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LATINOCARE MANAGEMENT CORP  
Form 10QSB/A  
November 21, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB/A

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended: September 30, 2002

Commission file number 0-13215

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LATINOCARE MANAGEMENT CORPORATION

-----  
(Exact name of registrant as specified in its charter)

NEVADA

30-0050402

-----  
(State of Incorporation)

-----  
(I.R.S. Employer Identification No.)

4150 Long Beach Boulevard, Long Beach, California 90807

-----  
(Address of principal executive offices) (Zip Code)

(562) 997-4420

-----  
Registrant's telephone number, including area code

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

| TITLE OF EACH CLASS   | NAME OF EACH EXCHANGE<br>ON WHICH REGISTERED |
|-----------------------|--|
| -----<br>COMMON STOCK | -----<br>OTC                                 |

-----

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 filing requirements for the past 90 days. Yes (X) No ( )

The aggregate market value of voting stock held by non-affiliates of the registrant was \$98,934 as of September 30, 2002 (computed by reference to the last sale price of a share of the registrant's Common Stock on that date as reported by NASDAQ).

There were 14,627,100 shares outstanding of the registrant's Common Stock as of September 30, 2002.

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LATINOCARE MANAGEMENT CORPORATION  
(A NEVADA CORPORATION)  
CONSOLIDATED BALANCE SHEET  
SEPTEMBER 30, 2002 (UNAUDITED) AND DECEMBER 31, 2001 (AUDITED)

ASSETS

|                                   | September 30,<br>2002<br>---- | December 31,<br>2001<br>---- |
|-----------------------------------|-------------------------------|------------------------------|
|                                   | (Unaudited)                   | (Audited)                    |
| Current Assets:                   |                               |                              |
| Cash and cash equivalents         | \$ 12,858                     | \$ 2,604                     |
| Accounts receivable               | 1,298                         | 2,922                        |
| Prepaid expenses and other assets | 176,559                       | 49,291                       |
|                                   | -----                         | -----                        |
| TOTAL CURRENT ASSETS              | 190,715                       | 54,817                       |
|                                   | -----                         | -----                        |
| Property and equipment            |                               |                              |
| Net of accumulated depreciation   | 175,884                       | 218,600                      |
|                                   | -----                         | -----                        |
| TOTAL PROPERTY AND EQUIPMENT      | 175,884                       | 218,600                      |
|                                   | -----                         | -----                        |
| Other assets:                     |                               |                              |
| Deposit                           | 15,478                        | 15,478                       |
|                                   | -----                         | -----                        |
| TOTAL OTHER ASSETS                | 15,478                        | 15,478                       |
|                                   | -----                         | -----                        |
|                                   | \$ 382,077                    | \$ 288,895                   |
|                                   |                               | =====                        |

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LIABILITIES AND SHAREHOLDERS' DEFICIT

|   |             |             |
|---|-------------|-------------|
| Current liabilities   |             |             |
| Accounts payable  | \$ 462,846  | \$ 196,387  |
| Accrued expenses  | 109,458     | 107,522     |
| Accrued interest payable  | 124,829     | 46,034      |
| Income tax payable  | 1,600       | 1,600       |
| Due to related party  | 114,789     | 437,756     |
| Note payable - shareholder  | 1,750,000   | 1,750,000   |
|   | -----       | -----       |
| TOTAL CURRENT LIABILITIES   | 2,563,522   | 2,539,299   |
|   | -----       | -----       |
| Shareholders' equity (deficit)  |             |             |
| Common stock, par value \$.001;<br>50,000,000 shares authorized;<br>14,557,100 and 14,627,100 shares<br>issued and outstanding respectively | 997,680     | 997,652     |
| Preferred stock, par value \$.001;<br>2,000,000 shares authorized, no shares<br>issued and outstanding                                      | 0           | 0           |
| Additional paid-in-capital  | 34,972      | 0           |
| Accumulated deficit   | (3,214,097) | (3,248,056) |
|   | -----       | -----       |
| TOTAL SHAREHOLDERS' DEFICIT   | (2,181,445) | (2,250,404) |
|   | -----       | -----       |
|   | \$ 382,077  | \$ 288,895  |
|   |             | =====       |

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LATINOCARE MANAGEMENT CORPORATION  
(A NEVADA CORPORATION)  
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2002 AND 2001 (UNAUDITED)

|                                  | Three Months Ended |            |        |
|----------------------------------|--------------------|------------|--------|
|                                  | 2002               | 2001       |        |
|                                  |                    |            |        |
|                                  |                    |            |        |
| Revenue:                         |                    |            |        |
| Management fees- related party   | \$ 893,652         | \$ 355,858 | \$ 2,2 |
| Management fees- others          | 10,709             | 6,152      |        |
|                                  | -----              | -----      | -----  |
|                                  | 903,827            | 362,010    | 2,2    |
|                                  | -----              | -----      | -----  |
| Costs and expenses:              |                    |            |        |
| Salaries and benefits            | 494,615            | 461,052    | 1,3    |
| Professional and consulting fees | 107,878            | (46,594)   | 2      |
| General and administrative       | 297,343            | 136,251    | 7      |
| Depreciation                     | 15,216             | 15,216     |        |
|                                  | -----              | -----      | -----  |
|                                  | 915,052            | 565,925    | 2,3    |

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|  |            |              |      |
|--|------------|--------------|------|
| Operating income (loss)                    | (11,225)   | (203,915)    | (1   |
| Other income (expense):                    |            |              |      |
| Interest expense                           | 224,654    | (22,494)     | 1    |
| Other income (loss) before income taxes    | \$ 213,430 | \$ (226,409) | \$   |
| Provision for income taxes                 | 0          | 0            |      |
| Net income (loss)                          | 213,430    | (226,409)    |      |
| Earnings (loss) per common share           |            |              |      |
| Basic                                      | 0.01       | (0.02)       |      |
| Diluted                                    | 0.01       | (0.02)       |      |
| Weighted average common shares outstanding |            |              |      |
| Basic                                      | 14,627,100 | 14,529,100   | 14,6 |
| Diluted                                    | 14,627,100 | 14,529,100   | 14,6 |

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LATINOCARE MANAGEMENT CORPORATION  
(A NEVADA CORPORATION)  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFIC  
SEPTEMBER 30, 2002

|   | Common Stock |           | Retained Earning   |
|---|--------------|-----------|--------------------|
|   | Shares       | Amount    | Additional Paid-in |
|   | -----        | -----     | -----              |
| Balance at December 31, 2001  | 3,781,455    | \$952,727 | \$ (               |
| Retirement of common stock  | 3,270,000    |           |                    |
| Reissuance of new common stocks to existing shareholders of the acquiring company | 13,471,645   |           |                    |
| Issuance of new shares of stock:  |              |           |                    |
| Common stock issued as part of cost of acquiring JNS Marketing                    | 260,000      | 26,000    |                    |
| Common stock issued for services rendered   | 100,000      | 10,000    |                    |

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|  |            |           |          |        |
|--|------------|-----------|----------|--------|
| Common stock issued to private investors prior to acquisition    | 186,000    | 8,925     |          |        |
| Transfer of acquiring company's accumulated deficit              | 0          | 0         |          | (1,    |
| Consolidated net loss for period ended December 31, 2001         | 0          | 0         |          | (      |
| Balance at December 31, 2001                                     | 14,529,100 | 997,652   |          | (3,    |
| Private placement offering                                       | 28,000     | 28        | 34,972   |        |
| Common Stock issued to investors in private placement            | 70,000     |           |          |        |
| Consolidated net income for nine months ended September 30, 2002 |            |           |          |        |
| Balance at September 30, 2002                                    | 14,627,100 | \$997,680 | \$34,972 | \$ (3, |

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LATINOCARE MANAGEMENT CORPORATION  
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CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001 (UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss) from operations \$  
Adjustments to reconcile net income (loss) from operations to cash provided (used) in operating activities:  
Depreciation

(Increase) decrease in:

Accounts receivable  
Prepayments to private placement offering

Increase (decrease) in:

Due to related party  
Accounts payable  
Accrued expense  
Accrued interest  
Income tax  
Loan from officer  
Advance on PPM

Net cash used from operating activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of equipment

Net cash used from investing activities

CASH FLOWS FROM FINANCING ACTIVITIES

Note payable - Cedar Sinai  
Private placement offering  
Accrued interest

Net cash provided from financing activities

Net increase (decrease) in cash  
Cash, beginning of the year

Cash, end of the year

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for interest

Cash paid during the period for income taxes

SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES

Accrued interest on debt to equity conversion  
Accrued interest on the equity to debt conversion

Conversion of debt to equity

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LATINOCARE MANAGEMENT CORPORATION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001 (AUDITED) AND  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001 (UNAUDITED)

(1) General Background and Nature of Operations:

a. General background:

LatinoCare Management Corporation (the "Company") was incorporated in the State of Nevada on January 22, 2002. The Company, a management service organization, is in the business of providing management and administrative services, and has developed a system of operations, management and marketing for independent practice associations engaged in providing health care services. The Company is authorized to issue two classes of shares : Common Stock and Preferred Stock. The total number of shares which the Company is authorized to issue is 50,000,000 common shares at \$ .001 par value and 2,000,000 preferred shares at \$ .001 par value. The preferred stock may be issued in such series as are designated by the Board of Directors. The Board of Directors may fix the number of authorized shares of preferred stock for each series, and the rights, preferences and privileges of each series of preferred stock.

JNS Marketing, Inc. (JNS) was a reporting public shell company incorporated in the State of Colorado in July 1983 with no tangible assets, insignificant liabilities and no revenues as of November 30, 2001, the date on which it was acquired by LatinoCare Management Corporation in a reverse merger.

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LatinoCare Management Corporation - California (LMC) dba Latino Health Care was founded and incorporated on February 23, 1995 as a California for-profit stock corporation. Its sole purpose, when originally organized, was to manage all operations of LatinoCare Network Medical Group (IPA), a related party that has common shareholders who influence the activities of both entities. LMC acquired JNS in November 2001 by purchasing 3,270,000 or approximately 86% of the issued and outstanding common stock of JNS Marketing, Inc. in exchange for \$300,000. There was a delay in the planned acquisition date due to renegotiation of the acquisition cost which resulted in the issuance of an additional 260,000 new shares of common stock of the Company as part of the purchase price. The 3,270,000 shares of common stock were subsequently retired and cancelled. The members of the Board of Directors of the Company before the purchase were replaced with the members of LMC's Board of Directors. LMC and JNS entered into an Agreement and Plan of Reorganization which resulted in a share exchange between the shareholders of the two companies, whereby LMC became a wholly owned subsidiary of the Company. JNS was renamed as LatinoCare Management Corporation, reincorporated in the State of Nevada on January 2002, and is referred to in this report as the "Company".

The Company has a total of 14,627,100 shares of its common stock issued and outstanding. The Company has no shares of preferred stock outstanding.

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b. Nature of operations:

The Company is in the business of providing management and administrative services and marketing for independent practice associations engaged in providing health care services. The Company has targeted and successfully reached four primary groups: health plans, hospitals, health service recipients and physicians with significant focus on the Latino market.

LatinoCare Network Medical Group, Inc., an Independent Physician Association (IPA), was incorporated on September 30, 1994, as a licensed medical group able to accept physician services risk from third-party payors and self-insured employers. The IPA was organized for the purpose of meeting the comprehensive health care needs of the Latino population and the lack to access to quality health care services available to the Latino community. The IPA has a network of private practicing physicians who provide quality health care services that are accessible, friendly, affordable, and culturally sensitive. It offers a wide range of comprehensive health care programs and services to keep its members and families healthy and productive.

On November 1995, the Company has entered into a twenty-five (25) year Management Services Agreement with LatinoCare Network Medical Grouping. To provide all management and administrative support, allowing the IPA to focus its efforts on medical governance and patient care management of services as required by health plans and regulations.

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The services provided by the Company include, among others, utilization management, quality improvement, claims processing, case management and financial services management. Marketing and business development are also provided as added services to the core services included in the Management Services Agreement (collectively, "Management Services"). The Company acts as the exclusive agent for the IPA with regard to seeking, negotiating, renewing, and executing managed care contracts.

(2) Summary of Significant Accounting Policies:

The company has prepared interim financial statements that include all adjustments, which, in the opinion of management, are necessary to make the financial statements not misleading. The Company believes that all adjustments of a normal recurring nature that are necessary for a fair presentation of the results of the interim periods presented in this report have been made.

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The Company's cash and available credit are not sufficient to support current operational levels for the next year. A net loss of \$3,248,056 was incurred from inception on February 1995 until December 31, 2001. In the first year of start-up, an operating deficit of \$1,750,000 was funded by debt capital provided by Cedars-Sinai Medical Center and was converted to capital equity in 1997. An additional \$750,000 deficit has resulted from expenses for capital financing efforts beginning in the fourth quarter of 2000, and subsequently, in 2001. In the third and fourth quarters of 2001, the Company funded capital raising expenses including the purchase and reverse merger with JNS Marketing, Inc. For the nine months ended September 30, 2002, the Company had a net income of only \$33,959. The Company also had negative working capital and stockholders' deficit at September 30, 2002.

Management's plan is to raise enough equity through private placements (see Note 13 - Subsequent Events) and individual investors; finance the acquisition of enrollment membership; expand network development; acquire networks to increase cost efficiencies. The resulting revenue increases will finance the pay off of the note issued to a related party; pay off a related party; shareholder's equity interest; and to raise enough working capital to pay off liabilities and sustain operations. These financial statements have been prepared on the basis that adequate equity financing will be obtained.

a. Principles of Consolidation:

Not applicable

b. 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



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### c. Revenue Recognition:

Revenues from professional services, primarily from management fees, are recognized on an accrual basis of accounting as services are performed or the amounts earned (in compliance with SOP 00-2), based on a percentage of capitalization revenues received by the IPA, which is a related party transaction.

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The IPA has managed care contracts with various Health Maintenance Organizations (HMO) to provide medical services to subscribing members. Under these agreements, the IPA receives monthly capitation payments based on the number of each HMO's subscribing members whether or not a member requests services to be performed by the IPA. The Company receives 16% of all IPA capitated revenue.

Revenues are also generated from risk pool settlements. Revenues from risk pool settlements, management services rendered such as marketing, business development and core operations. Revenues from Risk pool settlements (cash received) are surpluses distributed by the IPA from the HMO.

Currently, two separate types of risk pools exist - specialty risk pools and hospital (institutional) risk pools. Specialty risk pools are reserve for specialist medical expenses whereas hospital risk pool relate to reserves for hospital expenses. The HMO holds these reserves and surpluses are distributed, after year-end accounting of all claims, to the related physicians at fifty percent (50%), IPA at twenty-five percent (25%) and the Company at twenty-five percent (25%).

### d. Cash and Cash Equivalents:

The Company considers all money market funds and highly liquid debt instruments with maturities of three months or less when acquired to be cash equivalents.

### e. Accounts Receivable:

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

### f. Prepaid Private Placement Costs:

Specific incremental costs directly attributable to proposed or actual offering of securities are deferred and charged against the gross proceeds of the offering. Management salaries and other general and administrative expenses are not allocated as costs of the offering. In the event that the offering does not take place, the prepaid private placement costs will be expensed immediately.

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g. Property, Equipment and Related Depreciation:

Property and equipment are stated at cost. Maintenance, repairs and minor renewals and betterment's are expensed; major improvements are capitalized. Depreciation of property and equipment is provided for using the straight-line method over the estimated useful lives of the assets as follows:

|  | Estimated<br>Useful Lives |
|--|---------------------------|
|  | -----                     |
| Leasehold improvement                    | Life of lease             |
| Computer, equipment and office furniture | 5 - 10 years              |

Upon retirement, sale, or other disposition of property and Equipment, the costs and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

h. Advertising Expenses:

All advertising expenses are expensed as incurred.

i. Income Taxes:

The Company is taxed at C Corporation income tax rates. The Company recognizes deferred income tax under the asset and liability method of accounting. This method requires the recognition of deferred income taxes based upon the tax consequences of "temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statements carrying amounts and the tax basis of existing assets and liabilities.

j. Adoption of Recent Accounting Standards:

Segment Reporting:

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 131 ("SFAS" No. 131), "Disclosure About Segments of an Enterprise and Related Information." SFAS No. 131 established standards for the way companies report information about operating segments in annual financial statement. It also established standards for related disclosures about products and services, geographic areas and major customers.

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The disclosures prescribed in SFAS No. 131 became effective for the year ended December 31, 1998. The Company has determined that it operates as one business segment.

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The Company is not affected by the adoption of new accounting standards for Accounting for Derivative Instruments and Hedging Activities as well as the Accounting for Comprehensive Income as these activities did not occur in its operations.

### Business Combination:

SFAS 142 and SFAS 141, Business Combinations, are designed to improve reporting and disclosure with respect to goodwill and other acquired tangible assets. SFAS 141 eliminated the pooling of interest method as an accounting option for business combination while SFAS 142 modified the purchase method of accounting by eliminating the amortization of goodwill and substituting an impairment test. The FASB overcame several operation impediments to non-amortization including: the reporting level at which to conduct impairment reviews, consistency with SFAS 121 (Accounting for the impairment of long-lived assets) and finite-lived goodwill. The emphasis will be on the fair value measurements of assets and liabilities instead of amortization. Impairment in the carrying value of an asset is recognized when the fair value of the asset is less than its carrying value.

### (3) Private Placement Offering and Prepaid expenses

Prepaid expenses and other current assets consists of:

|                                 | Sept. 30<br>2002<br>(unaudited) | Sept. 30<br>2001<br>(audited) |
|---------------------------------|---------------------------------|-------------------------------|
|                                 | -----                           | -----                         |
| Prepaid private placement costs | 0                               | \$ 46,896                     |
| Other current assets            |                                 | 2,395                         |
|                                 | -----                           | -----                         |
|                                 | 0                               | \$ 49,291                     |

On November 30, 2001, a Private Placement Memorandum was issued for qualified investors in connection with the Company's offer of sale of its common stock. This offering terminated on August 31, 2002.

The above prepaid private placement costs consist of printing, mailing and consulting fees that have been incurred from the offering date to August 30, 2002. These costs directly attributable to the offering of securities are deferred and will be charged against the gross proceeds of the offering of securities when the offering ends or is terminated.

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### (4) Property and Equipment

Property and equipment consists of the following:

|  | Sept. 30<br>2002<br>(unaudited) | Sept. 30<br>2001<br>(audited) |
|--|---------------------------------|-------------------------------|
|  | -----                           | -----                         |

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|  |            |            |
|--|------------|------------|
| Furniture, fixtures and office equipment | \$ 83,786  | \$ 83,785  |
| Leasehold improvement                    | 77,157     | 77,157     |
| Computers and software                   | 171,013    | 204,058    |
|  | -----      | -----      |
|  | 331,956    | 365,000    |
| Less accumulated depreciation            | 156,072    | 146,400    |
|  | -----      | -----      |
|  | \$ 175,884 | \$ 218,600 |

Depreciation expense for the three months ended September 30, 2002 and 2001 was:

|              | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--------------|-------------------------------------|----------|------------------------------------|----------|
|              | 2002                                | 2001     | 2002                               | 2001     |
| Depreciation | \$15,216                            | \$15,216 | \$42,716                           | \$50,898 |
|              | =====                               | =====    | =====                              | =====    |

The Company periodically evaluates the net realizable value of long-lived assets, including property and equipment, relying on a number of factors including operating results, business plans, economic projections and anticipated future cash flows.

(5) Notes Payable - Related Party:

Notes payable are all current and comprised of the following amounts as of September 30, 2002 and December 31, 2001.

|  |              |
|--|--------------|
| Cedars Sinai, due July 18, 2002<br>with interest at 6.0% per annum | \$ 1,750,000 |
|  | =====        |

The notes for Cedars Sinai matures as follows:

\$500,000 shall be paid on or before January 11, 2002; \$500,000 shall be paid on or before March 20, 2002; and \$750,000 and all accrued but unpaid interest shall be paid on or before July 18, 2002.

This note shall be secured and that in the event of a breach by the Company, Cedars-Sinai's sole recourse shall be the repossession of that portion, if any, of its shareholdings (28% of the outstanding shares) from the Company pursuant to the following provision:

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a. For the first seven hundred fifty thousand dollars (\$750,000) repaid by the Company, recourse shareholdings shall be reduced from twenty-eight percent (28%) of the issued and outstanding shares to not less than twenty percent (20%) of such issued and outstanding shares, or the portion thereof;

b. For the next one million dollars repaid (\$1,000,000) by the

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Company, recourse shareholdings shall be reduced from twenty percent (20%) of the issued and outstanding shares to zero percent (0%) of such issued and outstanding shares, or the portion thereof.

If this note is not paid when due, the Company shall pay all costs of collections, including attorney's fees and costs and all expenses incurred on account of collection, whether or not suit is filed.

As of September 30, 2002, no payments were made by the Company or any collection actions from Cedar Sinai. All rights and remedies of Cedar Sinai in connection with the existing defaults were hereby reserved, the lender agrees to forbear from exercising its rights and remedies until the earlier to occur of the following termination event of July 23, 2003. Cedar Sinai has not demanded a conversion of its note and management believes that it may be receptive to a modification.

(6) Provision for Income Taxes:

The provision for taxes consists of the following for periods ended September 30, 2002 and 2001 (unaudited) :

|          | Federal | State  | Total  |
|----------|---------|--------|--------|
| Current  | \$ 0    | \$ 800 | \$ 800 |
| Deferred | 0       | 0      | 0      |
|          | \$ 0    | \$ 800 | \$ 800 |

Other than the minimum tax due to the State of California, no income tax accruals were recorded because the Company incurred a loss for the previous and current years and has available net operating loss (NOL) carry forwards at year ended December 31, 2001 of approximately \$2,212,504, available to offset future taxable income. These NOL carry forwards expire beginning in 2010 and ending in 2014, fifteen years from the year in which the losses were incurred.

Deferred tax assets and liabilities were not presented because the amounts were insignificant.

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FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001 (UNAUDITED)

(7) Advertising:

Advertising expense consists of the following (Unadited):

|       | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |        |
|-------|-------------------------------------|------|------------------------------------|--------|
|       | 2002                                | 2001 | 2002                               | 2001   |
| Total | \$ 0                                | \$ 0 | \$ 4,865                           | \$ 896 |

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(8) Employee Savings Plan:

On August 1, 2000, the Company adopted a 401(K) Profit Sharing Plan and Trust for the benefit of its employees and beneficiaries. Eligible employees may contribute a portion of their pretax annual compensation within specified limits. A discretionary matching contribution will be provided by the employer, which may or may not be limited to its current accumulated net profit. There are no employer contributions to the plan for the three months ended September 30, 2002 and 2001.

(9) Commitments:

The Company has entered into various operating leases for equipment and occupies its facility under a long-term lease agreement expiring in March 31, 2010 with option to cancel after five (5) years or extend. Future minimum lease payments under the non-cancelable leases for the remaining years are as follows:

| Period ending<br>September 30, | Office space        | Equipment         | Total               |
|--------------------------------|---------------------|-------------------|---------------------|
| 2003                           | \$ 250,620          | \$ 70,716         | \$ 321,336          |
| 2004                           | 250,620             | 70,716            | 321,336             |
| 2005                           | 250,620             | 70,716            | 321,336             |
| 2006                           | 250,620             | 70,716            | 321,336             |
| Thereafter                     | 250,620             | 70,716            | 321,336             |
| <b>Total</b>                   | <b>\$ 1,253,100</b> | <b>\$ 353,580</b> | <b>\$ 1,606,680</b> |

Total lease and rent expense consist of the following (unaudited):

|                 | Three months ended<br>September 30, |                 | Nine months ended<br>September 30, |                   |
|-----------------|-------------------------------------|-----------------|------------------------------------|-------------------|
|                 | 2002                                | 2001            | 2002                               | 2001              |
| Equipment lease | \$7,279                             | \$20,024        | \$47,868                           | \$42,054          |
| Office rent     | 63,655                              | 41,018          | 187,753                            | 157,039           |
|                 | <b>\$70,934</b>                     | <b>\$61,042</b> | <b>\$ 235,621</b>                  | <b>\$ 199,093</b> |

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(10) Related Party Transactions and Due to Related Parties:

Due from/(to) related party consists of:

|                                   | Sept. 30<br>2002<br>(unaudited) | Sept. 30<br>2001<br>(audited) |
|-----------------------------------|---------------------------------|-------------------------------|
| Due to IPA (net)                  | \$ (17,395)                     | \$ (496,211)                  |
| Due from JJ&M Management (net)    | (38,475)                        | 16,478                        |
| Due from Latino Family Care (net) | (58,919)                        | 41,977                        |

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|                            |                               |                               |
|----------------------------|-------------------------------|-------------------------------|
| Due to related party (net) | -----<br>\$(114,789)<br>===== | -----<br>\$(437,756)<br>===== |
|----------------------------|-------------------------------|-------------------------------|

a. LatinoCare Network Medical Group, Inc./IPA :

The Company and the IPA, are bound by a twenty-five year management services agreement. Under this agreement, the IPA has effectively transferred total contract and management control to the Company for the term of the agreement. In return for management and administrative services provided under the management service agreement, the Company receives management fees of sixteen percent (16%) of monthly capitation payments (based on predetermined rates) received by the IPA.

The Company has been charging the IPA a management fee according to sliding scale based on enrollment. The management fee percentage was charged against the total capitation the IPA receives from members. The following matrix reflects this management fee arrangement:

| Rate  | Enrollment      |
|-------|-----------------|
| ----- | -----           |
| 16%   | 0 - 20,000      |
| 15    | 20,000 - 30,000 |
| 14    | 30,000 - 40,000 |
| 12    | 40,000 - 50,000 |

In addition to management fees the Company is also entitled to receive fifty percent (50%) of the IPA's share of hospital (with hospital or HMO) and specialty risk pool settlements. Hospital and risk pools are revenues estimated for hospital and specialist medical expenses held in reserve until actual claims are adjudicated. Surpluses are distributed accordingly after all financial obligations are met. The management fees from capitation; settlement fees; management fees from marketing and business development; and management fees for other services (operational core expenses) for the management of the IPA, paid and due to the Company were approximately:

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|                                       | Three months ended    |                       | Nine months ended     |                       |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                       | September 30,<br>2002 | September 30,<br>2001 | September 30,<br>2002 | September 30,<br>2001 |
|                                       | (Unaudited)           |                       | (Unaudited)           |                       |
|                                       | -----                 | -----                 | -----                 | -----                 |
| Management fee-<br>capitation         | \$ 259,817            | \$ 330,259            | \$ 919,961            | \$ 1,102,134          |
| Settlement fee                        | 184,350               | 30,599                | 184,350               | 174,829               |
| Business development<br>and marketing | 161,622               | 0                     | 161,622               | 0                     |

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|                                     |            |            |            |             |
|-------------------------------------|------------|------------|------------|-------------|
| Management fee -<br>core operations | 289,111    | 0          | 289,111    | 0           |
|                                     | -----      | -----      | -----      | -----       |
| Total                               | \$ 894,900 | \$ 360,858 | \$ 894,900 | \$1,276,963 |
|                                     | =====      | =====      | =====      | =====       |

The IPA accounts for more than ninety percent (90%) of the Company's revenue. IPA has a concentration of customers of approximately eight (8) customers, which are health maintenance organizations.

Related party receivables and advances payable as of:

|                               |                                 |                               |
|-------------------------------|---------------------------------|-------------------------------|
|                               | Sept. 30<br>2002<br>(unaudited) | Sept. 30<br>2001<br>(audited) |
|                               | -----                           | -----                         |
| Receivable from related party | \$ 0                            | \$ 298,322                    |
| Payable to related party      | (17,395)                        | (794,533)                     |
|                               | -----                           | -----                         |
| Due to IPA (net)              | \$ (17,395)                     | \$ (496,211)                  |
|                               | =====                           | =====                         |

The above outstanding net payable to the IPA of approximately \$17,395 was misclassified as advances and in the December 19, 2001 meeting the IPA authorized reimbursement for marketing, development and core expenses. The IPA Board authorized the payment of similar expenses on a going-forward basis and were used to expand the IPA Network and grow the Company. The Company used these funds for working capital.

b. Gonzalez-D'Avila Enterprises dba JJ&M Management:

The JJ&M's CEO/President is a stockholder and a member of the board of directors for JJ&M, the IPA and the Company. The related party transactions involve the misclassification of health insurance expenses advanced by the Company for JJ&M.

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The misclassified outstanding receivable from JJ&M for reimbursement of health insurance is \$38,475 and \$16,478 as of September 30, 2002 and December 31, 2001, respectively.

c. Latino Family Care

A shareholder of Latino Family Care is also a member of the board of directors of the IPA. The related party transactions involve reimbursement of health insurance misclassified as advances by the Company for Latino Family Care.

The misclassified outstanding receivable from Latino Family Care for reimbursement of health insurance is \$58,919 and \$41,977 as of September 30, 2002 and December 31, 2001 respectively.



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### d. Cedars-Sinai Medical Center

Cedars-Sinai Medical Center, the Company's strategic partner, has been the largest single investor to the Company providing over \$2 million including the accrued interest of approximately \$290,000 that was converted to equity in June 2001. Cedar Sinai's financial support consisted of a convertible note payable of \$1,000,000, issued November 30, 1996, and was converted into a twenty percent (20%) of the Company's common stock in 1997. The \$750,000 and \$62,460 of notes payable issued in 1996 and 1997 were converted into an additional eight percent (8%) equity interest, including accrued interest, on June 12, 2001.

The Company has existing promissory notes to Cedars-Sinai payable on demand with the balance (including interest) as of December 31, 2000 of \$812,460. These notes were converted to eight percent (8%) of the outstanding common stock of Company in June 2001.

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On July 23, 2001, the Company issued a convertible note to Cedars Sinai in the amount of \$1,750,000 bearing simple interest at the rate of 6% per annum payable in full on or before July 23, 2002, to redeem all shares issued to Cedars-Sinai. If the note is not repaid by that time, Cedar Sinai has the right to convert it into 28% of the outstanding common stock of the Company, subject to a pro-rata adjustment if the note is partially repaid (see Note 5 Notes Payable - Related Party). A full or partial conversion of the note would cause dilution in the ownership of the Company by its existing shareholders.

Accordingly, capital stock is reduced for the redeemed value of the stock. For accounting purposes, the stock redemption is treated as a retirement of stock.

Client made no repayment for the above loan as of September 30, 2002.

(11) Significant Management Investment:

The current management and directors as a group beneficially owns approximately ninety three percent (93%) of the total shares issued and outstanding. By virtue of such stock ownership, the current management and directors as a group generally exercise control over the affairs of the Company.

(12) Stock Option Plan:

On January 31, 2002, the Board of Directors of the Company unanimously approved and the shareholders ratified the adoption of the 2002 Stock Option Plan. The Stock Option Plan consists of 1,200,000 stock options for directors, executive officers and key employees to purchase 1,200,000 shares of the Company's Common Stock. As of September 30, 2002, the plan has not been implemented.

(13) Subsequent Events:

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### a. Management agreement with IPA:

The Company has recently changed the management agreement from a sliding scale agreement to a "cost plus" agreement. In the cost-plus model, the Company will charge the IPA, and all future acquired IPAs or IPAs managed by the Company, the entire cost of managing the business plus a fixed amount as profit margin. The cost component will vary among IPAs depending on negotiated terms of management.

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### b. Acquisition

The Company has expanded its business plan objectives and will seek to provide management services to other IPAs. This change in the Company's business plan will enable the Company to expand its revenue derivation sources as well as enhancing its revenue and future growth potential.

### c. Private Placement Offering:

The Company has incurred prepaid private placement costs as of September 30, 2002 of \$121,470. Since the offering was terminated in August 31, 2002, these costs were charged for the quarter ending September 30, 2002 as PPM expenses

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## ITEM 2.

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

#### CAUTIONARY STATEMENTS

This Form 10-QSB contains financial projections, synergy estimates and other "forward-looking statements" as that term is used in federal securities laws about LatinoCare Management Corporation's financial condition, results of operations and business. These statements include, among others:

- statements concerning the benefits that the Company expects from its business activities and certain transactions, such as the potential for revenues and the anticipated amount of expenditures; and
- statements of the Company's expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts. These statements may be made expressly in this Form 10-QSB. You can find many of these statements by looking for words such as "believes", "expects", "anticipates", "estimates", or similar expressions used in this Form 10-QSB. These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause the Company's actual results to be materially different from any future results expressed or implied by the Company in those statements. The most

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important facts that could prevent the Company from achieving its stated goals include, but are not limited to, the following:

- (a) volatility and/or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) barriers to raising the additional capital or to obtaining the financing needed to implement its full business plans;
- (d) inadequate capital to continue business;
- (e) changes in demand for the Company's products and services;

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- (f) rapid and significant changes in technology and markets;
- (g) Litigation with or legal claims and allegations by outside parties;
- (h) insufficient revenue to cover operating costs;
- (i) Disagreements with LatinoCare Network Medical Group, Inc., the IPA with which the Company has its sole Management Services Agreement, and the risk that the agreement could be terminated; and
- (j) A loss of contracts and decline in the business of the IPA, which would materially adversely affect the Company.

Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. The Company cautions you not to place undue reliance on the statements, which speak only as of the date of this Form 10-QSB. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company or persons acting on its behalf might issue. The Company does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Form 10-QSB or to reflect the occurrence of unanticipated events.

The Company has continued to support the marketing and business development activities of LatinoCare Network Medical Group ("LCNMG") to increase member lives and add physicians to the provider network. Resources needed to provide this support have continued to be made available after certain significant events (i.e. Tower Bankruptcy) have negatively impacted LCNMG's membership. The Company will continue to provide this support as it endeavors to raise capital to acquire lives. In the event capital is not available, the Company has examined its operations and that of LCNMG and implemented reductions during the third quarter of fiscal 2002 that it believes will maintain the operations of the Company, provided that the Management Services Agreement with the IPA is preserved and the IPA remains intact. The Company has recently been notified by certain members of the board of directors of LatinoCare Network Medical, Inc. (the "IPA") that they desire to terminate the Management Services Agreement between the Company and the IPA, based on allegations of mismanagement. The Company believes that the allegations are without merit, and that a termination of the Management Services Agreement is not proper nor justified. Moreover, the Company believes that the attempted actions by those IPA directors are not authorized, and may seek to have a new Board constituted for the IPA.

The Management Services Agreement is virtually the sole source of revenue for the Company. A termination of the Management Services Agreement would have a severe adverse effect on the business, operating results and financial condition of the Company. Although management of the Company intends to make every effort to prevent a termination of the Management Services Agreement, there is no assurance that the Company's Management Services Agreement will be preserved. Furthermore, a decline in the IPA's business or loss of health network service contracts by it, or the loss of patients in the network, would have a material adverse impact on the Company, including but not limited to a reduction of revenues earned by the Company. There is no assurance that the Management Services Agreement will be preserved or that the IPA will not suffer a material loss of business. Under such circumstance, the Company might not be able to remain in business as a going concern.

#### OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AS COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2001

Total revenue for the nine months ended September 30, 2002 increased by \$924,287 to \$2,255,040 from \$1,330,753 for the nine months ended September 30, 2001. The increase is due to additional management fees received by the Company from LCNMG related to marketing and business development and the management of the IPA.

Operating and administrative expenses increased by \$ 268,210 during the nine months ended September 30, 2002 to \$2,371,824 from \$2,103,614 for the nine months ended September 30, 2001. Office rent expenses increased by \$ 30,714 for the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001. Salaries increased by \$ 113,379 for the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001. PPM expenses were booked this quarter and this was a \$130,849 charge for the period.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company had consolidated net cash of \$ 12,858 for the nine months ended September 30, 2002 as compared to net cash of \$ 91,058 for the nine months ended of September 30, 2001. The Company had a net working capital deficit (i.e. the difference between current assets and current liabilities) of \$183,974 for the nine months ended September 30, 2002 as compared to a working capital deficit of \$ 645,763 for the nine months ended September 30, 2001. Net cash flow provided by operating activities were (\$177,916) for the nine months ended September 30, 2002 as compared to \$ 897,167 for the nine months ended September 30, 2001. Net cash provided by investing activities were \$ 42,716 during the nine months ended September 30, 2002, as compared to \$ 169,833 for the nine months ended September 30, 2001. Net Cash provided by financing activities was \$ 113,795 during the nine months ended September 30, 2002 as compared to (\$178,189) during the nine months ended September 30, 2001.

The Company will have significant capital requirements during the fourth quarter of 2002, and in 2003 if the Company continues with its plan of acquisition and incubation of new IPAs and projects, and to pay operating costs. To address this need for additional capital, LCMC has begun seeking out joint venture, partnership or merger partners in the industry that would take a significant ownership stake in the LCNMG IPA to assist in preserving and growing membership in the IPA. As of September 30, 2002, the company established formal discussion with three such groups, and a working agreement could be in place sometime in

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the fourth quarter. There is no assurance that a working agreement between LCNMG and one of these parties will be reached during this time frame, or that the Company will have sufficient capital to finance its business operations and growth, or that any of these parties will make capital available in terms that are favorable to the Company or at all. The Company is currently incurring operating deficits that are expected to continue until LCNMG increases its member enrollment, which depends in part on the Company securing additional working capital for marketing and acquisitions. The Company has already adjusted its expenses in response to the decrease in membership by implementing costs cutting strategies and headcount downsizing.

The Company expects to have material capital requirements during the fourth quarter of 2002 and for calendar year 2003 as it relates to acquisitions of membership by LCNMG, the IPA. Subject to the availability of capital, LCNMG and the Company plan to acquire additional membership through the acquisition of IPAs and from individual physicians. The latter method is not the acquisition of physicians' practices but rather the transfer of these physicians' membership from other IPAs to LCNMG.

LatinoCare Network Medical Group, Inc. (LCNMG), was owned by Roberto Chiprut, M.D. who was a major shareholder and Director of the company and LCMC until his recent death in February, 2002. Under California professional corporate law the shares of LNMG cannot be issued to or held by anyone other than a physician in possession of an unrestricted license to practice medicine in California, or a professional corporation with only one shareholder who is a physician. Due to this ownership requirement, Dr. Chiprut's death forced LCNMG into a six (6) month period in which ownership of the corporation had to be transferred or sold to an eligible licensed person(s).

LCMC began discussions with the court appointed conservator for the Chiprut Estate to purchase the shares on the same terms as previously agreed upon with Dr. Chiprut. LCMC exercised an assignable option agreement it had signed with LCNMG which granted LCMC (i) an assignable option to purchase all or any parts of the assets of LCNMG, and (ii) the right to designate the purchaser of all or part of the issued and outstanding stock in LCNMG. Upon the execution of this agreement, the ownership shares in LCNMG held by Dr. Chiprut's Estate were repurchased through a third party transaction secured by the new LCNMG assigned shareholders. The new shareholders are the existing four members of the board of directors of LCNMG and an additional physician, all of whom are licensed physicians with unrestricted licenses to practice medicine in the State of California. They include: Robert Karns, M.D., Adam Karns, M.D., Arturo Velazquez Jr., M.D., Jorge Carreon, M.D., and Paul Wallace, M.D. The new shareholders in LCNMG have also entered into an assignable option agreement with LCMC with the same terms as those previously agreed upon by Dr. Chiprut.

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On July 22, 2002 LCMC entered into a strategic alliance with Millennium Benefits Insurance Brokers, Inc (MBIB) for the distribution and fulfillment of an "Affordable Medical Benefits" (AMB) health insurance plan for the working uninsured. Millennium will make available to Latino Health Care, on an exclusive private label basis, a version of their health insurance plan to be marketed to Latinos. AMB beneficiaries would be served through an Exclusive Provider Organization (EPO) managed by Latino Health Care. Under an EPO structure beneficiaries are directed to their chosen primary care physician and selected hospitals. This new product will therefore bring to Latino Health Care a share of insurance premium revenue as well as add a new insured patient base to the practices of the primary care physicians that contract with the LatinoCare IPA.

Millennium Consumer Benefits Association ("MCBA"/ a California not-for-profit

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association (501(c)(3)) and Millennium Benefits Insurance Brokers, Inc. ("MBIB"/ a California C Corporation) comprise the management and distribution companies for the Affordable Medical Benefits Health Insurance Plan (AMB). These companies have been in business since late 1999. MBIB's mission is to offer low cost health benefits to the working, uninsured population, a population that currently lacks access to affordable healthcare. The Company currently markets the "Affordable Medical Benefits" Health Insurance Plan, a low cost, low deductible, primary care based solution for the working uninsured.

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PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

None.

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

(a) Exhibits.

Exhibit 99.14a and Exhibit 99.14b

(b) Reports on Form 8-K.

Report on Form 8-K dated July 12,2002, relating to the appointment of Mountain Share Transfer Inc. as the Company transfer agent.

Report on Form 8-K, dated September 11, 2002, relating to the pending change of independent certified public accountant for the Company.

Report on Form 8-K, dated November 11, 2002, relating to the appointment of Robert J. Pacheco as the Company certified public accountant.

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SIGNATURES

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 20, 2002

By: /s/ Jose J. Gonzalez

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Jose J. Gonzalez, Chairman of the Board,  
Chief Executive Officer, President and Secretary

By: /s/ Joseph Luevanos

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Joseph Luevanos, Director and Chief  
Financial Officer