GROUP MANAGEMENT CORP
Form 10QSB
September 09, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________.

COMMISSION FILE NUMBER 000-32635

GROUP MANAGEMENT CORP
(Exact name of registrant as specified in its charter)

DELAWARE	59-2919648
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12503 EXCHANGE BOULEVARD, SUITE 554 STAFFORD, TEXAS	77477
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (281) 242-4744

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No.

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No.

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of September 5, 2002, there were 7,263,421 shares of common stock issued and outstanding.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT
(check one):

Yes _____ No __X__ .

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PART I

EXPLANATORY NOTE

Included in this Quarterly Report on Form 10-QSB is a consolidated balance sheet of Group Management Corp as of June 30, 2002, and the related consolidated statements of operations for the three and six month periods ended June 30, 2002 and 2001, and statements of cash flows for the six month periods ended June 30, 2002 and 2001.

The Company elected to list its 88.5% owned subsidiary, Swan Magnetics, Inc. (Swan) as an unconsolidated affiliate because it was precluded from obtaining the necessary information to allow a consolidated financial filing due to Swan's former CEO withholding financial records, making control impractical. Litigation has been initiated to gain control of the books and records. On February 26, 2002, the Company terminated Kim as the President and Chairman of the Board of Swan. In March 2002 the Company sold its interest in Swan to Lumar Worldwide, Inc.

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the "Exchange Act"). These statements are based on management's beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading "Management's Discussion and Analysis of Financial Condition or Plan of Operation." Forward-looking statements also include statements in which words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "consider" or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company's future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

ITEM 1 FINANCIAL STATEMENTS

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GROUP MANAGEMENT CORP.
BALANCE SHEET (UNAUDITED)
JUNE 30, 2002

ASSETS	
CURRENT ASSETS	
Cash	$ 103,522
Accounts receivable - net of $15,000 allowance for bad debts	4,001
Due from shareholders	46,000
Inventories	60,635
Total current assets	214,158
PROPERTY AND EQUIPMENT, AT COST	
Equipment	225,205
Office furniture and fixtures	192,973
Leasehold improvements	170,381
Automobiles	41,857
Less: Accumulated depreciation	(293,325)
	337,091
NOTE RECEIVABLE - LUMAR WORLDWIDE	2,500,000
OTHER ASSETS, NET	256,737
Total assets	$ 3,307,986
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 932,640
Notes payable	5,101,169
Total current liabilities	6,033,809
DEFERRED REVENUE	2,500,000
SHAREHOLDERS' EQUITY	
Common stock, par value $.002, 150,000,000 shares authorized, 5,051,679 shares issued and outstanding	10,104
Additional paid in capital	34,847,973

Accumulated deficit	(40,083,900)
Total shareholders' equity.	(5,225,823)
Total liabilities and shareholders' equity.	$ 3,307,986

See accompanying note.

GROUP MANAGEMENT CORP.
STATEMENTS OF OPERATIONS (UNAUDITED)

	FOR THE SIX MONTHS ENDED JUNE 30		FOR THE THREE MO JUNE 30	
	2002 (UNAUDITED)	2001 (UNAUDITED)	2002 (UNAUDITED)	(U
REVENUES:				
Sales	$ 120,763	$ 427,595	$ 76,421	$
Total revenues.	120,763	427,595	76,421	
COSTS AND EXPENSES:				
Cost of goods sold.	81,587	336,706	34,398	
Selling, general and administrative . . .	1,566,459	11,230,283	209,059	
Loss on investment in Cybercoupons, Inc..	0	2,700,000	0	
Depreciation and amortization expense . .	75,000	27,028	37,500	
Interest expense.	22,060	494,422	10,669	
Total costs and expenses.	1,745,106	14,788,439	291,626	
NET INCOME (LOSS)	$ (1,624,343)	$ (14,360,844)	$ (215,205)	$(
BASIC AND FULLY DILUTED NET LOSS PER SHARE.	$ (0.37)	$ (5.65)	$ (0.04)	$
WEIGHTED AVERAGE NUMBER OF SHARES	4,434,872	2,542,908	4,875,679	

See accompanying note.

GROUP MANAGEMENT CORP.
STATEMENTS OF CASH FLOWS (UNAUDITED)

	FOR THE SIX MONTHS ENDED JUNE 30		FOR THE TH
	2002	2001	2002

	(UNAUDITED)	(UNAUDITED)	(UNAUDITE
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)	$ (1,624,343)	$ (14,360,844)	$ (215,20
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:			
Bad debt expense	36,000	2,700,000	
Depreciation and amortization.	75,000	27,028	37,50
Stock based compensation	1,100,762	8,900,089	56,40
Changes in operating assets and liabilities:			
Accounts receivable.	2,544	(110,590)	(2,72
Inventory.	28,551	16,097	28,16
Accounts payable and accrued expenses.	67,021	69,380	35,00
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.	(314,465)	(2,758,840)	(60,85
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment	(100)	(139,644)	
Notes receivable	0	(113,857)	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES.	(100)	(253,501)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock	250,000	42,500	
Related party.	0	(39,000)	
Notes payable.	70,176	2,987,811	56,55
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.	320,176	2,991,311	56,55
Increase (decrease) in cash	5,611	(21,030)	(4,30
Cash at beginning of period.	97,911	288,439	107,82
Cash at end of period.	$ 103,522	$ 267,409	$ 103,52

See accompanying note.

GROUP MANAGEMENT CORP
FORM 10-QSB

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10 and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required for generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six- and three-month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2001.

ITEM 2 MANAGEMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Our independent accountant included an explanatory paragraph in their report, stating that the audited financial statements of Group Management Corp for the year ending December 31, 2001 have been prepared assuming the company will continue as a going concern. They note that the Company's continued existence is dependent upon its ability to generate sufficient cash flows from operations to support its daily operations as well as provide sufficient resources to retire existing liabilities and obligations on a timely basis. We have continued losses from operations, negative cash flow and liquidity problems. These conditions raise substantial doubt about our ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability of reported assets or liabilities should we be unable to continue as a going concern.

We have been able to continue based upon loans from institutional investors and our subsidiaries, and the financial support of certain of our stockholders. Management believes that actions presently being taken to revise our operating and financial requirements provide the opportunity for us to continue as a going concern. Management is presently investigating potential financing transactions and acquisitions that management believes can provide additional cash for the operations and be profitable in both the short and long-term. Management also intends to attempt to raise funds through private sales of our common stock. Although management believes that these efforts will enable us to meet our liquidity needs in the future, there can be no assurance that these efforts will be successful.

RESULTS OF OPERATIONS

Revenue

Total revenues for the three months ended June 30, 2002 were $76,421 as compared to $246,096 for the three months ended June 30, 2001. This decrease was due to a decrease in product sales in the Company's GeeWhiz division, which constituted substantially all of the revenues for the three months ended June 30, 2001, and further a result of management's change in focus to the human resource services industry.

Costs and Expenses

Cost of goods sold was $34,398, or approximately 45% of sales, for the three months ended June 30, 2002, as compared to $215,793, or approximately 88% of sales, for the three months ended June 30, 2001. The decrease in cost of goods sold reflects lower sales for the period.

General and administrative expenses were $209,059 for the three months ended June 30, 2002, a decrease of approximately 97% as compared to $8,736,035 for the three months ended March 31, 2001. This decrease was attributable to a decrease of over $7,310,952 in stock based compensation, and our overall decreased sales activity.

Total costs and expenses were $291,626 for the three months ended June 30, 2002, as compared to $8,989,009 for the three months ended June 30, 2001. This decrease of over 97% reflects a decreased cost of goods sold and general and administrative expenses, as discussed above.

Net Losses

The net loss for the three months ended June 30, 2002 was $215,205 as compared to $8,742,913 for the three months ended June 30, 2001. The primary cause of this approximately 97% decrease is the decrease in total costs and expenses, discussed above.

LIQUIDITY AND CAPITAL REQUIREMENTS

Net cash used in operating activities was $60,857 for the three months ended June 30, 2002, as compared to $1,276,762 for the three months ended June 30, 2001, a decrease of over 95%. We had $103,522 in cash at June 30, 2002, a decrease of $4,303 during the quarter.

Our net cash provided by financing activities was zero for the three months ended June 30, 2002.

At June 30, 2002, our current assets were $214,158, while our current liabilities were $6,033,809. Total current liabilities consists of $932,640 in accounts payable and accrued expenses, and $5,101,169 in notes payable.

We are presently seeking to obtain alternative financing to repay the outstanding note hodlers. If we are not able to obtain alternative financing and the note holders are successful in their action to collect on the notes, we would be unable to make payment in full on the notes and would consider all strategic alternatives available to us, possibly including a bankruptcy, insolvency, reorganization or liquidation proceeding or other proceeding under bankruptcy law or laws providing for relief of debtors. It is also possible that one of these types of proceedings could be instituted against us.

Management has taken steps to revise our operating and financial requirements to accommodate our available cash flow, including the temporary suspension of management and certain employee salaries. As a result of these efforts, management believes funds on hand, cash flow from operations and additional issuance of common equity will enable us to meet our liquidity needs for at least the short-term foreseeable future. We need to raise additional cash, however, in order to satisfy our proposed business plan, to meet obligations, and expand our operations. Management is presently investigating potential financing transactions and acquisitions that management believes can provide additional cash for our operations and be profitable long-term. Management also intends to attempt to raise funds through private sales of our common stock. Although management believes that these efforts will enable us to meet our liquidity needs in the future, there can be no assurance that these efforts will be successful.

In the opinion of the Company's management, lawsuits currently pending or threatened against the Company, unless dismissed or settled within a short period of time, will have a material adverse effect on the financial position and results of operations of the Company because the Company does not have the cash flow to continue to fund defense costs. Management is currently reviewing several strategies for continuing to fund defense costs while at the same time funding the development of the Company. Such strategies may include selling some or all of the Company's current assets, acquiring one or more businesses with positive cash flow, or filing for bankruptcy protection. No decisions have been made as of this time.

PART II

ITEM 1 LEGAL PROCEEDINGS

There have been no material developments to the legal proceedings described in our Form 10-QSB for the quarter ended March 31, 2002, filed with the Commission on May 24, 2002.

In the ordinary course of business, the Company is from time to time involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon the financial condition and/or results of operations of the Company.

In the opinion of the Company's management, matters currently pending or threatened against the Company, unless dismissed or settled within a short period of time, will have a material adverse effect on the financial position and results of operations of the Company because the Company does not have the cash flow to continue to fund defense costs. Management is currently reviewing several strategies for continuing to fund defense costs while at the same time funding the development of the Company. Such strategies may include selling some or all of the Company's current assets, acquiring one or more businesses with positive cash flow, or filing for bankruptcy protection. No decisions have been made as of this time.

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2002, the Company issues 2,600 shares of common stock to two investors for total proceeds of $700. The issuances were exempt pursuant to Section 4(2) of the Securities Act of 1933, and the shares were restricted in accordance with Rule 144.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

There have been no events which are required to be reported under this Item.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no events which are required to be reported under this Item.

ITEM 5 OTHER INFORMATION

Effective July 15, 2002, the Company changed its principal business address to 12503 Exchange Boulevard, Suite 554, Stafford, Texas 77477, telephone number (281) 242-4744.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 23.1 Consent of Wrinkle, Gardner & Company, P.C.
- 99.1 Certification as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On May 2, 2002, the Company filed a Current Report on Form 8-K describing the circumstances surrounding the listing of its subsidiary, Swan Magnetics, Inc., as an unconsolidated affiliated due to the lack of financial information for Swan.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: September 6, 2002

Group Management Corp

/s/ Elorian Landers

By: Elorian Landers
Its: Chief Executive Officer