revenue from the remaining two contracts upon regulatory approval of the managed care organizations plans in the counties that the Company will provide health care. The Company is continually negotiating with other MCOs in order to expand its service area and increase revenue. Additionally, the Company has secured Errors and Omission insurance policy to protect it from any potential suits related to its responsibility for the managed care organization.

The Company's development plan is to identify, negotiate with and acquire business and services that will allow the Company to provide comprehensive consulting services, technological, strategic intelligence and systems that will allow the small to medium size medical organization to provide better care, better medical outcomes and earn more profit. The Company expect to acquire the candidate businesses after extensive due diligence, and then to acquire the business enterprise including cash flow by issuing stock, notes and cash. The Company expects to secure financing for the acquisition by selling common and/or preferred shares, issuing debt or notes and by leveraging the potential acquisition. There is no assurance that the Company will be able to execute on its plans and, clearly, additional financing will be needed to develop and implement its business plan within the next twelve months.

### **New Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123R Share-Based Payment ( SFAS 123R ), a revision to SFAS No. 123 Accounting for Stock-Based Compensation ( SFAS 123 ), and superseding APB Opinion No. 25 Accounting for Stock Issued to Employees and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period of the first fiscal year beginning after December 15, 2005. The Company is currently in the process of evaluating the potential impact that the adoption of SFAS 123R will have on its consolidated financial position and results of operations, however believes that the effect of the adoption of SFAS 123R will increase expenses approximately \$750,000 over a period ending October 31, 2009.

### **Item 3.**

#### **Controls and Procedures**

Our Management and resources are limited, as of April 30, 2006 we had only twenty-two full time employees, of which, three were also officers and directors of the Company. These positions are President/CEO, CFO and Vice President of Administration, collectively these officers have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of the end of the fiscal quarter covered by this report. Based upon that evaluation and both our limited developmental history as well as the size of our organization, our management has concluded that we have adequate disclosure controls. However we must improve procedures for effective and timely gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended. Management expects to add additional controls and personnel in the near future



as capital becomes available. There have been no significant changes made in our internal controls or in other factors that could significantly affect our internal controls during the fiscal quarter covered by this report.

## PART II OTHER INFORMATION

### Item 1.

#### Legal Proceedings

The Company is not a party to any litigation.

### Item 2.

#### Changes in Securities

On July 6, 2005, the Company issued a private placement memorandum to raise \$1,500,000 at a price of \$0.50 per share. The terms include a 13% cash commission plus one common stock warrant at a price of \$0.50 for every \$10.00 raised. The Company realized net proceeds of \$845,031 on the sales of 1,942,600 shares of common stock and issued 99,510 warrants through April 30, 2006. During the six month period ended April 30, 2006, the Company has realized net proceeds from the sale of 670,000 shares of common stock of \$291,450 and issued 33,500 warrants. The Company and the placement agent agreed to change the amount of warrants to 10% of shares issued which is consistent with prior agreements with placement agent and therefore, the Company issued an additional 99,510 warrants. Each investor represented to us that the investor was an accredited investor, as defined under Rule 501 Regulation D of the 1933 Act. The shares were issued as restricted shares under the 1933 Act and were endorsed with a restrictive legend.

On November 30, 2005, the Company entered into a 13% 2-year callable loan agreement for \$100,000. The terms include interest to be paid quarterly and is callable by the lender if any interest payment is not paid within 15 days of being notified by the lender that the interest payment is late. Additional compensation includes 70,000 shares of common stock valued at the closing price of the Company's stock at the date of the loan and has been classified as deferred financing costs. If the Company repays the loan within the first 365 days, the lender will return 17,500 of the shares and if the loan is repaid during the second year, the lender will return 3,000 shares. The Company also paid \$6,500 in commissions to a placement agent. The shares were issued as restricted shares under the 1933 Act and were endorsed with a restrictive legend.

On December 17, 2005, the Company entered into a 8% 45-day loan agreement for \$100,000 from a shareholder of the Company. Additional compensation includes 15,000 shares of the common stock. Subsequent to the due date, an agreement was reached whereby the Company will pay the lender 15,000 shares of the Company's stock until the note is paid in full. The lender loaned an additional \$25,000 in February, 2006 on the same terms as the original note. The note is due upon the funding of the Company's private placement memorandum dated May 15, 2006. The husband of the lender was elected to the Board of Directors of the Company on February 9, 2006. The Company also paid \$6,500 commission to a placement agent. The Company and the lender have agreed to convert this loan to similar terms as the Financing Agreement for Sale of Bridge Securities, see below. The Company will issue 166,667 shares at the conversion of the debt. The Company has issued 30,000 shares to date, in conjunction with this obligation. The shares were issued as restricted shares under the 1933 Act and were endorsed with a restrictive legend.

On May 5, 2006, in exchange for \$501,000, the Company agreed to a \$501,000 8% Secured Promissory Note and 666,667 shares of the Company's common stock. The Promissory Note matures the earlier of the 80 day following funding or the second business day following the closing of an aggregate of \$1,000,000 of gross proceeds of the Company's \$3,000,000 Private Placement. Additionally, the Company issued 33,333 shares of its common stock to the lender for as a document preparation fee and paid \$50,000 and issued one five year warrant to purchase 66,667 shares at \$0.20 per share to a placement agent. The shares were issued as restricted shares under the 1933 Act and were endorsed with a restrictive legend. The lender shall have the option of exchanging the Bridge Shares (666,667) for

\$501,000 face value of the securities being offered in a public offering.

**Item 3.**

**Defaults Upon Senior Securities**

None

**Item 4.**

**Submission of Matters to a Vote of Security-Holders**

None

**Item 5.**

**Other Information**

None

**Item 6.**

**Exhibits and Reports on Form 8-K**

*Exhibits:* Copies of the following documents are included or furnished as exhibits to this report pursuant to Item 601 of Regulation S-B.

<b>Exhibit</b>	<b>SEC Ref.</b>	<b>Title of Document</b>
<b>No.</b>	<b>No.</b>	
<u>31.1</u>	31	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>31.2</u>	31	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>32.1</u>	32	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<u>32.2</u>	32	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Reports on Form 8-K:* None

**SIGNATURE**

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

Date: June 19, 2006

**THE QUANTUM GROUP, INC.**

BY: /s/ NOEL J. GUILLAMA  
Noel J. Guillama, President