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INNOVATIVE MEDICAL SERVICES
Form 10QSB/A
August 13, 2001

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB/A

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 For the period ended October 31, 2000

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [No Fee Required] For the transition period from ___ to ___

Commission File number 0-21019

INNOVATIVE MEDICAL SERVICES

(Name of small business issuer in its charter)

California

(State or other jurisdiction of
incorporation or organization)

33-0530289

(IRS Employer Identification No.)

1725 Gillespie Way, El Cajon, California 92020

(Address of principal executive offices)

619 596 8600

Issuer's telephone number

Check whether the issuer (1) filed all reports 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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: 6,257,739 as of December 12, 2000.

EXPLANATORY NOTE ON AMENDMENT

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The Registrant has filed this Amendment in response to comments received from the staff of the U.S. Securities and Exchange Commission. The Amendment has revised the following sections:

Financial Statements
Notes to Financial Statements
Management's Discussion and Analysis of Financial Condition and Results
of Operations
Exhibits
Signatures

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The interim financial statements include all adjustments which in the opinion of management are necessary in order to make the financial statements not misleading.

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	October 31	July 31
	2000	2000
	Restated	Restated
	(Note 5)	(Note 5)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 614,440	\$1,121,316
Restricted cash	207,923	204,887
Accounts receivable, net of allowance for doubtful accounts of \$ 225,000 at January 2000 and \$225,000 at July 31, 2000	305,657	411,322

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Notes receivable	233,321	226,729
Inventories	888,779	796,136
Prepaid expenses	101,789	33,975
	-----	-----
Total current assets	2,351,909	2,794,365
	-----	-----
Property, Plant and Equipment		
Property, plant and equipment	1,009,462	1,056,252
	-----	-----
Total property, plant and equipment	1,009,462	1,056,252
	-----	-----
Noncurrent Assets		
Deposits	8,127	14,083
Patents and license	334,910	300,910
Deferred acquisition costs	403,694	202,542
	-----	-----
Total noncurrent assets	746,731	517,535
	-----	-----
Total assets	\$4,108,103	\$4,368,152
	=====	=====
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 413,829	\$ 308,812
Accrued liabilities	55,994	36,880
Notes payable	196,009	210,592
	-----	-----
Total current liabilities	665,831	556,284
	-----	-----
Minority interest payable	46,726	61,697
	-----	-----
Stockholders' Equity		
Class A common stock, no par value: authorized		
20,000,000 shares, issued and outstanding		
6,077,068 at October 31, 2000 and		
5,942,903 at July 31, 2000	10,103,805	10,018,873
Class A warrants: issued and outstanding 3,686,000		
warrants	108,750	108,750
Accumulated deficit	(6,817,008)	(6,377,452)
	-----	-----
Total stockholders' equity	3,395,547	3,750,171
	-----	-----
Total liabilities and stockholders' equity	\$ 4,108,103	\$ 4,368,152
	=====	=====

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CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	For the Three Months Ended October 31	
	2000	1999
	-----	-----
Net sales	\$ 366,126	\$ 904,888
Cost of sales	164,077	410,213
	-----	-----
Gross profit	202,049	494,675
	-----	-----
Selling expenses	174,518	112,704
General and administrative expenses	440,011	247,022
Research and development	50,985	38,603
	-----	-----
Total operating costs	665,514	398,329
	-----	-----
Operating income (loss)	(463,465)	96,346
	-----	-----
Other income and (expense):		
Interest income	14,599	1,078
Interest Expense	(5,462)	(16,299)
	-----	-----
Total other income (expense)	9,137	(15,221)
	-----	-----
Income (loss) before income taxes, minority Interest in subsidiary operations and change in accounting principle	(454,328)	81,125
Federal and state income taxes	200	200
	-----	-----
Income (loss) before minority interest in subsidiary operations and change in accounting principle	(454,528)	80,925
Minority interest in subsidiary operations	14,972	--
	-----	-----
Net income (loss) before cumulative change in accounting principle	(439,556)	80,925
Cumulative effect of change in accounting principle	--	79,896
	-----	-----
Net income (loss)	\$ (439,556)	\$ 160,821
	=====	=====
Net income (loss) per common share before change		

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in accounting principle (basic)	\$ (0.07)	\$ 0.02
Cumulative effect of change in accounting principle	--	0.02
Net income (loss) per common share (basic)	\$ (0.07)	\$ 0.04
Net income (loss) per common share before change in accounting principal (diluted)	\$ (0.07)	\$ 0.01
Cumulative effect of change in accounting principle	--	0.01
Net income (loss) per common share (diluted)	\$ (0.07)	\$ 0.02

	Three Months Ended October 31 2000	Year Ended July 31 2000
CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICITS		
Balance, beginning of period	\$ (6,377,452)	\$ (3,840,610)
Net income (loss)	(439,556)	(2,536,842)
Balance, end of period	\$ (6,817,008)	\$ (6,377,452)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Three Months Ended October 31	
	2000	1999
Cash flows from operating activities		
Net income (loss)	\$ (439,556)	\$ 160,821
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	21,192	--
Depreciation	47,500	42,484
Minority interest in subsidiary operations	(14,972)	--
Changes in assets and liabilities:		
(Increase) decrease in restricted cash	(3,036)	4,113
(Increase) decrease in accounts receivable	105,665	(311,123)
(Increase) decrease in due from officers and employees	(6,592)	(452)
(Increase) decrease in prepaid expense	(67,814)	(28,481)
(Increase) decrease in inventory	(92,644)	(56,861)
(Increase) decrease in deposits	5,956	(6,508)
(Increase) decrease in goodwill	--	1,633

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(Increase) decrease in intangible assets	--	2,250
Increase (decrease) in accounts payable	105,017	88,353
Increase (decrease) in accrued liabilities	19,114	(29,980)
	-----	-----
Net cash provided (used) by operating activities	(320,170)	(133,751)
	-----	-----
Cash flows from investing activities		
Purchase of patent and licenses	(34,000)	(3,000)
Deferred acquisition costs	(201,152)	--
Purchase of property, plant and equipment	(21,903)	(201,107)
	-----	-----
Net cash (used) in investing activities	(257,055)	(204,107)
	-----	-----
Cash flows from financing activities		
Proceeds from debt obligations	--	121,300
Payments on debt obligations	(14,583)	--
Proceeds from sale of common stock	84,932	216,750
	-----	-----
Net cash provided by financing activities	70,349	338,050
	-----	-----
Net increase (decrease) in cash and cash equivalents	(506,876)	192
Cash at beginning of period	1,121,316	22,056
	-----	-----
Cash at end of period	\$ 614,440	\$ 22,248
	=====	=====
Supplemental disclosures of cash flow information		
Cash paid for interest paid	\$ 5,462	\$ 16,299
Cash paid for taxes paid	\$ 800	\$ 800
Noncash investing and financing activities:		
Value of shares issued in exchange for Nutripure.com minority interest	\$ 550,011	\$ --

NOTES TO FINANCIAL STATEMENTS

Note 1. Financial Statements

The financial statements included herein have been prepared by Innovative Medical Services (the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations, and Innovative Medical Services believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the July 31, 2000 audited financial statements and the accompanying notes thereto. While management

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believes the procedures followed in preparing these financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist and procedures that will be accomplished by Innovative Medical Services later in the year. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year.

Note 2. Stock Dividend

On October 26, 2000 Innovative Medical Services announced that the Board of Directors voted to declare a dividend in kind of Innovative Medical Services' common stock. This common stock dividend was declared and distributed in lieu of the previously announced dividend of Nutripure.com shares. The Company distributed one share of Innovative Medical Services' common stock for every fifty shares held of record on November 6, 2000, with fractional shares rounded up to the nearest whole share, for a total of 121,961 shares.

In December 1999, Innovative Medical Services formed a wholly owned subsidiary, Nutripure.com, to capitalize on internet commerce opportunities focusing on health and wellness. In January 2000, Innovative Medical Services declared a dividend in kind of Nutripure.com common stock as the Company began the process to spin off Nutripure.com as a separate public company. The record date and distribution date were to be set following completion of the registration of Nutripure.com as a reporting issuer with the Securities and Exchange Commission. During the last several months, however, adverse market conditions for solely internet-based ventures have eroded Management's confidence in the viability of a public market for Nutripure.com common stock. Therefore, the Board has amended its declaration of a Nutripure.com dividend to a dividend of Innovative Medical Services' common stock. The Company will retain Nutripure.com as an operating division of Innovative Medical Services in order to minimize the substantial administrative expense associated with launching and operating a public company.

Note 3. Subsequent Events

In November 2000, Innovative Medical Services acquired 100% of the stock of ETIH20, Inc., a Florida corporation, for 56,381 shares of IMS stock valued at \$140,953 (\$2.50 per share). The transaction was recorded using the purchase method of accounting. The assets acquired and liabilities assumed are as follows:

Assets:	
Notes Receivable	\$ 33,655
Inventories	32,077
Equipment	16,932
Licensing & Distribution Rights	118,324
Total Assets	200,988
Liabilities:	
Notes Payable - IMS	60,035
Equity	\$ 140,953

Assets and liabilities were valued at historical cost and no goodwill was recorded in the transaction. Results of operations of ETIH20 Inc. are included in the current quarter. The acquired entity was a startup company, if results of operations were included in prior periods and shown as though the companies had been combined at the beginning of the period, it would not have a material affect on the consolidated financial statements of Innovative Medical Services.

The Company merged ETIH20 with a newly formed Nevada corporation of

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similar name and dissolved the Florida corporation. ETI-H2O, a privately held technology corporation, developed Axenohl and focuses on research and development of varied water treatment applications, including electronic RF scale control, copper/silver ionization and filtration technologies.

In November of 2000 Innovative Medical Services acquired 100% of the stock of ETIH2O, Inc., a Florida corporation, for approximately \$228,000. The transaction was recorded using the purchase method of accounting. The Company intends to place the assets of ETIH2O into a newly formed Nevada corporation of similar name and dissolve the Florida corporation. ETI-H2O, a privately held technology corporation, developed Axenohl and previously manufactured the product in cooperation with NVID. ETI-H2O is an industry leader in research and development of varied water treatment applications, including electronic RF scale control, copper/silver ionization and filtration technologies

Note 4. Business Segment and Sales Concentrations

The Company operates in a single operating segment and is engaged in the development, manufacturing and marketing of water purification and dispensing equipment and related filter sales to independent pharmacies and large chain drug stores. Although the Company has expanded from its niche pharmacy market into other, broader markets with new products, including residential and commercial water filtration systems, health and wellness-related retail merchandise, e-commerce products, and silver ion bioscience technologies, at the October 31, 2000 revenues from these future segments were not material to the consolidated financial statements and no disaggregated information was reviewed.

Significant customers consisted primarily of domestic retail chain pharmacies. Sales concentrations to major chain stores were approximately \$436,700 and \$262,300, respectively, for the three months ended October 31, 1999 and 2000. No customer accounted for more than 10% of consolidated sales in 1999 or 2000. Export sales were \$29,500 in fiscal year 1999 and \$16,900 in fiscal year 2000.

Note 5. Prior Period Adjustment - Write Down of Impaired Assets

The balance sheets have been adjusted to reflect the write-down of impaired assets in the fourth quarter of 2000. Ampromed was purchased in October of 1998 to enable the Company to take advantage of the lucrative markets for medical and dental supplies in Brazil and other South American countries and to later introduce and distribute its water purification products to these markets. Since the acquisition the economic conditions in the region have declined and implementation of the project has been delayed. The Company made its last sale in the region in October of 1999 and in May of 2000 terminated its lease in Rio de Janeiro and did not replenish the Ampromed inventory. The Company no longer has immediate plans to import medical and dental supplies into Brazil but believes, however, that Ampromed is a vital part of its plan to market and sell "Axenohl", RoachX and the Nutripure line of water treatment products. The Company believes there is considerable value in owning a Brazilian Limitada but has reassessed the value of the goodwill the customer list it purchased. Statement of Financial Accounting Standards No. 121 (Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of) requires an entity to review long-lived assets and identifiable intangible assets when, among other factors, there is a change in the extent or manner in which an asset is to be used or when there is a significant change in the business climate that could

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affect the value of an asset. The statement requires an entity estimate the future cash flows expected to result from the use of the asset and to recognize an impairment loss when the sum of the future cash flows is less than the carrying amount of the asset. Because of the unique nature of the products to be introduced, the Company does not believe it has enough quantifiable historical information to reliably predict future cash flows from this operation. For this reason the Company believes the Goodwill and Customer List should be written off, and the value of the Limitada license to do business in Brazil should be written down to what it would cost to acquire in today's market. This is estimated to be approximately \$150,000 which will be amortized over its expected useful life of 15 years. The total reduction of assets from this restatement was \$791,411. Because the effect of the write-down on the statements of operations presented was only a \$700 they have not been restated. Instead the adjustment will be made in the fourth quarter of 2001.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the audited and unaudited financial statements of the Company.

OVERVIEW

Innovative Medical Services (the Company) is the nation's leader in pharmaceutical water purification. The Company has expanded from its niche pharmacy market into other, broader markets with new products, including residential and commercial water filtration systems, health and wellness-related retail merchandise, e-commerce products, and silver ion bioscience technologies.

The Fillmaster(R) pharmaceutical water purification, dispensing and measuring products include the Pharmapure(R) water purification system, the FMD 550 dispenser, the patented Fillmaster 1000e computerized dispenser and the patented Scanmaster(TM) bar code reader. The Company also markets proprietary NSF certified replacement filters for the Fillmaster Systems.

The Company's "Pharmacist Recommended" Nutripure(R) line of water treatment and filtration systems includes the Nutripure 3000S-Series whole-house water softening systems, the Nutripure Elite reverse osmosis point-of-use systems, the Nutripure 2000 countertop water filtration system and the Nutripure Sport filtered sport bottle. The Company distributes its various Nutripure products in several ways, including retail sales, catalogue placement, business-to-business sales, internet promotion and in-home sales presentations.

The Company, through its subsidiary Nutripure.com(R), operates an e-commerce health supersite, which provides consumers a wide variety of vitamins, minerals, nutritional supplements, homeopathic remedies and natural products. In addition to merchandise, the supersite offers comprehensive health and wellness information in an easy-to-access, intuitive reference format.

Innovative Medical Services has obtained worldwide manufacturing and marketing rights for advanced silver ion technologies. Potential applications for these products include municipal and point-of-use/point-of-entry water treatment, food processing, personal disinfecting retail products, and commercial and retail

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hard surface disinfecting products. In addition, these technologies may prove to be revolutionary in the healthcare market for treatment of including human and animal infections and wounds, and for and disinfecting applications in hospitals, clinics, surgical centers and other medical and health related facilities.

In the first quarter of fiscal year 2001, Innovative Medical Services began realizing revenues from the new Nutripure water treatment dealer program. The dealer base grows steadily, and Management believes that the program will produce notably increased revenues and earnings in the coming quarters. In addition to the ongoing expansion of the water dealer program, retail products currently in distribution are experiencing increased growth, and the Company expects to see revenue from new products and new distribution channels this year. The Company recently received notice from Wal-Mart that the rollout of Nutripure 2000 will continue to additional stores in the coming year.

Regarding silver ion technologies, regulatory approval is a threshold event for the Company's commercial launch of Axenohl and related products. EPA approval of Axenohl for use as a hard surface disinfectant is believed imminent, and if approvals are received, Management expects revenues from Axenohl to rapidly and substantially develop.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED OCTOBER 31, 2000 VERSUS THREE MONTHS ENDED OCTOBER 31, 1999

Total revenues of \$366,100 in the first quarter ended October 31, 2000 were 60% lower than the \$904,900 in revenues reported for the same quarter ended October 31, 1999. Fillmaster Purification System sales in the 2000 quarter were \$239,400 and replacement filter sales were \$121,700. In the 1999 quarter, Fillmaster Purification System sales were \$609,100 and replacement filter sales were \$192,300. Management believes the decline in Fillmaster revenues is due to multiple factors, including the fact that the market for pharmacy products is maturing in that there is a decreasing number of pharmacy chains that do not have water filtration products, and that the Company has sold systems to most major chains. The focus for further Fillmaster sales will be on incremental and upgrade sales to individual pharmacies within current chain accounts, although the Company is still actively pursuing Fillmaster sales to remaining chains. Management expects to close such volume sales to new chains in the coming year, and, as in prior years, those sales will result in spikes in Fillmaster revenues. The Company works to retain customers with its Customer Service Plan 2000, a multi-year service and warranty contract.

Gross profit in the most recent quarter was \$202,000 versus \$494,700 in the year-earlier quarter. Gross profit percentage of 55% in the 2000 quarter remained unchanged from the gross profit percentage in the 1999 quarter.

Net loss for the quarter ended October 31, 2000 was \$439,600 versus a net income of \$160,800 for the same quarter in 1999. The decreased income was due to decreased sales and to an increase in General and Administrative expenses as the Company positions for anticipated rapid growth activity related to new ventures, including expanded retail distribution of the Nutripure 2000 home water system, Nutripure.com. and the new silver ion technologies. General and Administrative expenses increased \$193,000 from \$247,000 in fiscal 1999 to \$440,000 in fiscal 2000, \$75,100 of these expenses were related to Nutripure.com, a wholly owned subsidiary incorporated in the state of Nevada in December 1999. Nutripure.com is an e-commerce web supersite providing consumers a wide variety of vitamins, minerals, nutritional supplements, homeopathic remedies and natural products. In addition to products, the website offers comprehensive health and wellness information in an easy-to-access, intuitive reference format. The website also presents the Nutripure line of water filtration systems.

Throughout the quarter, Innovative Medical Services focused its resources on

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expanding the current and future scope of business and related growth potential. The Company's increased selling expenses and general and administrative expenses reflect the Company's transition from a niche market company that provides water purification equipment to pharmacies to an international company containing several divisions to manage new products and programs in consumer and commercial water treatment, direct-to-consumer e-commerce and retail distribution of multiple product lines.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended October 31, 2000 the Company's current assets to liabilities ratio decreased from 5.02 to 3.53. Current assets decreased \$442,500 from \$2,794,400 to \$2,351,900. Current liabilities increased \$109,600 from \$556,300 to \$665,800.

Cash flows used by operations were \$320,200 in the first three months of fiscal year 2000. Cash flows used by operations were \$133,800 for the same period in 1999. For those periods, cash flows used in investing activities included, respectively, \$21,900 and \$201,100 for the purchase of machinery and equipment and for leasehold improvements. Investing activities also included the purchase of \$34,000 of Patents and Licenses and \$201,200 of deferred acquisition costs for the three months ended January 31, 2000. Financing activities included a decrease of \$14,600 in notes payable in the current quarter compared to an increase of \$121,300 in the prior quarter ending October 31, 1999. The Company also received \$84,900 from the sale of common stock resulting from the exercising of employees options.

The total decrease in cash and cash equivalents for the quarter ended October 31, 2000 was \$506,900 as compared to an increase of cash and cash equivalents of \$200 for the same period in the prior fiscal year.

PART 2 OTHER INFORMATION

ITEM 1

LEGAL PROCEEDINGS

The following is an update of developments in the previously disclosed litigation involving the Company filed in the Circuit Court of Pinellas County, Florida by Zedburn Corporation, against the Company for breach of contract in October 1997. The Company has filed counterclaims based upon the Racketeer Influenced and Corrupt Organization (RICO) Act against Mr. Reitz, Zedburn Corporation, Capital Development Group, Steven Durland and other defendants. It is the Company's position that Mr. Reitz and others perpetrated a scheme to defraud the Company of cash fees and securities in connection with purported services of arranging a public offering of the Company's common stock. In October 1997, Mr. Reitz and Zedburn filed for protection under the Federal bankruptcy laws. In August 1998, Mr. Reitz voluntarily dismissed his bankruptcy and as a result thereof the Company has named Mr. Reitz as a defendant to its counterclaims.

The Company believes that the defendants had perpetrated similar schemes against other parties. The Company also believes it has substantially completed discovery and compiled compelling evidence to prove its claims.

Several of the Defendants filed Motions to Dismiss the Company's counterclaims. A hearing on the Motions was held on October 1, 1998. Certain of the Motions were granted pending the Company's amendment of its Counterclaim. The Company amended its Counterclaims in accordance with the judge's rulings. Certain Defendants filed second Motions to Dismiss the amended Counterclaims. A hearing

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on these latest motions was held in March 1999, before a different judge than the judge who ruled on the first motions. On April 20, 1999, Orders were entered granting the Defendants' Motions to Dismiss. However these Orders did not state the basis for the Orders, nor was the Company's legal counsel provided notice of the Orders or a copy of the new judge's correspondence offering a "formal ruling" upon request. In May 1999 the Company filed an Appeal of the Orders and Motions for Reconsideration based upon inconsistency of the Orders with the previous judge's rulings and the lack of notice to the Company. The Company believes that its Appeal and Motions have merit and will be granted. In any event the Company intends to pursue a trial as soon as possible. As of December 12, 2000, no ruling has been received on the Company's Appeal.

The Company has neither accrued a liability in its financial statements regarding this litigation nor disclosed the matter in the footnotes thereof. The Company has not done so because it does not believe there is any merit to Mr. Reitz's claims and that the likelihood that the Company will realize a loss from these matters is believed remote. In addition, the Company believes that in the unlikely event that the Company settles, the amount of any such settlement would not be material to the Company's financial statements.

The Company has filed an action against John Woodard, former Vice President of Sales, in Superior Court in the State of California in April 2000. The Company has alleged Mr. Woodard violated his non-competition/non-disclosure agreement and provided proprietary information, including information regarding the Company's Fillmaster line of products and Fillmaster customer base, to Fresh Water Systems, Inc. The Company is seeking monetary damages and injunctive relief.

The Company has also filed an action against Fresh Water Systems, Inc., Steven Norvell, Brian Folk and Eric Norvell in Superior Court in the State of California. The action was filed in August 2000 and amended in October 2000. The Company alleges Fresh Water Systems and its officers and directors misappropriated trade secrets of the Company obtained from former employees of the Company, engaged in unfair competition in violation of the California Unfair Practices Act, tortious interference with contractual relations, tortious interference with prospective business advantage, fraud, trade libel and conspiracy with regard to the Fillmaster line of products and Fillmaster customer base. The Company is seeking monetary damages and injunctive relief.

The Company filed an action against Eckerd Corporation in Superior Court in the State of California in August 2000. The Company alleges Eckerd Corporation has not paid for Fillmaster products ordered by and shipped to Eckerd pharmacies. The Company seeks monetary damages not less than \$170,000 plus interest and attorney's fees.

ITEM 2. CHANGES IN SECURITIES

In November 2000, the Company issued 94,340 shares of common stock at \$2.625 per share for \$247,642 in a private placement to five investors.

In November 2000, the Company issued 31,240 shares of common stock to eight investors in exchange for their shares in ETI H2O, Inc. An additional 3,143 shares were issued to a single investor in satisfaction of debt of ETI H2O, Inc.

Also in November 2000, the Company issued 121,961 shares in a dividend payment to holders of Innovative Medical Services common stock. The Company distributed one share of Innovative Medical Services common stock for every fifty shares

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held of record on November 6, 2000

With respect to the sales made, the Company relied on Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The securities were offered solely to accredited or sophisticated investors who were provided all of the current public information available on the Company.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5.

OTHER INFORMATION

Not applicable.

ITEM 6.

EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

EXHIBITS DESCRIPTION

11 Statement re: computation of per share earnings

(B) REPORTS ON FORM 8-K

None

SIGNATURES

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

INNOVATIVE MEDICAL SERVICES
(Registrant)

By: /s/ Michael L. Krall

Michael L. Krall, President/CEO
August 13, 2001

By: /s/ Gary Brownell

Gary Brownell, Chief Financial Officer
August 13, 2001