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QUANTUM GROUP INC /FL
Form 10QSB
September 20, 2004

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: July 31, 2004

COMMISSION FILE NUMBER: 000-31727

THE QUANTUM GROUP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEVADA

20-0774748

STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(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 [X] NO []

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of September 9, 2004, the number of the Company's shares of par value \$.001 common stock outstanding was 17,892,899.

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PART I

ITEM 1. FINANCIAL INFORMATION.

CONDENSED BALANCE SHEET
(A DEVELOPMENT STAGE ENTERPRISE)
JULY 31, 2004
(Unaudited)

ASSETS

| | | |
|--|--------|------------|
| Current assets: | | |
| Cash | | \$ 107,005 |
| | | ----- |
| Total current assets | | 107,005 |
| Property and equipment, net of accumulated depreciation of \$3,592 | 22,165 | |
| Investment in related companies | 10,000 | |
| Other assets | 16,090 | |
| | | ----- |
| Total assets | | \$ 155,260 |
| | | ===== |

LIABILITIES AND SHAREHOLDERS' DEFICIT

| | | |
|---|-----------|------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | | \$ 248,070 |
| Accrued payroll | | 349,639 |
| Notes payable and accrued interest - shareholder (note 8) | | 276,619 |
| Loan Payable | | 30,000 |
| | | ----- |
| Total current liabilities | | 904,328 |
| Commitments and contingencies | | |
| Deficiency in assets accumulated during development stage | (749,068) | |
| | | ----- |
| Total liabilities and deficiency in assets | | \$ 155,260 |
| | | ===== |

See accompanying notes to condensed financial statements

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THE QUANTUM GROUP, INC.

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CONDENSED STATEMENT OF OPERATIONS
(A DEVELOPMENT STAGE ENTERPRISE)
FOR THE PERIODS ENDED JULY 31, 2004 AND 2003
(Unaudited)

| | For the three months ended | | For the nine months |
|--|----------------------------|------------------|---------------------|
| | July 31, 2004 | July 31, 2003 | July 31, 2004 |
| Interest Expense | \$ 9,975 | \$ 5 | \$ 27,525 |
| Other Expenses | 244,908 | 71,564 | 592,503 |
| Expenses Representing Net Loss | \$ 254,883 | \$ 71,569 | \$ 620,028 |
| Basic and diluted loss per common share | \$ (0.07) | \$ (0.02) | \$ (0.18) |
| Weighted average number of common shares outstanding | 3,613,922 | 3,063,286 | 3,439,759 |

See accompanying notes to condensed financial statements

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THE QUANTUM GROUP, INC.
STATEMENT OF CHANGES IN DEFICIENCY IN ASSETS ACCUMULATED
DURING THE DEVELOPMENT STAGE
JULY 31, 2004
(Unaudited)

| | Common Stock par value \$.001 per share 170,000,000 authorized | | Additional Paid-in Capital | Deferred Compensation |
|-----------------------------|--|----------|----------------------------------|--------------------------|
| | # of Shares | Amount | | |
| Balance 7/24/01 (inception) | 2,700,000 | \$ 2,700 | \$ 17,300 | |
| Net (loss) | | | | |
| Balance at 10-31-01 | 2,700,000 | 2,700 | 17,300 | |
| Net (loss) | | | | |
| Balance at 10/31/02 | 2,700,000 | 2,700 | 17,300 | |

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| | | | | |
|---------------------------------------|-----------|----------|-----------|--------------|
| Merger with TPII | 510,877 | 511 | (121,363) | |
| Sale of common stock for cash | 86,000 | 86 | 64,914 | |
| Deferred compensation-stock options | | | 207,500 | (207,500) |
| Deferred compensation-stock grants | | | | (327,150) |
| Amortization of deferred comp | | | | 3,458 |
| Net (loss) | | | | |
| | ----- | ----- | ----- | ----- |
| Balance at 10/31/03 | 3,296,877 | 3,297 | 168,351 | (531,192) |
| | | | | |
| Issuance of common stock - stk grants | 71,260 | 71 | 64,056 | 64,127 |
| Amortization of deferred comp. | | | | 10,375 |
| Net (loss) | | | | |
| | ----- | ----- | ----- | ----- |
| Balance at 1/31/04 | 3,368,137 | 3,368 | 232,407 | (456,690) |
| | | | | |
| Issuance of common stock - stk grants | 35,195 | 35 | 31,647 | 31,682 |
| Amortization of deferred comp. | | | | 10,375 |
| Net (loss) | | | | |
| | ----- | ----- | ----- | ----- |
| Balance at 4/30/04 | 3,403,332 | 3,403 | 264,054 | (414,633) |
| | | | | |
| Sale of common stock | 741,146 | 741 | 189,528 | |
| Issuance of stock - stk grants | 35,195 | 35 | 31,647 | 31,682 |
| Amortization of deferred comp. | | | | 10,375 |
| Stock based compensation | 15,000 | 15 | 14,985 | |
| Net (loss) | | | | |
| | ----- | ----- | ----- | ----- |
| Balance at 7/31/04 | 4,194,673 | \$ 4,194 | \$500,214 | \$ (372,576) |
| | ===== | ===== | ===== | ===== |

See accompanying notes to condensed financial statements.

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THE QUANTUM GROUP, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
STATEMENTS OF CASH FLOW
FOR THE PERIODS ENDED JULY 31, 2004 AND 2003
(Unaudited)

| | 9 Months ended July 31, 2004 | 9 Months ended July 31, 2003 | July 24, (Inceptio July 2004 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| | ----- | ----- | ----- |
| OPERATING ACTIVITIES | | | |
| Net (loss) | \$ (620,028) | \$ (131,000) | \$ (1,080) |
| | ----- | ----- | ----- |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation | 986 | 939 | 3 |
| Amortization of deferred compensation | 158,616 | | 162 |
| Issuance of stock for compensation | 15,000 | | 15 |
| | | | |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in other assets | (13,317) | (702) | (16) |
| Increase (decrease) in accounts payable and accrued liabilities | 342,565 | 97,120 | 535 |
| | ----- | ----- | ----- |

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| | | | |
|---|------------|----------|--------|
| Total adjustments | 503,850 | 97,357 | 700 |
| | ----- | ----- | ----- |
| Net cash used in operating activities | (116,178) | (33,643) | (379) |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | (21,458) | (130) | (26) |
| Investment in related companies | | (10,000) | (10) |
| | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities | (21,458) | (10,130) | (36) |
| | ----- | ----- | ----- |
| FINANCING ACTIVITIES | | | |
| Proceeds from note payable | 54,130 | 4,532 | 247 |
| Proceeds from issuance of common stock | 190,269 | 44,000 | 275 |
| | ----- | ----- | ----- |
| Net cash provided by financing activities | 244,399 | 48,532 | 523 |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash | 106,763 | 4,759 | 107 |
| Cash at beginning of period | 242 | -- | |
| | ----- | ----- | ----- |
| Cash at end of period | \$ 107,005 | \$ 4,759 | \$ 107 |
| | ===== | ===== | ===== |

Supplemental disclosures of cash flow information:

| | | | |
|--|-------|-------|-------|
| Cash paid during the period for interest | \$ -- | \$ -- | \$ -- |
|--|-------|-------|-------|

Supplemental disclosures of non-cash investing and financing activities:

| | | | |
|---|-------|------------|--------|
| Assumption of Liabilities of Transform Pack International, Inc. | \$ -- | \$ 120,852 | \$ 120 |
|---|-------|------------|--------|

See accompanying notes to financial statements.

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THE QUANTUM GROUP, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONDENSED FINANCIAL STATEMENTS - (UNAUDITED)
JULY 31, 2004

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. ("TQGI"). The shareholders approved a 1 for 10 reverse stock split (See Note 6). The Company is a development stage company with no current revenues. The Company's business model is to become a provider of services to the healthcare industry in three complementary areas: outsourcing administrative responsibilities for physicians, Managed Care Organizations, healthcare facilities and physician associations; developing new technologies for the healthcare delivery system; and providing healthcare services to consumers. (See

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Note 4)

BASIS OF PRESENTATION

The condensed financial statements include of The Quantum Group, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and Regulation S-B. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

The accompanying condensed financial statements of the Company 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 nine months ended July 31, 2004, were of a normal, recurring nature. The amounts presented for the nine months ended July 31, 2004, 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, 2003, which should be read in conjunction with this quarterly report.

GOING CONCERN

The Company has no 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 July 31, 2004 there were no cash equivalents.

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THE QUANTUM GROUP, INC.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONDENSED FINANCIAL STATEMENTS - (UNAUDITED)

JULY 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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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 benefit of such net operating loss carry forwards in the accompanying 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 recognized to offset the entire effect of the Company's net deferred tax asset.

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

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THE QUANTUM GROUP, INC.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONDENSED FINANCIAL STATEMENTS - (UNAUDITED)

JULY 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 July 31, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

| | 2004 | 2003 |
|--------------------|--------------|-------------|
| | ----- | ----- |
| Net income (loss) | | |
| As reported | \$ (620,028) | \$ (59,431) |
| | ----- | ----- |
| Pro forma | \$ (644,928) | \$ (59,431) |
| | ----- | ----- |
| Earnings per share | | |
| As reported | \$ (0.18) | \$ (0.02) |
| | ----- | ----- |
| Pro forma | \$ (0.19) | \$ (0.02) |
| | ----- | ----- |

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

| | |
|-------------------------|------|
| risk-free interest rate | 4% |
| expected life (years) | 5 |
| expected volatility | 2.31 |
| expected dividends | None |

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE 4: MERGER WITH QUANTUM HIPAA CONSULTING, INC.

Effective May 28, 2003, the Company consummated a merger pursuant to a merger agreement with Quantum HIPAA Consulting Group, Inc. Quantum HIPAA Consulting Group, Inc. developed a training compact disc and manuals to instruct the healthcare industry on the implementation of the regulations created to comply with the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

The Company completed the merger by issuing 2,700,000 million shares of Common Stock to the sole shareholder of Quantum, in exchange for all the issued and outstanding shares of Quantum. For accounting purposes, the acquisition was treated as a recapitalization of the Company. The value of the net assets of the Company after the acquisition was completed is the same as their historic book value.

On May 30 2003, in accordance with the agreement, the Company, Transform Pack International, Inc., sold its wholly owned subsidiary, Transform Pack, Inc. (TPI) to certain previous shareholders and investors of the Company. Transform Pack, Inc. and its shareholders have agreed to assume and indemnify the Company for all operating debts of the Company.

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THE QUANTUM GROUP, INC.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONDENSED FINANCIAL STATEMENTS - (UNAUDITED)

JULY 31, 2004

NOTE 5: 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.

NOTE 6: OTHER COMMON STOCK TRANSACTIONS

DEFERRED COMPENSATION

On October 1, 2003, the Company granted 363,500 shares of common stock to employees, directors and advisors in lieu of or as partial compensation for services performed for the Company. These shares start vesting January 1, 2004 and are to be vested over two and three year periods. The Company recorded \$327,150 of unearned compensation and recorded the unvested shares as Deferred

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Compensation - Allocated Shares in the equity section of the balance sheet. The Company recognized \$107,212 in compensation expense related to these stock grants for the nine month period ended July 31, 2004. The value of the stock was determined by the closing market price at the date of grant. Additionally, the Company granted 415,000 options at \$.40 per share to employees and directors to be vested over three years. The options start vesting January 1, 2004. The Company has recognized \$207,500 in deferred compensation in relation to the issuance of the stock options in conjunction with Statement of Financial Accounting Standard no. 123. The values of the options were determined based upon the market value of the common shares at the time of grant less the exercisable price. The Company has recognized \$31,125 in compensation expense related to these stock option grants for the nine month period ended July 31, 2004.

REVERSE STOCK SPLIT

In January 2004, the shareholders of the Company approved the merger of the Company into The Quantum Group, Inc. for the purpose of reincorporation in the State of Nevada. In conjunction with the reincorporation, the shareholders approved a 1 for 10 reverse stock split of its common stock. An amended and restated Articles of Incorporation have been filed to change the name of the Company to The Quantum Group, Inc. ("TQGI") and to set the authorized shares of common stock to 170,000,000 at a par value of \$.001 per share and authorized preferred stock to 30,000,000 at a par value of \$.001 per share. All share and per share amounts have been retroactively restated in the accompanying financial statements and notes for all periods presented.

NOTE 7: STOCK OPTIONS

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.

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THE QUANTUM GROUP, INC.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONDENSED FINANCIAL STATEMENTS - (UNAUDITED)

JULY 31, 2004

NOTE 7: STOCK OPTIONS (CONTINUED)

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 than 10 years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 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

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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." The Company recognized \$207,500 in compensation expense, of which \$172,916 was deferred at July 31, 2004.

The Company granted 90,000 options to an employee during the nine month period ended July 31, 2004 at an average exercise price of \$1.00 per share. No options were granted during the nine month period ended July 31, 2003.

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THE QUANTUM GROUP, INC.

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONDENSED FINANCIAL STATEMENTS - (UNAUDITED)

JULY 31, 2004

NOTE 7: STOCK OPTIONS (CONTINUED)

A summary of options during the nine months ended July 31, 2004 and 2003 is shown below:

| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
|--|---------------------|--|---------------------|--|
| | ----- | ----- | ----- | ----- |
| Outstanding at beginning of the period | | \$ 0.40 | -- | \$-- |
| Granted | 90,000 | \$ 1.00 | -- | \$-- |
| Exercised | -- | \$ -- | -- | \$-- |
| Forfeited | -- | \$ -- | -- | \$-- |
| | ----- | ----- | ----- | ----- |
| Outstanding at April 30, | 90,000 | \$ 0.40 | -- | \$-- |
| Exercisable at April 30, | -- | | -- | |
| | ----- | | ----- | |
| Available for issuance at April 30, | 4,910,000 | | -- | |
| | ----- | | ----- | |

NOTE 8: OTHER EQUITY

Following a motion approved by the Company's shareholders during a meeting January 30, 2004, the Board of Directors agreed to issue 13,300,000 post reverse shares to the shareholders of both Quantum Medical Technologies, Inc. (QMT) and Renaissance Health Systems, Inc. (RHS) for the 80% of the those companies which the Company does already not own. Control in the Company will not change, since

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all the shareholders in numbers and relative beneficial ownership of both QMT and RHS are also material and beneficial owners of the common shares of the Company today. The final merger is not expected to be consummated until documentation is completed and approval of the Board of Directors of all the companies.

In June 2004, the Company entered into an agreement with two companies to raise a minimum of \$500,000 to a maximum of \$1,000,000. The terms include the share price to be a 75% discount on the closing sale price. The placement companies will receive a combined placement fee of 13% of the gross proceeds received from issuance of shares. Additionally, after the Company receives net proceeds of \$500,000, the placement companies will receive 100,000 warrants exercisable at 110% of the closing bid price with a floor of \$0.75 per share. As of July 31, 2004, the Company received \$218,000 and issued 741,146 shares.

NOTE 9: 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 no payments have been made 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 interest accrued at July 31, 2004 is \$54,410.

On November 2, 2002 the Company signed a demand note, with an interest rate of eighteen percent (18%) per annum, for the expenses a shareholder paid on behalf of the Company subsequent to the sale of the intellectual property. The note payable balance and accrued interest as of July 31, 2004 are \$38,582 and \$4,547 respectively. THE QUANTUM GROUP, INC.

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(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONDENSED FINANCIAL STATEMENTS - (UNAUDITED)
JULY 31, 2004

NOTE 9: RELATED PARTY TRANSACTIONS (CONTINUED)

In July 2003, the Company purchased a 20% interest Renaissance Health Systems, Inc. for \$5,000 from a shareholder of the Company. Renaissance Health Systems is a development stage enterprise in the health care business. Additionally, the Company purchased a 20% interest in Quantum Medical Technologies, Inc. for \$5,000 from a shareholder of the Company. Quantum Medical Technologies, Inc. is a development stage enterprise in the medical technologies business. See Note 10.

NOTE 10: SUBSEQUENT EVENTS

Effective August 9, 2004 The Company completed a previously announced, and shareholder approved consolidation of its interest by acquiring the 80% of Quantum Medical Technologies, Inc., and Renaissance Health Systems, Inc. it did not own. As previously disclosed, the Company issued 13,300,000 Common Shares and in addition issued 100,000 A-1 Preferred Stock recently authorized by the Company with preferential super voting interest, one hundred votes per share, and convertible in 4 years to Common Stock under certain conditions.

Quantum Medical Technologies, Inc. (QMT) was incorporated in January of 2000,

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and is a developmental stage company, with no significant material assets or liabilities and no revenues, and consists primarily of intellectual and patent pending business process to provide medical technologies, computer programs, electronic services, predictive modeling and other services to the medical profession. The Company has begun to develop a Cybernaptic (SM) process to connect in an applications service provider (ASP) format most of the touch points in the healthcare delivery system. The Company has also in development a QuantumQuotient (SM) index that the Company believes could be used as a tool to provide a measurable way to track improvement in the healthcare lifestyle of its subject. If this process can be confirmed, it could have significant value to the Company as a tool to reduce cost, and as an intellectual property it can sell or license to others. In addition, the Company is currently in the final stages of purchasing an online medical office billing and collection program, which is currently in beta testing. QMT's primary shareholder is the majority shareholder of the Company.

Renaissance Health Systems, Inc. was incorporated in December of 2002, and is a developmental stage company, with no significant material assets or liabilities and no revenues, which was formed to create a community health system (CHS) that will coordinate care to managed care patients by affiliating with providers, physicians and hospitals. The Company has secured a letter of intent with a Florida licensed health maintenance organization to build a CHS in three counties in central Florida. The Company's management has extensive experience in developing CHS and with recent additions to the staff seeks to complete the CHS by end of 4th quarter of 2004. QMT's primary shareholder is the majority shareholder of the Company.

On August 26, 2004, an advance of \$30,000 from an outside investor, made in June 2004, was converted into 300,000 shares of common stock at a conversion price of \$0.10 per share.

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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 Financial Statements and the related notes thereto appearing elsewhere in this quarterly report. The information presented for the nine months ended July 31 2004 and 2003, 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

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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 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.

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RESULTS OF OPERATIONS

Three months ended July 31, 2004 and 2003

The expenses for the quarter ended July 31, 2004 were \$254,883 compared to \$71,569 for the quarter July 31, 2003. The increase of \$183,314 was primarily due to an increase in personnel, salaries, consulting fees and related costs of \$72,845 and the amortization of deferred compensation of \$46,112.

Nine months ended July 31, 2004 and 2003

The expenses for the nine months ended July 31, 2004 were \$620,028 compared to \$131,000 for the nine months ended July 31, 2003. The increase of \$ 489,028 was primarily due to an increase in personnel, salaries, consulting fees and related costs of \$228,464 and the amortization of deferred compensation of \$138,338.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2004, the Company had working capital deficit of \$797,323 as compared to a working capital deficit of \$415,614 at July 31, 2003.

Cash inflow from financing activities was \$244,399 for the nine months ended July 31, 2004, compared \$48,532 for the nine months ended July 31, 2003. The increase was primarily due to the sale of common stock to outside investors as detailed below. The Company will need to secure additional financing during the next 12 months.

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On June 9, 2004, the Company executed a letter of intent with an investment group to raise up to \$1,000,000 from foreign investors. These shares, if any are sold and accepted by the Company, will be restricted from sale in the United States for a minimum of one year. The Company will use any proceeds to further develop its business plan.. The Company has no assurance that this effort will be successful, or that it may not need to change the terms of the offering. The Company expects to pay commission and expenses of 13%, plus legal and support cost relating to this private overseas offering. The Company realized net proceeds from the sale of common stock of \$213,759 through August 31, 2004.

On June 11, 2004, the Company received a loan for \$30,000 from an accredited investor. On August 26, 2004, the Company issued 300,000 restricted common shares exempt from registration, under Rule 144, to satisfy this obligation. The proceeds of this loan will be used to satisfy obligations, expenses and debts of the Company.

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.

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ITEM 3. CONTROLS AND PROCEDURES

Our Management and resources are limited, as of July 31, 2004 we had only five 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.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any litigation.

ITEM 2. CHANGES IN SECURITIES

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In June 2004, the Company entered into an agreement with two companies to raise a minimum of \$500,000 to a maximum of \$1,000,000. The terms include the share price to be a 75% discount off the closing sale price. The placement companies will receive a placement fee of 13% of the gross proceeds received from issuance of shares. Additionally, after the Company receives net proceeds of \$500,000, the placement companies will receive 100,000 warrants exercisable at 110% of the closing bid price with a floor of \$0.75 per share. As of July 31, 2004, the Company received \$218,000 and issued 741,146 shares.

Following a motion approved by the Company shareholders during a meeting January 30, 2004, the Board of Directors agreed to issue 13,300,000 post reverse common shares and 100,000 of a new class of Preferred Stock, convertible into 30 common shares after four years and is entitled to vote 100 common shares per Preferred Stock, to the shareholders of both Quantum Medical Technologies, Inc. (QMT) and Renaissance Health Systems, Inc. (RHS) for the 80% of the those companies which the Company does already not own. Control in the Company will not change, since all the shareholders in numbers and relative beneficial ownership of both QMT and RHS are also material and beneficial owners of the common shares of the Company today. The final merger was approved by the Board of Directors on August 16, 2004.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of June 30, 2003, the Company is in default of a \$ 179,080, plus accrued interest of \$54,410, obligation to the Company's President and largest shareholder. He has not declared the note in default as of this time.

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.

None

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

| Exhibit No. ----- | SEC Ref. No. ----- | Title of Document ----- |
|-------------------------|--------------------------|---|
| 31.1 | 31 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | 31 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | 32 | Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | 32 | Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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.

THE QUANTUM GROUP, INC.

Date:

BY: /s/ Noel J. Guillama

Noel J. Guillama, President