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

Form 10-KSB/A

Annual Report Pursuant to Section 13 or 15 (d) of
the Securities Exchange Act of 1934
For the fiscal year ended July 31, 2000
Commission file number 0-21019

INNOVATIVE MEDICAL SERVICES
(Exact name of registrant as specified in its charter)

California	33-0530289
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1725 Gillespie Way, El Cajon, California 92020
(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number: (619) 596-8600

Securities registered pursuant to Section 12(b) of the Act:

None
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Class A Warrants
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. [X]

State issuer's revenues for its most recent fiscal year: $1,661,462

State the aggregate market value of the voting stock held by non-affiliates of the registrant: Approximately $15,181,557 as of October 25, 2000.

Indicate the number of shares outstanding of each of the issuer's classes of common stock: 5,982,728 shares of common stock as of October 25, 2000.

Documents incorporated by reference: Exhibits to Form SB-2 Registration Statement File # 33-00434
Part III of this report is incorporated by reference from the Registrant's

Proxy Statement to be filed on or before
November 29, 2000.

Explanatory note on amendment

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

- Description of Business
- Legal Proceedings
- Management's Discussion and Analysis of Financial Condition and Results of Operations
- Financial Statements
- Notes to Financial Statements
- Management
- Security Ownership of Management
- Executive Compensation
- Related Transactions
- Signatures
- Exhibits

PART I

ITEM 1. DESCRIPTION OF BUSINESS
Company Overview

Innovative Medical Services (the Company) began as a provider of pharmaceutical water purification products. Although the Company's current revenues are still primarily from the pharmacy industry, the Company has expanded from its niche pharmacy market into other, broader markets with new products, including residential and commercial water filtration systems, health and wellness-related retail merchandise, e-commerce products, and silver ion bioscience technologies.

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

The Company's Nutripure(R) line of water treatment and filtration systems includes the Nutripure 3000S-Series whole-house water softening systems, the Nutripure Elite reverse osmosis point-of-use systems, the Nutripure 2000 countertop water filtration system and the Nutripure Sport filtered sport bottle.

The Company distributes its various Nutripure products in several ways, including retail sales, catalogue placement, business-to-business sales, internet promotion and in-home sales presentations.

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

Innovative Medical Services has obtained worldwide manufacturing and marketing rights for advanced silver ion technologies. . The EPA registration for use of Axenohl(TM) and Axen(TM) as hard surface disinfectants has been issued, and the Company plans to pursue additional EPA, USDA and FDA regulatory approvals for other applications Additional possible uses for this product include wound care, topical infection care, and personal disinfecting retail products, which may require FDA approvals as well as municipal water treatment, point-of-use/point-of-entry water treatment products, which may require additional EPA approvals.

Competition

Although the Innovative Medical Services has only one known competitor in its pharmaceutical water purification market, the Company faces very strong competition in the residential water treatment markets where many large, long-established competitors currently hold most of the market share and have the capital resources available to invest in large national marketing campaigns.. The market for Axenohl is highly competitive because the Company must work to displace traditional disinfecting technologies sold by well-known international industry leaders. The market is similar for RoachX. Although recent changes in EPA regulations may ease the Company's ability to enter the market, ongoing strong market presence of existing pesticide companies may make it difficult to compete. The online marketing arena is highly competitive, and with the Company's minimal promotion of Nutripure.com, revenues are not expected to be realized in the foreseeable future. The Company recognizes that innovative marketing methods are required in such competitive markets. The Company works to focus on the high quality and value price of its products in their markets.

History

Innovative Medical Services was incorporated in the State of California on August 24, 1992, to pursue the immediate business of manufacturing and marketing the Fillmaster and subsequently a broadly based business of delivering advanced technology, equipment and supplies to not only the pharmacy industry, but also other healthcare markets and to retail consumers.

In the past four years, Innovative Medical Services transitioned from a one-product company supplying a niche market to a multi-division company managing new products and programs. In addition to expanding the Fillmaster product line with the Fillmaster 1000e and the Scanmaster, the Company launched a line of residential water treatment and filtration products and several other health related retail products. The Company distributes many of the new products through distribution channels established by sales of Fillmaster Systems to retailers. The Company also launched a strong e-commerce initiative and entered the bioscience arena with its silver ion disinfecting technologies.

In October 1998, Innovative Medical Services acquired AMPROMED, Rio de Janeiro, Brazil, and certain assets of Export Company of America Inc. (EXCOA), Fort Lauderdale, FL, and established a new Nevada corporation to hold and operate the export/import operation. AMPROMED's primary business is the sale of medical, dental and veterinary disposable products. In addition to medical supplies, Innovative Medical Services plans to distribute water treatment and silver ion products to Brazil through AMPROMED.

In December 1999, Innovative Medical Services formed a wholly owned subsidiary, Nutripure.com, to capitalize on internet commerce opportunities focusing on health and wellness. In January 2000, the Company began the process to spin off Nutripure.com as a separate public company. During the intervening time, adverse market conditions for solely internet-based ventures have eroded Management's confidence in the viability of a public market for Nutripure.com common stock. Therefore, in October 2000, the Company's Board of Directors elected to retain Nutripure.com as an operating division of Innovative Medical Services in order

to minimize the substantial administrative expense associated with launching and operating a public company.

Principal Products and Markets

WATER TREATMENT DIVISION

Pharmaceutical Water Treatment
Fillmaster(R) The Fillmaster dispensing apparatus, connected to the Pharmapure(R) reverse osmosis water filtration system, provides measured amounts of "Purified Water" as defined by the United States Pharmacopoeia, ("USP") for reconstitution of liquid oral antibiotics and certain other pharmacy applications. Pharmapure is a six-stage water purification unit featuring an electronic water purity testing module and an auxiliary faucet for dispensing purified water. Fillmaster is a calibrated volumetric measuring and dispensing apparatus. The entire system (the "Fillmaster System") integrates with the building's tap water plumbing and is closed and pressurized to prevent contamination.

The Fillmaster System saves time and money for pharmacies. According to the Company's testing, the Fillmaster has a fill rate at least three times that of previous bottle-and-hose methods, and direct and indirect costs associated specifically with bottled water are reduced or eliminated. Pharmacy storage space can be reallocated to more profitable items, labor savings accompany the efficiencies, and the expense of bottled water purchases of up to $1.25 per gallon is replaced by one annual filter change. Under optimum usage, a pharmacy reduces the cost of "purified water" to approximately $.04 per gallon.

In addition to efficiency and cost savings, the Fillmaster System increases prescription integrity by greatly reducing the possibility of human error while dispensing prescriptions. The patented Fillmaster 1000e employs multiple microprocessors to provide accurate and even-flow dispensing. The Company sells Fillmaster 1000e dispensers as an upgrade to existing installations and as a component of new installations. The Scanmaster, launched in August 1999, is a pager-sized, modular upgrade to the Fillmaster 1000e. A user simply scans a prescription's NDC bar code in front of the dispenser, and the Fillmaster 1000e displays the product name and required water quantity. The Fillmaster System then dispenses the prescription with one touch of a button. The advanced technology of the Fillmaster 1000e computerized dispenser and the Scanmaster bar code reader ensures accuracy of measurement and assurance of compliance to minimize liability.

This is a finite, niche market in which the Company's significant customers to date consist primarily of domestic retail chain pharmacies. There are approximately 72,000 pharmacies in the United States and Canada, with many thousands more worldwide. Water-mixed antibiotic prescriptions, for which the Fillmaster is primarily used, make up approximately 12.6% of a pharmacy's total prescriptions and approximately 20% of a pharmacy's gross profit. The Company has installed over 20,000 Fillmaster dispensers in pharmacies across the nation, including Wal-Mart, Walgreens, Albertson's/American Stores, Eckerd, Fred Meyer, Target, CVS, Kroger, Smith's Food and Drug, Longs Drugs, Rite-Aid, Drug Emporium, Fry's, Hi-School Pharmacies, H-E-B, Fleming, Giant and Snyders. Also included in the customer base are many United States Military Clinics, including Bethesda Naval Hospital; the Kaiser Foundation for Medical Care; the Mayo Clinic and several hundred Independent and Hospital Pharmacies.

Fillmaster(R) System Filters The Company also markets unique and proprietary NSF certified filter replacements for the Fillmaster's Pharmapure water purification system, which require changing at intervals of approximately 12 months or sooner as indicated by the purity testing module. The filter replacements represent a

significant continuing source of revenues to the Company.

Customer Service Plan 2000(TM) Innovative Medical Services offers outstanding service to its pharmacy customers with its exclusive Customer Service Plan 2000 (CSP 2000). The CSP 2000 provides an unlimited warranty on all Innovative Medical Services pharmacy products, regardless of age or quantity; significant discounts on maintenance item costs; free software upgrades for the Fillmaster 1000e and Scanmaster; a secure web site that allows pharmacy customers to monitor history, scheduled maintenance and account status; automatic replacement filter shipments; and simplified, annual invoicing. Motivated by the cost savings and the extended warranty coverage, most of the Company's chain customers have entered into multi-year contracts for the CSP 2000.

Residential Water Treatment Products

Nutripure(R) 3000S Series Innovative Medical Services' Nutripure Water Dealer Program program offers existing independent water treatment dealers a line of residential water softening and other point-of-use water treatment equipment for sale to the public under IMS' Nutripure brand. In addition, the program provides complementary, industry-unique financing that extends credit to consumers for the purchase of water treatment equipment from participating dealers. The Company realizes revenues from both the sale of Nutripure equipment and the financing.

The Nutripure 3000S-Series whole-house water softening systems, like most water softening systems on the market, are typically professionally installed in a customer's basement or garage and require electricity. The Nutripure water softening systems, comprised of a resin tank, brine tank and controller, extract minerals from the water through an ion exchange process. Nutripure 3000 systems are often installed in conjunction with Nutripure Elite systems.

IMS formed alliances with independent dealer groups, finance companies and leading equipment component manufacturers to create a marketing program to sell and finance whole-house water treatment systems through existing dealers. The elite marketing strategy provides consumers and independent dealers a name and image they can trust. Combined with proven in-home marketing practices, this strategy provides a powerful advantage to the Nutripure direct sales force. The Nutripure 3000S Series is top-of-the line equipment that ensures excellent performance, customer satisfaction and no-hassle installation and aftermarket maintenance. The programmable systems come equipped with microprocessors and electronic water meters to monitor daily water usage and provide automatic, demand-based water conditioning. An electronic memory stores operating system information, and battery backup keeps it current if power is lost. Dealers can dramatically bolster their sales results by promoting the professional image and excellent reputation of the Nutripure brand name.

Nutripure(R) Elite The Nutripure Elite line of residential drinking water systems combines high-quality reverse osmosis technology with carbon filtration to improve the taste, smell, quality and safety of standard tap water. Reverse osmosis is a water treatment process that removes contaminants from water by using pressure to force the water molecules through a semi-permeable membrane. Carbon (also referred to as activated carbon) is a water treatment medium commonly used for dechlorination and for reducing trace and soluble materials from water. The Company believes its drinking water systems provide excellent reverse osmosis technology at a moderate price, and are therefore strong value purchases. Incorporating the same filtration technology as the Company's Fillmaster pharmaceutical water purification system, Nutripure Elite systems provide healthy, safe and great tasting drinking water.

The Nutripure Elite reverse osmosis filtration system is comprised of a storage tank, a faucet and a water filtration apparatus which includes a sediment

filter, pre- and post-carbon filters and a reverse osmosis membrane. Nutripure Elite requires neither professional installation nor electricity to operate. The Nutripure Elite system filters to .001 micron and reduces heavy metals, chemicals and microorganisms, such as cryptosporidium and giardia, as well as reducing bad taste and odor from drinking water. A micron is measurement unit equal to one millionth of a meter. Micron measurements are applied to water filtration systems to indicate the particle size at which suspended solids larger than that size will be removed.

The Company distributes Nutripure Elite systems through independent pharmacists, providing them an exclusive health product dealership with a high profit margin. Although the market for water systems is quite competitive, the pharmacists' recommendation of a system they use in their pharmacies to reconstitute prescriptions sets Nutripure apart from all other residential drinking water systems. The Company's direct sales force of independent water treatment dealers also distributes the Nutripure Elite system in conjunction with sales of the Nutripure 3000S Series water softening equipment.

Nutripure(R) Elite Filters The Company also markets unique and proprietary filter replacements for the Nutripure Elite residential drinking water systems that require changing every 12 months.

Nutripure(R) 2000 Innovative Medical Services entered the retail venue with its Nutripure 2000 Countertop Water Filtration System. Nutripure 2000, developed specifically for mass merchandising, offers excellent water filtration technology at competitive pricing through a unique marketing approach. Nutripure's professional one-micron, carbon microfilter reduces dirt, chemicals, lead and parasites to improve the taste, quality and safety of tap water. . The product has been tested by Spectrum Laboratories to meet or exceed ANSI/NSF Standard No. 53 Health Effects and ANSI/NSF Standard No. 42 Aesthetic Effects.

The Nutripure 2000 requires no assembly and mounts directly to a faucet.Nutripure 2000 features a 2,000-gallon capacity filter, an automatic bypass shutoff valve, an electronic monitor that reminds users when to change the filter, and an exclusive filter design that prevents leaking and contamination because water flows only through the completely sealed filter cartridge.

Innovative Medical Services distributes Nutripure 2000 through retail outlets and catalogues in the United States and Canada. In many cases, product placement is established through existing channels of distribution in retail chains that use Fillmaster equipment in their pharmacies.

Nutripure(R) 2000 Replacement Filters The Company also manufactures and markets replacement filters for the Nutripure 2000 water system. The Nutripure 2000 contains a 2,000-gallon filter that must be changed every year.

Nutripure(R) Sport Filtered Sport Bottle The Nutripure Filtered Sport Bottle, also offered as a private label or premium item, provides clean, great-tasting water for on-the-go consumers. The Nutripure Filtered Sport Bottle features a small carbon filter at the bottom end of the plastic straw so that, as the consumer drinks through the straw, the water is drawn up through the filter. An innovative alternative to buying expensive bottled water, Nutripure Sport filters an average of approximately 30 microns, reducing sediment and chlorine, and can be refilled 60 times before an inexpensive filter change is required. The Nutripure Sport program provides recurring revenue through sales of the replacement filter twin pack. Nutripure Sport Bottles offer excellent margins and high-impact merchandising, including hot colors and small-footprint shipper/floor displays.

RETAIL PRODUCTS DIVISION

Medifier(TM) The Company also markets the Medifier, a unique patented universal prescription bottle label magnifier. The Medifier holds various sized prescription bottles in position under a magnifier strip that enlarges dosage and use instructions to a clearly readable size. The Medifier is distributed through Innovative Medical Services' existing sales channels, as well as through catalogue sales and promotional products distributors.

Nutripure(R) Lancets Nutripure Lancets for diabetic glucose testing combine superior design technology and customer satisfaction with maximized margins. The 100-count box of sterile-tip, one-time use lancets provides retailers with ongoing profitability.

Nutripure(R) Antibacterial Hand Soap Nutripure Antibacterial Hand Soap is a hypoallergenic, all natural, gentle hand soap that provides excellent antibacterial protection in a luxurious formula containing goat's milk and coconut oil to smooth and soften dry skin. Available in attractive 8oz. pump dispenser bottles and 30 oz. refills, Nutripure Antibacterial Hand Soap provides superior quality and big profits compared to leading national brands.

Nutripure(R)Antibacterial Hand Sanitizer Nutripure Antibacterial Hand Sanitizer provides gentle, long-lasting protection from germs. Available in 4oz. and 8 oz. bottles, Nutripure Hand Sanitizer will maximize sales in the growing antibacterial personal products category.

E-COMMERCE DIVISION

Nutripure.com(R) The Company operates Nutripure.com, an e-commerce website providing consumers a wide variety of vitamins, minerals, nutritional supplements, homeopathic remedies and natural products. In addition to products, the website offers comprehensive health and wellness information in an easy-to-access, intuitive reference format. The website also presents the Nutripure 2000 water filtration system.

Nutripure.com has formed a strategic alliance with Bergen Brunswig Corporation to provide a seamless online interface for efficient, direct-to-consumer distribution of products through Bergen Brunswig's strategically located state-of-the-art distribution facility in Louisville, Kentucky. The alliance combines the strengths of Nutripure.com's aggressive sales, marketing and customer support programs with Bergen Brunswig's leadership, buying power and order fulfillment and delivery system.

BIOSCIENCE DIVISION

Axenohl(TM) Innovative Medical Services obtained worldwide manufacturing and marketing rights to Axenohl and Axen(TM), advanced silver ion technologies. Axenohl is a patent-pending, non-toxic aqueous disinfectant. Based upon proprietary ionization stabilization technology, Axenohl does not include the use of traditional disinfectants such as quaternary ammonium salts, phenols, glutaraldehyde, chlorine or bromine compounds. Axenohl enhances the disinfection properties of halogens (chlorine) at reduced levels and is a cost effective, stand alone alternative to halogens in many markets where conventional disinfection methodologies are employed.

The Company obtained its worldwide manufacturing and marketing rights to Axen from NVID International, Inc., in a License Agreement dated November 24, 1999 and a Manufacturing, Licensing and Distribution Agreement dated March 26, 2000 which supersedes the November 1999 Agreement.

In November, 2000, the Company closed an acquisition agreement whereby it

acquired all of the outstanding common stock of ETIH20, Inc., in exchange for 51,240 shares of its common stock and employment agreements with Andrew Arata and George Duren, the executive officers of ETIH2O, Inc.

The EPA registrations for Axen and Axenohl as hard surface disinfectants were granted in June of 2001. The Company plans to pursue FDA approval in the future, but no applications have been made to date. The Company is currently researching the FDA approval process and plans to hire an experienced FDA consultant to assist with the process. With EPA approval the potential uses of Axen could make dramatic improvement in retail hard surface disinfecting products as well as in disinfecting hard surfaces in hospital ERs, surgeries, laboratories, dental and medical offices. The Company has funded testing with the United Stated Department of Agriculture for use of Axenohl in poultry processing. The USDA reported that the testing was to be completed in June, and the Company is awaiting the final report that will document the testing results. Additional potential applications for this product include wound care, topical infection care, and personal disinfecting retail products, which may require FDA approvals as well as municipal water treatment, point-of-use/point-of-entry water treatment products, which may require additional EPA approvals..

The Company has developed equipment to dispense Axen in measured doses to municipal, commercial and point-of-use water supplies to kill bacteria, viruses and fungi originating from the water source or the delivery infrastructure.

Upon receiving appropriate approvals, the Company plans to launch a consumer line of products featuring Axen. The first products to be introduced will be the improved Nutripure antimicrobial soap and hand sanitizer featuring Axen. The Company has also established a line of veterinary products featuring Axen including antimicrobial shampoo, hoof spray, wound salve, and stall and kennel spray.

In July 2000, the Company formed a Scientific Advisory Board to assist Management with its new Bioscience division and all aspects of the development and identification of uses for the Division's new products. The first product under review is Axenohl. The Advisory Board will specifically examine the potential uses and avoidance of toxicity as well as support Management's efforts to obtain governmental approvals for Axen. Management expects the leadership and experience of the members of the Scientific Advisory Board to play a key role in moving Axen-containing products to market. The Company is investing aggressively in Axen because it believes Axen, of all the Company's new products, carries the greatest potential for explosive growth into very profitable, worldwide markets.

Competition

Although the Innovative Medical Services has only one known competitor in its pharmaceutical water purification market, the Company faces very strong competition in the residential water treatment markets where many large, long-established competitors currently hold most of the market share and have the capital resources available to invest in large national marketing campaigns.. The market for Axenohl is highly competitive because the Company must work to displace traditional disinfecting technologies sold by well-known international industry leaders. The market is similar for RoachX. Although recent changes in EPA regulations may ease the Company's ability to enter the market, ongoing strong market presence of existing pesticide companies may make it difficult to compete. On June 8, 2000, the United States EPA reclassified the Dow Chemical product Dursban (also sold as Lorsban). Over 800 products containing the organophosphate pesticide chlorpyrifos are reclassified and now may only be sold in a significantly diluted form. Sales of original, stronger formulations of such products to retailers ended February 1, 2001, and retailers must remove the products from shelves by December 31, 2001. The current

formulations are also banned for commercial and agriculture professionals as of December 31, 2000. Professional pest control companies must use a 100 to 1 diluted version of the current product strength and obtain a waiver of responsibility from the home or business owner. As of June 6, 2001, the product underwent a further 10 to 1 dilution, creating a 1000 to 1 diluted treatment. The online marketing arena is highly competitive, and with the Company's minimal promotion of Nutripure.com, revenues are not expected to be realized in the foreseeable future. The Company recognizes that innovative marketing methods are required in such competitive markets. The Company works to focus on the high quality and value price of its products in their markets.

Patents and Intellectual Property

Most of the components used by the Company are products patented by other companies, and all of those components are similar to other equipment available through multiple manufacturers. However, the Company owns patents on Medifier and the Fillmaster 1000e Electronic Dispenser and has a patent application pending for Roach X.

The Medifier patent, which expires in March 2010, protects a device for use as a magnifying implement which has a housing member designed to accommodate prescription bottles of various popular sizes therein in a fixed position. A longitudinally moveable magnifying lens slideably mounted in the housing member is utilized to magnify the print contained on an instruction label located on the side of the prescription bottle. Alternate embodiments allow different size medicine bottles to be alternately mounted in concentric fashion, or with the side of the medicine bottles facing the lens in a fixed position.

The Fillmaster 1000e patent expires in August 2017 and protects a method and apparatus for dispensing fluids in response to a user request for a specified amount of the fluid. A microprocessor opens and closes a fluid port for predetermined amounts of time to control the amount of fluid dispensed. The microprocessor monitors the elapsed time and the amount of fluid that has been dispensed since the last time the filter was serviced. In one preferred embodiment, the amount of fluid that is dispensed is measured by continuously monitoring the volume of fluid flowing through the apparatus. A pressure measurement device allows the microprocessor to monitor the fluid pressure. The microprocessor prevents fluid from being dispensed if the pressure is not within a predetermined range of tolerances. The fluid port is opened and closed by activating and deactivating a solenoid. A keypad allows the user to input the amount of fluid that is to be dispensed. A "Wait" period is imposed between the time that the user initiates the first stage and the time the user may initiate the second stage. The microprocessor does not open the fluid port if a "Failure" condition exists. An LCD is provided to display the amount of fluid that the user has requested. In an alternative embodiment, a bar code scanner or other input device allows the user to automatically input the amount of fluid that is to be dispensed.

A patent application for RoachX was filed in February 1998 to protect a nonaqueous form of insecticide consisting of a desiccant, preferably boric acid, with additional ingredients for binding, stability and target insect attraction.

The Company has licensed patented Axenohl/Axen silver ion technology from NVID International, Inc. The patent for Axenohl/Axen expires in March 2018 and protects a non-toxic environmentally friendly aqueous disinfectant for specific use as prevention against contamination by potentially pathogenic bacteria and virus. The aqueous disinfectant is formulated by electrolytically generating silver ions in water in combination with a citric acid. The aqueous disinfectant may include a suitable alcohol and/or a detergent.

The Company obtained its worldwide manufacturing and marketing rights to

Axen/Axenohl from NVID International, Inc., in a License Agreement dated November 24, 1999 and a Manufacturing, Licensing and Distribution Agreement dated March 26, 2000 which supersedes the November 1999 Agreement.

The November 1999 license agreement granted the Company a three year marketing and distribution license for the following markets:

Point of Use Market, defined as water purification and disinfectant systems for consumer and commercial use. Worldwide exclusive rights.

Healthcare Market, defined as all water purification and disinfectant systems for hospitals, clinics, surgical centers, doctors' offices or other similar medical or health related facilities, including military medical and health facilities. Exclusive rights for Australia, North, Central and South America and non-exclusive rights for Costa Rica, Mexico and other world markets.

Food Processing Market, defined as water purification and disinfectant systems for commercial human or animal food preparation or processing operations. Exclusive rights for Australia, North, Central and South America and non-exclusive rights for Costa Rica and other world markets.

Dental Market, defined as water purification and disinfectant systems for use by dentists and oral surgeons. Worldwide exclusive rights.

The Company was obligated to begin paying a licensing fee of $70,000 to NVID at the rate of $10,000 per month one month after the Company begins selling Axenohl in the Point of Use or Healthcare Markets. As the Company had not begun sales in these markets prior to the superceding March 2000 agreement, payment of the licensing fee has not begun. The Company was also obligated to pay up to $20,000 to NVID and $50,000 to the third party laboratory conducting the EPA certification testing and $29,500 to the Department of Agriculture for a one year research and testing agreement. The Company has made these payments as well as funding all other testing expenses. The Company is also obligated to pay a royalty to NVID equal to fifteen percent of the manufactured cost of Axenohl sold pursuant to the agreement and up to twenty percent of any licensing fees the Company receives granting licenses to use Axenohl in the Food Processing Market. The agreement automatically renews for additional three year terms provided there have been no breaches of the agreement which have not been cured within thirty days of notice thereof.

The superseding March 2000 agreement was an agreement by and among the Company, NVID International, Inc. and ETIH2O, Inc. ETIH20, Inc. is the manufacturer of Axen/Axenohl. The agreement granted the Company an exclusive worldwide license to market and distribute Axen/Axenohl and all related products for all markets. This agreement also granted the Company the right to manufacture Axenohl in the event NVID was unable to deliver Axenohl to the Company. The agreement included the prior agreement obligations of the Company to begin paying a licensing fee of $70,000 to NVID at the rate of $10,000 per month one month after the Company begins selling Axenohl in the Point of Use or Healthcare Markets. The Company agreed to pay up to $70,000 to the third party laboratory conducting the EPA certification testing. The agreement also confirmed that the Company had paid NVID and ETIH2O approximately $80,000 which included the $29,500 which was to have been paid to the Department of Agriculture for a one year research and testing agreement. The Company originally agreed to pay the Department of Agriculture fee directly, but, subsequently, at the request of NVID, the Company paid NVID the $29,500 specifically designated for the Department of Agriculture research project. NVID acknowledged receipt of the $29,500 in the March 2000 contract. The agreement requires a royalty to NVID equal to fifteen percent of the manufactured cost of Axenohl sold pursuant to the agreement and up to fifty

percent of any licensing fees the Company receives granting licenses to use Axenohl in all markets.

In November, 2000, the Company closed an acquisition agreement whereby it acquired all of the outstanding common stock of ETIH20, Inc., in exchange for 51,240 shares of its common stock and employment agreements with Andrew Arata and George Duren, the executive officers of ETIH2O, Inc. The primary objective of the ETIH2O purchase was to acquire the testing data, manufacturing rights and capacity to Axenohl held by ETIH2O and to maintain and assure product availability and quality.

Manufacturing

The Fillmaster and Nutripure water systems are assembled primarily from custom manufactured components. It is the Company's goal to perform minor manufacturing in the Company's facility to minimize wages, equipment expense and insurance. No components of the systems have permanent or unequivocally restricted availability. Many manufacturers are available to produce the components, and a change in suppliers would result in virtually no lost production.

The original Fillmaster dispenser and the new Fillmaster 1000e dispenser are both assembled mostly from proprietary and custom parts fabricated to Company specifications from injection-molded plastic and fabricated acrylic.

The Nutripure Sport bottle, Nutripure lancets and Nutripure antibacterial hand soap and sanitizer are also assembled from proprietary and custom components manufactured under exclusive agreements with several different manufacturers. Alternative manufacturers exist, and a change in suppliers would result in virtually no lost production. There are no plans to alter production methods.

Research and Development

Research and Development costs that have no alternative future uses are charged to operations when incurred and are included in operating expenses. The total amounts charged to Research and Development expense were $114,000 and $157,000 in the fiscal years ended July 31, 2000 and 1999, respectively. The Company's investment in Research and Development during the past year resulted in the release of five major additions to the Company's product line, the Fillmaster 1000e, the Scanmaster and the Nutripure line of drinking water systems. Innovative Medical Services anticipates more new products in the coming year.

Employees

As of October 25, 2000, the Company employed thirty people, twenty-seven of whom are full-time individuals whose principal responsibilities are: product assembly and shipping (nine employees), sales, marketing and customer service (eight employees), research and development (six employees) and administration (seven employees). The Company chooses to outsource more expensive, specialized functions including public relations, graphic design and selected engineering projects.

ITEM 2. PROPERTIES

The Company's business operates in an 11,255 square foot facility located in a light industrial/office park in El Cajon, California. This location houses all administrative, executive, sales, assembly, shipping and manufacturing functions for the Company. The space is leased from an unaffiliated third party under a sixty-five month agreement commencing on July 1, 1996. The monthly rental is $0.69 per square foot plus $0.14 per square foot for maintenance of common areas. There is also a fixed yearly increase of 4%. The Company has also signed an amendment to the lease to allow for an option to lease the building for an additional five years.

ITEM 3. LEGAL PROCEEDINGS

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

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

Several of the Defendants filed Motions to Dismiss the Company's counterclaims. A hearing on the Motions was held on October 1, 1998. Certain of the Motions were granted pending the Company's amendment of its Counterclaim. The Company amended its Counterclaims in accordance with the judge's rulings. Certain Defendants filed second Motions to Dismiss the amended Counterclaims. A hearing on these latest motions was held in March 1999, before a different judge than the judge who ruled on the first motions. On April 20,1999, Orders were entered granting the Defendants' Motions to Dismiss. However these Orders did not state the basis for the Orders, nor was the Company's legal counsel provided notice of the Orders or a copy of the new judge's correspondence offering a "formal ruling" upon request. In May 1999 the Company filed an Appeal of the Orders and Motions for Reconsideration based upon inconsistency of the Orders with the previous judge's rulings and the lack of notice to the Company. The Company believes that its Appeal and Motions have merit and will be granted. In any event the Company intends to pursue a trial as soon as possible. As of October 25, 2000, no ruling has been received on the Company's Appeal.

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

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

The Company has also filed an action against Fresh Water Systems, Inc., Steven Norvell, Brian Folk and Eric Norvell in Superior Court in the State of California. The action was filed in August 2000 and amended in October 2000. The Company alleges Fresh Water Systems and it's officers and directors misappropriated trade secrets of the Company obtained from former employees of the Company, engaged in unfair competition in violation of the California Unfair

Practices Act, tortious interference with contractual relations, tortious interference with prospective business advantage, fraud, trade libel and conspiracy with regard to the Fillmaster line of products and Fillmaster customer base. The Company is seeking monetary damages and injunctive relief.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
No matters were submitted to shareholders in the fourth quarter of the fiscal year.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(1) Market Information: The Company's common stock is traded on the NASDAQ SmallCap Market under the symbol "PURE" and its Class A Warrants are traded under the symbol "PUREW". The Company's Class Z Warrants are not listed for trading on any recognized market.

(2) High and Low Bid Prices: The following table sets forth high and low bid prices for each fiscal quarter, as reported by NASDAQ, for the last two fiscal years. Such quotations represent inter-dealer prices without retail mark-ups, mark-downs, or commissions and, accordingly, may not represent actual transactions.

Fiscal 2000			Fisc
Quarter Ended	High	Low	Quarter Ended
July 31, 2000	$1.969	$1.250	July 31, 1999
April 30, 2000	$4.188	$1.594	April 30, 1999
January 31, 2000	$6.875	$1.375	January 31, 1999
October 31, 1999	$4.188	$1.500	October 31, 1998

(3) Security Holders: As of October 25, 2000, the Company had approximately 115 holders of record of its common stock, 45 holders of its Class A Warrants and 17 holders of the Company's Class Z Warrants. This does not include beneficial owners holding common stock or Class A Warrants in street name. The closing price per share on October 25, 2000 was $3.00.

(4) Dividend Plans: The Company has paid no common stock cash dividends and has no current plans to do so. In January 2000, the Company declared a dividend in kind of Nutripure.com common stock. The record date and distribution date were to be set following completion of the registration of Nutripure.com as a reporting issuer with the Securities and Exchange Commission. In October 2000, the Board of Directors of Innovative Medical Services determined that in light of adverse market conditions for solely internet-based enterprises, a public market for Nutripure.com common stock

may not be viable. Therefore, the Board amended its declaration of a Nutripure.com dividend to a dividend of Innovative Medical Services' common stock. The Company will distribute one share of Innovative Medical Services' common stock for every fifty shares held of record on November 6, 2000 with fractional shares rounded up to the nearest whole share. The stock will trade ex-dividend on November 2, 2000. Distribution, determined by NASDAQ, is anticipated for November 20, 2000.

(5) Preferred Stock: There are no shares of preferred stock presently outstanding.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are not guarantees of our future performance. They are subject to risks and uncertainties related to business operations, some of which are beyond our control. Our actual results may differ materially from those anticipated in these forward-looking statements.

The Company's objective is to maximize shareholder value by focusing on growth, product innovation and profitability. The following discussion highlights the Company's performance and should be read in conjunction with the Consolidated Financial Statements and related notes included therein.

Results of Operations Fiscal 2000 vs. Fiscal 1999

Revenues of $1,661,500 in the fiscal year ended July 31, 2000 were 51% lower than the $3,380,000 in revenues reported for the fiscal year ended July 31, 1999. Fillmaster Purification System sales in the year ended July 31, 2000 were $1,242,900 and replacement filter sales were $383,000. In the prior year, Fillmaster Purification System sales were $2,320,000 and replacement filter sales were $889,000. Sales of the Fillmaster Purification System decreased 46% over the prior period. Sales of filters decreased 57% in fiscal 2000. In fiscal year 2000, sales from other product lines were non-material. Management believes the decline in Fillmaster revenues is due to multiple factors, including the fact that the market for pharmacy products is maturing in that there is a decreasing number of pharmacy chains that do not have water filtration products, and that the Company has sold systems to most major chains. In addition, the Company is facing its first significant competitor in the pharmacy industry, FreshWater Systems. The competitor's impact on the market has affected the volume of filter replacement sales of the Company. The focus for further Fillmaster sales will be on incremental and upgrade sales to individual pharmacies within current chain accounts, although the Company is still actively pursuing Fillmaster sales to remaining chains. Management expects to close such volume sales to new chains in the coming year, and, as in prior years, those sales will result in spikes in Fillmaster revenues. The Company works to retain customers with its Customer Service Plan 2000, a multi-year service and warranty contract (please see "Principal Products and Markets"). The Customer Service Plan contracts range in duration from one to four years and have little effect on financial results. Although the Company realizes a slightly lower margin from sales of filters under the plan, the increased volume of filter sales under the plan makes up that difference.

The Company also experienced a substantial turnover in sales personnel during fiscal 2000. Sales projected by the departed personnel were not realized, and the Company subsequently established its current sales department of highly qualified and experienced sales people. In addition, Management believes a former Vice President of Sales misappropriated trade secrets and revealed them to a competitor, and that Fillmaster sales were significantly impacted by these unfair business practices (please see "Legal Proceedings"). In the last quarter of fiscal 2000, the Company began to implement a superior competitive strategy of multi-year customer service contracts and cross-marketing programs with retail products.

Gross profits for the year ended July 31, 2000 were $564,000 versus $1,936,700 in 1999. Gross profit percentage of 34% in 2000 was lower versus 57% in 1999. The decrease in gross profit percentage was largely due to fixed production and labor costs being applied to the lower sales volume for the year.

Net loss for the year ended July 31, 2000 was $1,745,400 versus net income of $260,700 for the same period in 1999. The decreased income was due to decreased sales as outlined above and to an increase in General and Administrative expenses as the Company positions for expansion into new markets with new products (Please refer to "Principal Products and Markets" and "Future Outlook" sections.) General and Administrative expenses increased $535,200 from $1,178,100 in fiscal 1999 to $1,713,300 in fiscal 2000. $200,500 of these expenses were related to Nutripure.com. $225,000 is allowance for doubtful accounts, of which $175,000 is due from Eckerd Corporation. The Company is actively seeking recovery, including taking legal action. The Company is recognizing approximately $80,000 in gain from change in accounting principal as required by a recent accounting pronouncement arising from retroactively capitalizing part of the cost of website development. Although sales decreased significantly during the year, selling expense increased approximately $250,000 as a result of the Company's recognition of market saturation and competition in the pharmacy market and its subsequent efforts to transition to a multi-dimensional company. The increased selling expenses included development of marketing materials, hiring of additional sales personnel, trade shows and product launches.

Liquidity and Capital Resources Fiscal 2000 vs. 1999

From inception through July 31, 2000, the Company has financed its operations primarily through its initial public offering in August of 1996, by a subsequent private placement in March of 2000 and by other smaller private placement stock sales. The Company has operated without long-term debt and has no plans to obtain long-term financing in the next twelve months. Management believes that sales from its new product lines will not provide sufficient capital resources to sustain operations and fund product development until fiscal year 2001/2002. In the short term, the Company expects to raise capital through equity sales as necessary to fund future growth until it operates above the break-even point. The Company continually evaluates opportunities to sell additional equity or debt securities, or obtain credit facilities from lenders to strengthen our financial position. The sale of additional equity or convertible debt securities could result in additional dilution to the Company's stockholders.

During the fiscal year ended July 31, 2000, the Company's current assets to liabilities ratio rose from 1.95 to 5.02. Current assets increased $680,000 from $2,114,400 to $2,794,400. Current assets at July 31, 2000 include an increase of $1,099,300 in cash and cash equivalents due to a private placement in the third quarter. Accounts receivable decreased $345,300 on lower sales volume. Inventories increased $76,200 from $720,000 in fiscal 1999 to $796,100 in fiscal 2000 on anticipated sales of new products. Noncurrent assets increased by $213,300 during the year due to an increase in patents and deferred acquisition costs related to silver ion technology purchases. Current liabilities decreased

$527,800 from $1,084,100 to $556,300. The decrease in current liabilities was the result of the Company's ability to pay down accounts and note payable by $521,600 during the period.

Cash flows used from operations were $1,557,900 in fiscal year 2000 and $556,900 in 1999. For those periods, cash flows used in investing activities were, respectively, $462,900 and $158,000 for the purchase of machinery and equipment and for website development. Cash flows from financing activities were $3,120,080 in fiscal 2000 and $688,700 in fiscal 1999. Investing activities for the current year included a decrease of $235,500 in notes payable. Also, the Company received $3,355,600 from proceeds sales of common stock.

In September 1999, the Company issued 160,000 shares of common stock to a single accredited investor for $200,000 ($1.25 per share) in a private placement of the shares offered to the one accredited investor.

In December 1999, the Company's subsidiary, Nutripure.com, issued 1,000,000 shares of common stock to accredited investors for $500,000 ($0.50 per share) in a private placement of the shares.

In March 2000, the Company issued 607,411 units, consisting of one share of common stock and one warrant to purchase an additional share of common stock at $5.25 per share on or before March 31, 2001 for $1,896,500 ($3.375 per unit) in a private placement of the units to 15 accredited investors.

In addition, approximately $759,000 was received from exercise of outstanding stock options.

Cash flows from financing activities in fiscal 1999 resulted from an increase in notes payable of $151,100 and sale of common stock of $537,600.

The total increase in cash and cash equivalents for the fiscal years ended July 31, 2000 and July 31, 1999 was $1,131,000 and $26,200.

Future Outlook

In the first quarter of fiscal year 2001, Innovative Medical Services began realizing revenues from the new Nutripure water treatment dealer program. The dealer base grows steadily, and Management believes that the program will produce notably increased revenues and earnings in the coming quarters. In addition to the ongoing expansion of the water dealer program, retail products currently in distribution are experiencing increased growth, and the Company expects to see revenue from new products and new distribution channels this year. Regarding silver ion technologies, regulatory approval is a threshold event for the Company's commercial launch of Axenohl and related products. Once approvals are received, Management expects revenues from Axenohl to rapidly and substantially develop.

Throughout the past year, Innovative Medical Services focused its resources on expanding the current and future scope of business and related growth potential. The Company's increased selling expenses and general and administrative expenses reflect the Company's transition from a niche market company that provides water purification equipment to pharmacies to an international company containing several divisions to manage new products and programs in consumer and commercial water treatment, direct-to-consumer e-commerce and retail distribution of multiple product lines. This investment has proved successful, as the Company has made great strides in product development and distribution. Although Fillmaster is the cornerstone of the Company's business, the new products have much greater growth potential.

ITEM 7 FINANCIAL STATEMENTS

MILLER AND MCCOLLOM
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Innovative Medical Services, Inc.

We have audited the accompanying consolidated balance sheet of Innovative Medical Services, Inc. as of July 31, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for the year ended July 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Previously published financial statements have been restated to recognize the impairment on certain intangible assets as described in Note 1.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Innovative Medical Services, Inc. at July 31, 2000, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted account principles.

/s/ MILLER AND MCCOLLOM

MILLER AND MCCOLLOM, CPAs
Lakewood, Colorado
September 20, 2000, except for Notes 1, 10, 14, 15 and 16 which are as of July 9, 2001.

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Steven Holland, CPA
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San Diego CA 92123
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors and Stockholders
Innovative Medical Services
El Cajon, California

I have audited the consolidated balance sheet of Innovative Medical Services as of July 31, 1999, and the related consolidated statements of income, accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted the audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Innovative Medical Services at July 31, 1999, and the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with generally accepted accounting principles.

Steve Holland
Certified Public Accountant

San Diego, California
October 25, 1999

CONSOLIDATED BALANCE SHEETS

ASSETS	July 31 2000 Restated (Note 16)	1999
Current Assets		

Cash and cash equivalents	$ 1,121,316	$ 22,056
Restricted cash	204,887	205,574
Accounts receivable, net of allowance for doubtful accounts of $ 225,000 at July 31, 2000 and $50,000 at July 31, 1999	411,322	790,166
Due from officers and employees	226,729	339,524
Inventories	796,136	719,972
Prepaid expenses	33,975	37,078
Total current assets	2,794,365	2,114,370
Property, Plant and Equipment		
Property, plant and equipment	1,056,252	805,523
Total property, plant and equipment	1,056,252	805,523
Noncurrent Assets		
Deposits	14,083	6,575
Patents and license	300,910	425,550
Goodwill	-	256,422
Other intangible assets	-	353,250
Deferred acquisition costs	202,542	53,851
Total noncurrent assets	517,536	1,095,648
Total assets	$ 4,368,152	$ 4,015,541
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 308,812	$ 594,948
Accrued liabilities	36,880	43,068
Notes payable	210,592	446,067
Total current liabilities	556,284	1,084,083
Minority interest payable	61,697	-
Stockholders' Equity		
Class A common stock, no par value: authorized 20,000,000 shares, issued and outstanding 5,942,903 at July 31, 2000 and 4,392,242 at July 31, 1999	10,018,873	6,663,318
Class A warrants: issued and outstanding 3,687,500 warrants	108,750	108,750
Accumulated deficit	(6,377,452)	(3,840,610)
Total stockholders' equity	3,750,171	2,931,458
Total liabilities and stockholders' equity	$ 4,368,152	$ 4,015,541

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended July 31	
	2000 Restated (Note 16)	1999
Net sales	$ 1,661,462	$ 3,379,984
Cost of sales	1,097,419	1,443,307
Gross profit	564,043	1,936,677
Selling expenses	595,142	356,611
General and administrative expenses	1,639,347	1,108,537
Research and development	114,756	157,049
Impairment of long lived assets	791,411	-
Total operating costs	3,140,657	1,622,197
Operating income (loss)	(2,576,614)	314,480
Other income and (expense):		
Interest income	34,763	16,631
Interest expense	(73,990)	(69,591)
Loss on abandoned assets	(40,200)	-
Total other income (expense)	(79,427)	(52,960)
Income (loss) before income taxes, minority Interest in subsidiary operations and change in accounting principle	(2,656,041)	261,520
Federal and state income taxes	800	800
Income (loss) before minority interest in subsidiary operations and change in accounting principle	(2,656,841)	260,720
Minority interest in subsidiary operations	40,103	-
Net income (loss) before cumulative		

change in accounting principle	(2,616,738)	260,720
Cumulative effect of change in accounting principle	79,896	-
Net income (loss)	$ (2,536,842)	$ 260,720
Net income (loss) per common share before change in accounting principle (basic)	(0.52)	0.06
Cumulative effect of change in accounting principle	0.02	-
Net income (loss) per common share (basic)	$ (0.50)	$ 0.06
Net income (loss) per common share before change in accounting principal (diluted)	(0.52)	0.04
Cumulative effect of change in accounting principle	0.01	-
Net income (loss) per common share (diluted)	$ (0.51)	$ 0.04

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICITS

Balance, beginning of period	$ (3,840,610)	$ (4,101,330)
Net income (loss)	(2,536,842)	260,720
Balance, end of period	$ (6,377,452)	$ (3,840,610)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended July 31	
	2000 Restated (Note 16)	1999
Cash flows from operating activities		
Net income (loss)	$ (2,536,842)	$ 260,720
Adjustments to reconcile net income to net cash provided by operating activities:		

Amortization	52,546	11,650
Depreciation	159,624	144,075
Minority interest in subsidiary operations	61,697	-
Impairment of long li assets	791,411	-
Loss on sale of assets	40,200	-
Changes in assets and liabilities:		
(Increase) decrease in restricted cash	687	655
(Increase) decrease in accounts receivable	378,843	(513,547)
(Increase) decrease in due from officers and employees	112,795	(232,606)
(Increase) decrease in prepaid expense	3,103	(25,522)
(Increase) decrease in inventory	(76,163)	(301,189)
(Increase) decrease in deposits	(7,508)	7,500
Increase (decrease) in accounts payable	(286,136)	74,971
Increase (decrease) in accrued liabilities	(6,188)	(3,992)
Net cash provided (used) by operating activities	(1,311,932)	(577,285)
Cash flows from investing activities		
Purchase of property, plant and equipment	(503,100)	(124,808)
Purchase of patent and licenses	(57,099)	(12,783)
Deferred acquisition costs	(148,691)	-
Net cash (used) in investing activities	(708,890)	(137,591)
Cash flows from financing activities		
Proceeds from debt obligations	275,436	250,058
Payments on debt obligations	(510,910)	(98,977)
Proceeds from sale of common stock	3,355,555	537,601
Net cash provided by financing activities	3,120,081	688,682
Net increase (decrease) in cash and cash equivalents	1,099,260	(26,194)
Cash at beginning of period	22,056	48,250
Cash at end of period	$ 1,121,316	$ 22,056
Supplemental disclosures of cash flow information		
Interest paid	$ 73,990	$ 69,591
Taxes paid	$ 800	$ 800
Noncash investing and financing activities:		
Acquisition of subsidiary - purchase price paid in prior period		$ 1,091,393

Innovative Medical Services
Notes to Consolidated Financial Statements
See Independent Accountants' Report

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Business Activity
Innovative Medical Services was incorporated in San Diego, California on August 24, 1992. The Company was organized with the purpose of manufacturing, marketing, and selling the Fillmaster, a unique and proprietary pharmaceutical water purification and dispensing product. The Company is fully operational, with more than 15,000 customers in all fifty states, Puerto Rico, the United Kingdom, Australia, Canada, and Europe. The Company has expanded research and development efforts in order to further develop its product line to include an additional 8 proprietary pharmacy-related efficiency tools.

In October of 1998, the Company purchased the assets of Export Company of America, Inc. (EXCOA), a privately held Fort Lauderdale, Florida-based distributor of disposable medical, dental and veterinary supplies. The major asset of this company was its 45% interest in Ampromed Comercio Importacao E Exportacao Ltda (AMPROMED), a Rio de Janeiro-based import company that sells medical, dental and veterinary supplies and water filtration products to practitioners, retail outlets and government agencies. The Company acquired the remaining 55% interest in AMPROMED from a private individual. To facilitate this transaction the Company has formed EXCOA Nevada, a 100% owned subsidiary of Innovative Medical Services. This company was incorporated in Nevada. A 99% interest in AMPROMED will be held by EXCOA Nevada, with the remaining 1% of AMPROMED being owned by Innovative Medical Services. These business combinations were accounted for using the purchase method. The Company incurred $1,091,393 of acquisition costs for these two entities all of which was paid in cash. The majority of the purchase price was advanced to the previous owners in fiscal year 1998 and recorded as deferred acquisition costs until the purchase was concluded. The assets acquired and liabilities assumed are as follows:

Assets:	
Accounts Receivable	$ 32,500
Inventory	58,217
Fixed Assets	49,083
Customer List	360,000
Licenses	354,961
Goodwill	261,322
Total Assets	1,116,083
Liabilities	
Accounts Payable	24,690
Equity	$ 1,091,393

The above listed goodwill of $261,322 and customer list of $360,000 were being amortized over a period of forty (40) years. The licenses are being amortized over fifteen (15) years. The value of these assets and the amortization periods were reassessed at July 31, 2000 and adjusted as described in footnote 16.

In December 1999, the Company formed NUTRIPURE.COM as a wholly owned

subsidiary, incorporated in the state of Nevada. NUTRIPURE.COM is an e-commerce web supersite providing consumers a wide variety of vitamins, minerals, nutritional supplements, homeopathic remedies and natural products. In addition to products, the website offers comprehensive health and wellness information in an easy-to-access, intuitive reference format. The website will also present the Nutripure line of water filtration systems.

Basis of Presentation and Principles of Consolidation
The accompanying financial statements include the consolidated accounts of Innovative Medical Services and its subsidiaries. All inter-company balances and transactions have been eliminated.

Previously published financial statements have been restated to write down certain intangible assets by $791,411. The net loss for the year ended July 31, 2000 increased to $2,536,842 from $1,745,430 that was previously reported. An explanation of the detail of the adjustment is included in Note 16.

Revenue Recognition
Generally, the company recognizes income based upon concluded arrangements with customers and all events have occurred by delivery or performance. Certain income is recognized upon shipment where the sale is made f.o.b. shipping point. Customer acceptance provisions and installation procedures accompanying delivery are minor in nature, and the Company has not experienced any material expense in satisfying customer satisfaction. Revenue is recognized on sales to dealers and to pharmacists as shipped, since the Company does not sell to third party customers of the dealers and pharmacies. Software upgrades are provided free to customers resulting from implants included in products which they purchase. In a minor amount of e-commerce business conducted to date, sales are recorded on a gross basis resulting from credit card sales, the Company does not charge the customer until the product is shipped and the Company has been billed.

The Company began its program of providing financing to independent dealers in fiscal year ending July 31, 2001. Currently the financing is for equipment of other manufacturers and not the Company's products. The Company receives funds from its primary lender and disperses the funds to the dealer, less a commission charged by the Company, upon completion of the contract. The Company records a liability when the funds are received and relief of liability when funds are dispersed. The Company is recording only the commissions earned as revenues.

Software Development Costs
The Company capitalizes software development costs incurred to develop certain assets in accordance with Statement of Position ("SOP") 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Certain costs of computer software developed or obtained for internal use are capitalized and amortized on a straight-line basis over the estimated useful life of the software . Costs for general and administrative, overhead, maintenance and training, are expensed as incurred. To date $207,707 of costs related to the Nutripure.com website have been capitalized under SOP 98-1 and are being amortized over a period of 3 years.

Stock-Based Compensation

The Company follows FASB Statement No. 123, 'Accounting for Stock-Based

Compensation' ('FAS 123'). The provisions of FAS 123 allow companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in APB Opinion 25, 'Accounting for Stock Issued to Employees' ('APB 25') but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company has elected to continue to apply APB 25 in accounting for its stock option plans (Note 10). For awards that generate compensation expense as defined under APB 25, the Company calculates the amount of expenses and recognizes the expense over the vesting period of the award.

In March 2000, the FASB issued FASB Interpretation No. 44, 'Accounting for Certain Transactions involving Stock Compensation' ('FIN 44'), which contains rules designed to clarify the application of APB 25. FIN 44 became effective on July 1, 2000 at which time the Company adopted it. The impact of the adoption of FIN 44 was not material to the earnings or financial position of the Company.

Research and Development
Research and development costs that have no alternative future uses are charged to operations when incurred and are included in operating expenses. The total amount charged to Research and Development expense was $114,756 and $157,049 in the fiscal years ended July 31, 2000 and 1999, respectively.

Depreciation Method
The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the related assets. The useful lives of property, plant, and equipment for purposes of computing depreciation are:

Computers and equipment	7.0 years
Furniture and fixtures	10.0 years
Website	3.0 years
Vehicle	5.0 years to 7.0 years

Leasehold improvements are being depreciated over the life of the lease, which is equal to 120 months.

Depreciation is computed on the Modified Accelerated Cost Recovery System for tax purposes.

Amortization
Goodwill and customer list were being amortized on the straight-line basis over 40 years for the year ending July 31, 1999 (see note 16). The cost of patents acquired are being amortized on a straight-line basis over the remaining lives of 17 years. Licenses which include the Ampromed Limitada and the right of Nutripure to distribute and disseminate certain information through it's website are being amortized on a straight line basis over periods ranging from 15 to 20 years. Website development costs are being amortized on the straight-line basis over 3 years.

Amortization expense for the years ended July 31, 2000 and July 31, 1999 was $52,546 and $11,650, respectively.

Long-Lived Assets

In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived

Assets to be Disposed of, the carrying value of intangible assets and other long-lived assets will be reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. The Company has recognized impairment of the assets purchased with the Ampromed acquisition and has reassessed the value of certain assets as described in footnote 16. Should there be additional impairment in the future, the Company will measure the amount of the impairment based on undiscounted expected future cash flows from the impaired assets. The cash flow estimates that will be used will contain management's best estimates, using appropriate and customary assumptions and projections at the time.

Inventory Cost Method
Inventories are stated at the lower of cost or market determined by the Average Cost method and net realizable value. Inventories at July 31 consisted of:

	2000	1999
Finished Goods	$ 108,528	$ 212,335
Work in Progress	180,198	108,770
Raw Materials	494,743	398,867
	$ 783,469	$ 719,972

Use of Estimates
The preparation of the 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.

Fair Value of Financial Instruments
The fair value of financial instruments, consisting primarily of the line of credit, is based on interest rates available to the Company and comparison to quoted prices. The fair value of these financial instruments approximates carrying value.

Advertising and Promotional Costs
Cost of advertising and promotion are expensed as incurred or at the first-time advertising and promotion takes place. Such costs were $197,908 and $101,063 for the years ended July 31, 2000 and July 31, 1999, respectively.

Deferred Public Offering Cost
The company had incurred $376,695 of costs as of July 31, 1996 related to an initial public offering. Those costs were deferred, pending completion of the offering. After the completion of the offering, the total of the public offering costs $1,436,807 was reclassified to shareholders' equity.

Deferred Acquisition Costs
During the process of evaluating certain companies for acquisition, the

Company expended $133,573 and $49,391 in fiscal years ended July 31, 2000 and July 31, 1999, respectively. These costs were capitalized and will be reclassified if the acquisitions are successful as a cost of the investment or expensed in the future if the acquisitions are not successful. During fiscal year ended July 31, 1999, the company completed the acquisition of Export Company of America, Inc. (EXCOA) and reclassified $1,051,493 of the July 31, 1998 balance of deferred acquisition costs and $39,900 of the July 31, 1999 fiscal year end expenditures to investment in that purchase.

Net Income (Loss) Per Common Share
The Company adopted FASB Statement No. 128, Earnings Per Share ("SFAS 128"), which is effective for periods ending after December 15, 1997. Entities that have only common stock outstanding are required to present basic earnings per share amounts. All other entities are required to present basic and diluted per share amounts. Diluted per share amounts assume the conversion, exercise or issuance of all potential common stock instruments unless the effect is to reduce a loss or increase the income per common share from continuing operations.

As required by SFAS 128, earnings per share is computed based upon the weighted average common shares outstanding for the year.

Following is a reconciliation of the weighted average number of shares actually outstanding with the number of shares used in the computations of loss per common share:

	For the Years Ended July 31, 2000	July 31, 19
Shares outstanding	5,942,903	4,392,24
Weighted average number of shares actually outstanding	5,056,141	4,148,87
Stock Options	1,214,309	1,417,96
Warrants	1,798,125	1,798,12
Total weighted average shares	8,068,575	7,364,97
Net income (loss) before cumulative Change in accounting principle	$(2,616,738)	$ 260,72
Cumulative change in accounting principle	79,896	
Net income (loss)	$(2,536,842)	$ 260,72
Basic net earnings (loss) per share		
Net income (loss) per common share before change in accounting principle	$ (0.52)	$ 0.0
Cumulative effect of change in accounting principle	0.02	

Net income (loss) per common share	$ (0.50)	$ 0.0
Diluted net earnings (loss) per share		
Net income (loss) per common share before change in accounting principle	$ (0.52)	$ 0.0
Cumulative effect of change in accounting principle	0.01	
Net income (loss) per common share	$ (0.51)	$ 0.0

Potential common stock instruments at July 31, 2000, which include 1,214,309 stock options and 1,798,125 warrants, are included in the loss per share calculation for fiscal year ended July 31, 2000. Potential common stock instruments at July 31, 1999, which include 1,417,969 stock options and 1,798,125 warrants, are included in the loss per share calculation for fiscal year ended July 31, 1999.

Recent Accounting Pronouncements
In June of 1998, the FASB issued Statement of Accounting Standards No. 133 ("SFAS 133") "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet at their value. This statement, as amended by SFAS 137, is effective for financial statements for all fiscal quarters to all fiscal years beginning after June 15, 2000. The Company does not expect the adoption of this standard to have a material impact on its results of operation, financial position, or cash flows as the Company currently does not engage in any derivative or hedging activities.

Income Taxes

The current provisions for income taxes of $800 for fiscal years ended July 31, 1999 and July 31, 2000 is the minimum franchise tax paid to the State of California regardless of income or loss.

At July 31, 2000, the Company has financial, federal, and California tax net operating loss carryforwards of approximately $ 5,589,000, and $ 5,071,000, and $2,374,000, respectively. At July 31, 1999, the Company has financial, federal, and California tax net operating loss carryforwards of approximately $ 3,844,000. $3,771,000, and $1,899,000, respectively. The difference between the financial reporting and the federal tax loss carryforward is primarily due to accrued expenses and valuation allowances reported in the financials but not deductible for tax purposes. The difference between federal and California tax loss carryforwards is primarily due to the fifty percent limitation on California loss carryforwards. The federal tax loss carryforwards will begin expiring in the fiscal year ended July 31, 2011, unless previously utilized and will completely expire in fiscal year ended July 31, 2020. The California tax loss carryforwards will begin expiring in fiscal year ended July 31, 2001, unless previously utilized and will completely expire in fiscal year ended July 31. 2010.

The Company adopted Financial Accounting Standards Board Statement No.

109, Accounting for Income Taxes, beginning in fiscal year ended July 31, 1993. The adoption had no impact on 1993 results. In accordance with this new standard, the Company has recorded total deferred tax assets of $ 1,180,000 and $ 899,000 for the fiscal years ended July 31, 2000 and 1999, respectively. Realization of these deferred tax assets, which relate to operating loss carryforwards and timing differences, is dependant on future earnings. The timing and amount of future earnings are uncertain and therefore, the valuation allowance had been established. The increase in the valuation allowance on the deferred tax asset during the fiscal year ended July 31, 2000 was $ 281,000.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	July 31 2000	July 31 1999
Net operating loss carryforward	$ 1,107,000	$ 888,000
Depreciation and amortization	0	2,000
Accrued expenses and calculation allowances	71,000	8,000
Other	2,000	1,000
Total deferred tax assets	1,180,000	899,000
Valuation allowance for deferred tax assets	(1,180,000)	(899,000)
Net deferred tax assets	$ 0	$ 0

Note 2. Cash and Cash Equivalents

The carrying amounts for cash and cash equivalents approximate fair value because of the short maturity of these instruments. The Company maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000.

At July 31, 2000 and July 31 1999, the Company's cash and cash equivalents is represented by $1,121,316 and $22,056, respectively, in cash or checking accounts.

Note 3. Restricted Cash

At July 31, 2000, the Company's restricted cash consisted of a certificate of deposit of $204,887 and at July 31, 1999 the Company's restricted cash consisted of a certificate of deposit of $205,574. These certificates of deposit were held by a bank, as security for a line of credit with the same bank (Note 6).

Note 4. Due from Officers and Employees

At July 31, 2000, notes receivable of $162,793 represents amounts due

from officers and $30,417 represents amounts due from employees. At July 31, 1999, notes receivable of $153,578 represents amounts due from officers and $185,946 represent amounts due from employees. Due from officers at July 31, 2000 consisted of a loan to the president of $117,339 and a loan to the chief financial officer of $45,454 due and payable at July 31, 2001. These were renewals and increases of prior year notes to $110,697 and $42,881, respectively, that were due at July 31, 2000. All notes receivable are due and payable within one year. The carrying value of the notes, based on the terms at which those same loans would be made currently, approximate their fair value. All notes in excess of $10,000 have interest accrued at 6%

Note 5. Property, Plant and Equipment

The following is a summary of property, plant, and equipment - at cost, less accumulated depreciation:

	July 31, 2000	July 31, 1999
Computers and equipment	$ 927,257	$ 719,410
Furniture and fixtures	100,630	107,431
Website	182,166	-
Vehicle	50,985	52,670
Leasehold improvements	304,623	322,805
	1,565,661	1,202,316
Less: accumulated depreciation and amortization	535,159	396,793
Total	$ 1,030,502	$ 805,523

Depreciation expense charged to general and administrative expense for the years ended July 31, 2000 and 1999 was $159,624 and $144,075, respectively.

Note 6. Debt

The details relating to debt are as follows:

	July 31, 2000	July 31, 1999
Line of Credit Community 1st Bank $200,000 line of credit, interest at 8.35% Due and payable		

February 25, 2001 Secured by certificate of deposit of $205,574	$ 196,009	$ 196,009
Line of Credit Flagship Capital, Inc. for financing of accounts payable, interest at 9% payable at $15,823 monthly beginning March 17, 2000.	14,583	-
Total notes payable	210,592	446,067
Current maturities of notes payable included in current liabilities	210,592	446,067
Total long term debt	$ -	$ -

Note 7. Commitments

The company leased office and warehouse facilities under an operating lease that expired on December 31, 1996. On May 14, 1996, the Company entered into a new operating lease agreement for sixty-five months commencing on July 1, 1996. The rent payment portion of the lease is for sixty-three months, which allows for an initial building improvement period of two months. The monthly rental for the 11,255 square foot facility is $0.69 per square foot plus $0.14 per square foot for maintenance of common areas. There is also a fixed yearly increase of 4%. The company has also signed an amendment to the lease to allow for an option to lease the building for an additional five years. The company made improvements to the new building in the amount of approximately $305,000.

The rental expense recorded in general and administrative expenses for the years ended July 31, 2000 and July 31, 1999 was $98,835 and $78,393, respectively. Future minimum rental payments required for each of the 5 succeeding years assuming exercise of the option are as follows:

Year Ended July 31	Amount
2001	$102,804
2002	$106,916
2003	$111,192
2004	$115,640
2005	$120,266

Note 8. Capital Stock

The following schedule summarizes the change in capital stock:

	Common Stock Shares	Common Stock $	A Warrants Issued	A Warrant $
Balance, July 31, 1997	3,532,851	$5,566,124	3,687,500	$108,7
Stock issued for services	383,500	559,594	-	
Balance, July 31, 1998	3,916,351	6,125,718	3,687,500	108,7
Sale of stock	233,125	189,375	-	
Private placement	242,766	348,225	-	
Balance, July 31, 1999	4,392,242	6,663,318	3,687,500	$108,7
Sale of stock	783,250	759,055	-	
Private placement	767,411	2,596,500	-	
Balance, July 31, 2000	5,942,903	$10,018,873	3,687,500	$108,7

Each Class A warrant entitles the holder to acquire an additional common share for $5.25 per common share beginning August 8, 1997 and expiring August 8, 2001. The Class A Warrants are redeemable by the Company for $0.05 per warrant, at the Company's option, commencing one year after the effective date of the offering provided the closing bid price for the Company's common shares shall have averaged in excess of $9.00 per share for thirty consecutive business days ending within five days of the date of notice of redemption.

Each Class Z warrant entitles the holder to acquire an additional common share for $10.00 per common share beginning August 8, 1998 and expiring August 8, 2001. The Class Z Warrants are redeemable by the Company for $0.10 per warrant, at the Company's option, commencing one year after the effective date of the offering provided the closing bid price for the Company's common shares shall have averaged in excess of $15.00 per share for thirty consecutive business days ending within five days of the date of notice of redemption.

Note 9. Related Party Transactions

On April 1, 1996, the Company entered into an employment agreement with the President and Chief Executive Officer. The term of the agreement is for five years with an automatic renewal of another five years. The following are the major provisions of the agreement:

1. Compensation
   a. Salary of $108,000 per year, and
   b. Additional compensation equal to 3% of the net income before taxes earned by the corporation during each full fiscal year, and

c. A monthly amount of not more than $500 per month for an auto lease, and
d. A five year option to purchase as many shares of the corporation's common stock as equals one hundred thousand dollars at 80% of the initial public offering price of the Company's common stock, approximately 31,250 shares at $3.20 per share, which are exercisable in April, 1997.

2. Compensation for past services
a. In consideration of services which have been rendered during the fiscal years ended July 31, 1994 and July 31, 1995 and the eight months period ended March 31, 1996, the corporation granted the following compensation for past services rendered:
i. $30,000 for fiscal year ended July 31, 1994, and
ii. $45,000 for fiscal year ended July 31, 1995, and
iii. $60,000 for the eight months ended March 31, 1996.

The President (Mr. Krall) waived the payment of $119,000 of the compensation for past services and contributed this amount as an additional payment for the common stock he presently owns. In order to reward the efforts of Mr. Krall for his performance in the weeks leading to NASDAQ approval of the initial public offering, the Compensation Committee recommended and the Board of Directors authorized a bonus to Mr. Krall in the amount of $257,500. The bonus of $257,500 was accrued at July 31, 1996.

On April 26, 1997, the board of directors approved the renewal of the employment contract for Michael Krall for the position of President and Chief Executive Officer and increased his salary to $12,000 per month.

Note 10. Stock Option Plans

The Company has three stock option plans (the Plans) pursuant to which options to acquire common stock have been granted. These are the 1996 Incentive Stock Option Plan (the 1996 Incentive Plan) approved by the Company's Shareholders in April, 1996, the 1996 Directors and Officers Stock Option Plan (the 1996 D&O Plan) adopted by the Board in April, 1996 and the Amended Innovative Medical Services 1998 Directors and Officers Stock Option Plan (the 1998 D&O Plan) approved by the Company's Shareholders in December, 1998. The Plans are administered by a Committee of the Board of Directors or the entire Board. The exercise price of options granted under any of the Plans must be the fair market value for the common stock at the date of grant.

1996 Incentive Plan: The maximum number of shares which may be offered pursuant to stock options under the 1996 Incentive Plan is 1,000,000 Shares. The maximum number of shares subject to Options granted to any one Key Employee shall not exceed 100,000 shares. The Options granted are "Incentive Stock Options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, for certain key employees. All Key Employees of the Company and its subsidiaries are eligible to participate in the 1996 Incentive Plan. A Key Employee is defined in the Plan as a Company employee who in the judgment of the Administrative Committee has the ability to positively affect the profitability and economic well-being of the Company. Part time employees, independent contractors, consultants and advisors performing bona fide services to the Company shall be considered employees for purposes of participation in the Plan. No Executive Officer or Director of the Company has received options pursuant to this Plan. Options to acquire 143,125 shares under the 1996 Incentive Plan were outstanding as of July 31, 1999 with 673,750 shares remaining under the 1996

Incentive Plan for which options may be granted.

1996 D&O Plan: The maximum number of shares which may be offered pursuant to stock options under the 1996 D&O Plan was 1,000,000 Shares. The maximum number of shares subject to options granted under the 1996 D&O Plan to any one Director or Officer shall not exceed 200,000 shares in any 12-month period. Options to acquire 400,000 shares under the 1996 D&O Plan were outstanding as of July 31, 1999 and there are no shares remaining under the 1996 D&O Plan for which options may be granted.

1998 D&O Plan: The maximum number of shares which may be offered pursuant to stock options under the 1998 D&O Plan is 2,000,000 shares. The maximum number of shares subject to options granted under the 1998 D&O Plan to any one Director or Officer shall not exceed 200,000 shares in any 12-month period. Upon the election of a continuing director or the further appointment of a continuing executive officer, the continuing director or officer will receive an additional option for 50,000 shares. A newly elected director or newly appointed executive officer is entitled to receive an option for 100,000 shares. Options to acquire 991,250 shares under the 1998 D&O Plan were outstanding as of July 31, 1999 and there are 958,750 shares remaining under the 1998 D&O Plan for which options may be granted.

The Company estimates a fair value method of accounting for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). In accordance with SFAS 123, the Company has chosen to continue to account for employee stock-based compensation utilizing the intrinsic value method. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

Also, in accordance with SFAS 123, the Company has provided footnote disclosure with respect to stock-based employee compensation. The cost of stock-based employee compensation is measured at the grant date based on the value of the award and is recognized over the service period. The value of the stock based award is determined using a pricing model whereby compensation cost is the excess of the fair value of the stock as determined by the model at grant date or other measurement date over the amount an employee must pay to acquire the stock.

The Company accounts for non-employee stock based compensation by establishing a fair value for stock options granted. Compensation cost is measured as the excess, if any, of the fair value of the Company's stock over the amount the non-employee must pay to acquire the stock and is recognized over the anticipated service period.

The effect of applying FAS 123 on the years ended July 31, 2000 and 1999 pro forma net income (loss) as stated below is not necessarily representative of the effects on reported net income (loss) for future years due to, among other things, the vesting period of the stock options and the fair value of additional stock options in future years. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under the plans consistent with the methodology prescribed under FAS 123, the Company's net loss in the years ended July 31, 2000 and 1999 would have been approximately $3,292,510 and $133,682 or $(0.66) per share and $(0.02) per share, respectively, on a diluted basis. The fair value of the options granted during the years ended July 31, 2000 and 1999 are

estimated at $1.84 per share and $0.72 per share, respectively, on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for grants in 2000 and 1999; no dividend yield, volatility of 1.24% and 1.80%, respectively; a risk-free interest rate of 5.50% and 5.25%, respectively and an expected life of 1.2 year from date of vesting. A summary of stock option activity is as follows:

	Number of Shares	Weighted-Average Exercise Price
Balance at July 31, 1998	1,731,875	$ 1.14
Granted	80,000	.081
Exercised	(188,125)	.076
Forfeited	(8,750)	1.00
Balance at July 31, 1999	1,615,000	1.17
Granted	1,246,540	1.81
Exercised	(781,750)	1.18
Forfeited	(44,250)	1.34
Balance at July 31, 2000	2,035,540	1.55

	Outstanding			
Range of Exercise Prices	Number Shares Outstanding	Weighted Average Life (in years)	Weighted Average Exercise Price	Numb Exerci
$0.56	235,000	2.9	$ 0.56	235
$1.00	406,875	2.7	$ 1.00	406
$1.31 to $1.50	215,000	4.2	$ 1.41	215
$1.63 to $1.90	335,000	4.1	$ 1.73	175
$2.00 to $2.50	320,000	2.1	$ 2.20	320
$2.93 to $3.25	523,665	4.6	$ 2.96	492
	2,035,540	3.51	$ 1.81	1,844,

Note 11. Pension Plan

The Company participates in a Small SEP program under which the employer makes contributions to a SEP, which includes a salary

reduction arrangement (SARSEP). Employees who participate in the SARSEP may elect to have the employer: (a) make contributions to the SEP on their behalf, or (b) pay them cash. A salary reduction arrangement may be used only in years in which the SEP meets requirements that the IRS may impose to ensure distribution of excess contributions. Annual contributions of an employer under a SEP are excluded from the participant's gross income. No employer contributions were made during the fiscal years ending July 31, 1999 and July 31, 2000.

Note 12. Credit Risk and Fair Value of Financial Instruments

The Company markets its products to numerous customers in various geographic regions, thereby spreading its credit risk related to receivables. See Note 2 Cash and Cash Equivalents as to the discussion of credit risks concerning cash equivalents.

The carrying amounts for cash and cash equivalents, receivables, and payables approximate fair value because of the short maturity, generally less than three months, of these instruments. The carrying value of the Company's long-term debt approximates fair value since the current borrowing rates available for financing are similar in terms.

Note 13. Cumulative Change in Accounting Policy

The Company incurred approximately $208,000 in development costs related to construction of the Nutripure.com website. These costs were originally expensed as incurred. In the accompanying financial statements, these costs have been retroactively capitalized and included in fixed assets at July 31, 2000 in compliance with SOP 98-1 (Statement of Position issued by the Accounting Standards Executive Committee). Of these costs, $79,900 were incurred in prior years and are shown as a change in accounting principle consistent with the newly issued EITF Issue No. 00-2 - Emerging Issues Task Force Issue titled: Accounting for Web Site Development Costs dated March 16, 2000.

Note 14. Business Segment and Sales Concentrations

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

Significant customers consisted primarily of domestic retail chain pharmacies. Sales concentration to major chain stores were approximately $1,348,400 and $607,700, respectively, for the years ended July 31, 1999 and 2000. No customer accounted for more than 10% of consolidated sales in 1999 or 2000. Export sales were $13,500 in fiscal year 1999 and $65,800 in fiscal year 2000.

Note 15. Interim Adjustments

During the fourth quarter ending July 31, 2000, certain adjustment was made which changed the amount of sales for the three months. Prior to the adjustment, sales were $152,074 and was reduced by an adjustment of $65,826 resulting from a change in a customer contract which had not been accounted for according to the changes made in the contract. Also adjustments were made to cost of sales during the fourth quarter

increasing cost of sales by $115,368 and $63,237. The former adjustment was to correct a credit to cost of sales made earlier in the year which should have been to made to general and administrative expenses. The latter adjustment of $65,826 resulted from a write-down of year-end inventory,

Note 16. Write Down of Impaired Assets

Ampromed was purchased in October 1998 to enable the Company to take advantage of the lucrative markets for medical and dental supplies in Brazil and other South American countries and to later introduce and distribute its water purification products to these markets. Since the acquisition the economic conditions in the region have declined and implementation of the project has been delayed. The Company made its last sale in the region in October of 1999 and in May of 2000 terminated its lease in Rio de Janeiro and did not replenish the Ampromed inventory. The Company no longer has immediate plans to import medical and dental supplies into Brazil but believes, however, that Ampromed is a vital part of its plan to market and sell "Axenohl", RoachX and the Nutripure line of water treatment products. The Company believes there is considerable value in owning a Brazilian Limitada but has reassessed the value of the goodwill the customer list it purchased. Statement of Financial Accounting Standards No. 121 (Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of) requires an entity to review long-lived assets and identifiable intangible assets when, among other factors, there is a change in the extent or manner in which an asset is to be used or when there is a significant change in the business climate that could affect the value of an asset. The statement requires an entity estimate the future cash flows expected to result from the use of the asset and to recognize an impairment loss when the sum of the future cash flows is less than the carrying amount of the asset. Because of the unique nature of the products to be introduced, the Company does not believe it has enough quantifiable historical information to reliably predict future cash flows from this operation. For this reason the Company believes the Goodwill and Customer List assets should be written off, and the value of the Limitada license to do business in Brazil should be written down to what it would cost to acquire in today's market. This is estimated to be approximately $150,000 which will be amortized over its expected useful life of 15 years. The total charge to income for this restatement is $791,411 in the year ended July 31, 2000.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective June 6, 2000, Steven Holland, CPA, the Registrant's independent accountant, for the fiscal years ended July 31, 1998, 1997 and 1996 declined to stand for re-election as auditor. Also, effective on June 6, 2000 the Registrant's Board of Directors approved the engagement of Miller and McCollom, Certified Public Accountants as its new auditors. No consultation regarding accounting policy or procedures with new auditors occurred prior to their engagement.

Steven Holland, CPA's report for the fiscal years ended July 31, 1998, 1997 and 1996 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles. Nor has there been any disagreement with Steven Holland, CPA on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure or reportable events during the Registrant's most recent

fiscal year through June 6, 2000 which if not resolved to the satisfaction of Steven Holland, CPA would have caused them to make reference thereto in their report on the financial statements for such period.

The Registrant has provided Steven Holland, CPA with a copy of the disclosure contained herein and has requested that Steven Holland, CPA provide the Registrant with a letter addressed to the U.S. Securities and Exchange Commission stating whether or they agree with the disclosure. Steven Holland, CPA has provided such a letter, which was filed as an Exhibit to the Current Report on Form 8-K dated June 6, 2000.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers and directors of the Company and their ages are as follows:

Name	Age	Position
Michael L. Krall	48	President, CEO, Chairman, Director
Gary Brownell, CPA	52	Treasurer CFO, Director
Donna Singer	30	Executive Vice President, Director
Dennis Atchley, Esq.	48	Secretary
Eugene Peiser, PD	69	Director
Patrick Galuska	41	Director
Dennis Brovarone	44	Director

The Directors serve until their successors are elected by the shareholders. Vacancies on the Board of Directors may be filled by appointment of the majority of the continuing directors. The executive officers serve at the discretion of the Board of Directors except as subject to the employment agreement with Mr. Krall.

BUSINESS EXPERIENCE

DENNIS B. ATCHLEY, ESQ. Mr. Atchley is the Secretary of Innovative Medical Services and currently practices as a sole practitioner in Carlsbad, California handling corporate and business related litigation matters. A 1973 graduate of Loyola Marymount University in Los Angeles and a 1976 graduate of California Western School of Law in San Diego, California, Mr. Atchley is a member of the California Bar, the San Diego County Bar Association, and the Association of Business Trial Lawyers.

DENNIS BROVARONE Mr. Brovarone has been practicing corporate and securities law since 1986 and as a solo practitioner since 1990. He was elected to the Company's Board of Directors in April 1996. From December 1997 to April 2000, Mr. Brovarone has served as the President and Chairman of the Board of Directors of Ethika Corporation, a publicly held, Mississippi corporation investment holding company with its office in Littletons, Colorado. From January 1995 to March 1998 Mr. Brovarone served as President (Chairman) of the Board of Directors of The Community Involved Charter School, a four year old K-12 public school located in Lakewood, Colorado, operating under an independent charter and serving approximately 350 students in an individualized, experiential learning environment. Prior to 1990, Mr. Brovarone served as in-house counsel to R.B. Marich, Inc., a Denver, Colorado based brokerage firm. Mr. Brovarone lives and works in Littleton, Colorado.

GARY W. BROWNELL Mr. Brownell is a Certified Public Accountant in a private partnership practice. He is the partner in charge of taxes and municipal audits

for his firm. Mr. Brownell graduated from San Diego State University in 1973 with a Bachelor of Science degree in accounting. He received his Certified Public Accountant designation in 1983. Mr. Brownell has been a partner in Brownell and Duffy since 1985.

PATRICK GALUSKA Mr. Galuska is a consulting petroleum engineer in Denver, Colorado. His practice focuses mainly on the acquisition and exploitation of underdeveloped oil and gas assets in the Rocky Mountain area. He is a Registered Professional Engineer and is a member of the Society of Petroleum Engineers. Mr. Galuska earned his BS degree in petroleum engineering from the University of Wyoming and received his MBA degree in Finance from the University of Denver. Mr. Galuska resides in Littleton, Colorado with his wife and two children.

MICHAEL L. KRALL Mr. Krall is the President, CEO and Chairman of the Board of Directors of Innovative Medical Services, a position he has held since 1993. He is responsible for the strategic planning, product development, and day-to-day operations of IMS. Previously, Mr. Krall was the President and CEO of Bettis-Krall Construction, Inc. a successful building-development company of custom homes and commercial property in San Diego County, California. He has also held numerous positions in general management in the hospitality industry. Mr. Krall attended Pepperdine University (economics, statistics mechanical engineering). He previously served 4 years in the United States Marine Corps and was elected, by general election, to a 4 year term on the Valle de Oro Planning Board. Mr. Krall lives in El Cajon, California with his wife, Connie and two children.

EUGENE S. PEISER, DOCTOR OF PHARMACY Dr. Peiser has been an independent consultant to FDA regulated industries since 1974 and a Member of the Board of Innovative Medical Services since 1994. He graduated from the University of Tennessee College of Pharmacy with a Bachelor of Science in Pharmacy in 1951 and has received his Doctorate of Pharmacy. Dr. Peiser's consultancy advises on a wide variety of subjects, including compliance with the Prescription Drug Marketing Act and other government compliance matters, employee training and drug repackaging. Dr. Peiser furnishes expert witness services and has provides approved Pharmaceutical Continuing Education to several thousand attendees at his seminars. Dr. Peiser is a Founding Director of the Association of Drug Repackagers; is appointed as a Registered Arbitrator by the American Registry of Arbitrators; serves as a member of the Surgeon General's Speakers Bureau; and is President of the Southwest Chapter of the Association of Military Surgeons. Dr. Peiser lives and works in Palm Harbor, FL.

DONNA SINGER Ms. Singer is the Executive Vice President of Innovative Medical Services. From 1996-1998 Ms. Singer served as Vice President of Operations for the Company. Ms. Singer is responsible for company operations, corporate communications, investor relations, marketing and sales. Previously, Ms. Singer served as the investor relations executive at Western Garnet International, a Toronto Stock Exchange mining company. Ms. Singer graduated from Gonzaga University with a Bachelor of Arts degree in English and lives in El Cajon, California.

Committees: Meetings of the Board
The Company has a Compensation/Administration Committee and an Audit Committee. The Compensation/Administration Committee and the Audit Committee were formed in 1995. Messrs. Brovarone, Galuska and Peiser comprise the Compensation/Administration Committee and Messrs. Brownell, Galuska and Peiser, are the Audit Committee. The Compensation/Administration Committee recommends to the Board the compensation of executive officers and will serve as the Administrative Committee for the Company's Stock Option Plans. The Audit Committee serves as a liaison between the Board and the Company's auditor. The Compensation/Administration Committee met once during the fiscal year ended July 31, 2000, and the Audit Committee met once during the fiscal year ended July 31, 2000.

The Company's Board of Directors held six meetings during the fiscal year ended July 31, 2000, at which time all the then Directors were present or consented in writing to the action taken at such meetings. No incumbent Director attended fewer than 100% of said meetings.

Compliance with Section 16(a) of Securities Exchange Act of 1934
To the Company's knowledge, during the fiscal year ended July 31, 2000, the Company's Directors and Officers complied with all applicable Section 16(a) filing requirements. This statement is based solely on a review of the copies of such reports furnished to the Company by its Directors and Officers and their written representations that such reports accurately reflect all reportable transactions.

Family Relationships
There is no family relationship between any Director, executive or person nominated or chosen by the Company to become a Director or executive officer.

Transactions with Management
The Company did not enter into any transactions with Management during the fiscal year ended July 31, 2000.

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table
The following table shows for the fiscal year ending July 31, 2000, the compensation awarded or paid by the Company to its Chief Executive Officer and any of the executive officers of the Company whose total salary and bonus exceeded $100,000 during such year (The "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long Term Compensation: Awards	Payouts	
Name and Principle Position	Year	Salary ($)	Other Annual Compensation($)	Securities Underlying Option (#)		All Other Compe ($)
Michael L. Krall President/CEO	2000	144,000	0	50,000 Common		0
Michael L. Krall President/CEO	1999	144,000	0	190,000 Common		0
Michael L. Krall President/CEO	1998	144,000	0	200,000 Common		0

No other executive officer earned more than $100,000 during the current fiscal year.

Option Grants in Last Fiscal Year

	Individual Grants			
Name	Number of Common Shares Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Sh)	Expiration Date
Michael L. Krall President/CEO	50,000	6.7	1.90	11/16/04

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option/Values The following table sets forth the number and value of the unexercised options held by each of the Named Executive Officers at July 31, 2000.

Aggregate Option Exercises in Last Fiscal Year and FY-End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized at FY-End ($)	Number of Securities Underlying Unexercised Options at FY-End (#) Exercisable/Unexercisable	Value of Money Op Exercis
Michael L. Krall President/CEO	50,000	135,000	431,250 Common Shares/Exercisable	767,400

(1) Option value based on the difference between the exercise price of unexercised options and the average closing price of $2.70 for the 30 trading days ending July 31, 2000.

Employment Agreements and Executive Compensation
In April 1996, the Board of Directors approved a five-year employment agreement for Michael Krall, its President. Mr. Krall receives a salary of $144,000 per year, an amount equal to 3% of the Company's net income before taxes if any plus other benefits. The Board of Directors have extended Mr. Krall's employment agreement on identical terms for an additional year.

Compensation of Directors
Directors are entitled to receive $300 plus reimbursement for all out-of-pocket expenses incurred for attendance at Board of Directors meetings.

Other Arrangements
DIRECTORS AND OFFICERS STOCK OPTION PLAN: On April 17, 1996, the Company's Board of Directors approved a Directors and Officers Stock Option Plan. The purpose of the Plan is to advance the business and development of the Company and its

shareholders by affording to the Directors and Officers of the Company who are ineligible to participate in the above Incentive Stock Option Plan, the opportunity to acquire a propriety interest in the Company by the grant of Options to acquire shares of the Company's common stock. The Plan is administered by the entire Board of Directors. The Plan became effective on April 17, 1996 by the Board of Directors, was not subject to Shareholder approval and shall terminate on April 17, 2006. Subject to anti-dilution provisions, the Plan may issue Options to acquire up to 1,000,000 shares to Directors and Officers. The maximum number of shares subject to Options granted to any one Director or Officer shall not exceed 200,000 shares in any 12-month period. The exercise price for Options shall be set by the Board of Directors but shall not be for less than eighty-five (85%) of the fair market value per share on the date of grant. The period in which Options can be exercised shall be set by the Board of Directors not to exceed five years from the date of Grant. The Plan may be terminated, modified or amended by the Board of Directors.

THE INNOVATIVE MEDICAL SERVICES 1998 DIRECTORS AND OFFICERS STOCK OPTION PLAN On December 19, 1998, the Company's Shareholders Approved the Amended Innovative Medical Services 1998 Officers and Directors Stock Option Plan. The purpose of the Plan is to advance the business and development of the Company and its shareholders by affording to the Directors and Officers of the Company the opportunity to acquire a propriety interest in the Company by the grant of Options to acquire shares of the Company's common stock.

The Options granted are not "Incentive Stock Options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. The issuance of such non-qualified options pursuant to this Plan is not expected to be a taxable event for recipient until such time that the recipient elects to exercise the option whereupon the recipient is expected to recognize income to the extent the market price of the shares exceeds the exercise price of the option on the date of exercise.

The Plan is administered by an Administrative Committee whom shall serve a one year term. The Administrative Committee is composed of the Board's Compensation/Administration Committee. Subject to anti-dilution provisions, the Plan may issue Options to acquire up to 2,000,000 shares to Directors and Officers. The exercise price for Options shall be set by the Administrative Committee but shall not be for less than the fair market value of the shares on the date the Option is granted. Fair market value shall mean the average of the closing price for ten consecutive trading days at which the Stock is listed in the NASDAQ quotation system ending on the day prior to the date an Option is granted. The period in which Options can be exercised shall be set by the Administrative Committee not to exceed five years from the date of Grant. Options granted to new executive officers or directors shall vest one year from date of appointment or election. Shares issuable under options granted to continuing officers or directors are immediately exercisable and vest upon exercise. The maximum number of shares subject to Options granted to any on Director of Officer shall not exceed 200,000 shares in any 12-month period.

The Executive Officers and Directors of the Company are eligible to participate in the Plan. The Administrative Committee has granted the present Executive Officers and Directors an option to purchase 100,000 shares of common stock at $1.00 per share. The Administrative Committee shall grant to individuals newly appointed as Executive Officers or as Directors, an option to purchase 100,000 shares of common stock at fair market value. Upon each subsequent anniversary thereof, each such Officer and Director will receive an option to purchase 50,000 shares of common stock at fair market value. The plan also gives the Administrative Committee discretion to award additional options. The aggregate number and kind of shares within the Plan and the rights under outstanding Options granted hereunder, both as to the number of shares and Option price, will be adjusted accordingly in the event of a reverse split in the outstanding

shares of the Common Stock of the Company.

The Board may at any time terminate the plan. The approval of the majority of shareholders is required to increase the total number of shares subject to the plan, change the manner of determining the option price or to withdraw the administration of the plan from the Administrative Committee.

Termination of Employment and Change of Control Arrangement
There is no compensatory plan or arrangement with respect to any individual named above which results or will result from the resignation, retirement or any other termination of employment with the Company, or from a change in the control of the Company.

ITEM 11. Security Ownership of Certain Beneficial Owners and of Management
The following table sets forth the number of shares of the Company's Common Stock beneficially owned as of June 30, 2001 by individual directors and executive officers and by all directors and executive officers of the Company as a group. Based upon a review of the Company's shareholders list as of June 30, 2001, there are no other registered holders of five percent or more of the Company's Common Stock. As of June 30, 2001 there were 6,785,799 shares outstanding.

Name and Address of Beneficial Owner	Title	Common Stock Ownership	Percentage Outst
Dennis Atchley 1725 Gillespie Way El Cajon, CA 92020	Secretary	97,940 (1)	1
Dennis Brovarone 18 Mountain Laurel Littleton, CO 80127	Director	313,983 (2)	4
Gary Brownell 1725 Gillespie Way El Cajon, CA 92020	Treasurer, CFO/Director	225,321 (3)	3
Patrick Galuska 8137 S. Downing St. Littleton, CO 80122	Director	160,690 (4)	2
Michael L. Krall 1725 Gillespie Way El Cajon, CA 92020	President, CEO/Chairman	1,103,560 (5)	15
Eugene Peiser 1725 Gillespie Way El Cajon, CA 92020	Director	239,555 (6)	3
Donna Singer 1725 Gillespie Way El Cajon, CA 92020	Executive VP, Director	153,356 (7)	2
Directors and Officers as a Group (7 individuals)		2,294,405 (8)	28

(1) Includes presently exercisable options to acquire up to 50,000 shares.
(2) Includes presently exercisable options to acquire up to 235,000 shares.

(3) Includes presently exercisable options to acquire up to 175,000 shares.
(4) Includes presently exercisable options to acquire up to 100,000 shares.
(5) Includes presently exercisable options to acquire up to 481,250 shares.
(6) Includes presently exercisable options to acquire up to 150,000 shares
(7) Includes presently exercisable options to acquire up to 150,000 shares
(8) Includes presently exercisable options held by all of the above officers and directors to acquire up to 1,341,250 shares

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

At July 31, 2000, notes receivable of $162,793 represents amounts due from officers of Innovative Medical Services. These loans from the Company to officers consist of a loan to Michael L. Krall, President and CEO of $117,339 and a loan to Gary Brownell, Chief Financial officer of $45,454. Both loans are due and payable at July 31, 2001. These were renewals and increases of prior year notes of $110,697 and $42,881, respectively, that were due at July 31, 2000. All notes receivable are due and payable within one year. The carrying value of the notes, based on the terms at which those same loans would be made currently, approximate their fair value. All notes in excess of $10,000 have interest accrued at 6%.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

3.1 (1) -- Articles of Incorporation, Articles of Amendment and Bylaws

4.1 (1) -- Form of Class A Warrant

4.2 (1) -- Form of Class Z Warrant

4.3 (1) -- Form of Common Stock Certificate

4.4 (1) -- Warrant Agreement

4.5 (2) -- March 2000 Warrant

4.6 (3) -- January 2001 Warrant

4.7 (4) -- Convertible Debenture

4.8 (5) -- Convertible Debenture Purchase Agreement

4.9 (6) -- Convertible Debenture Warrant

10.1 (1) -- Employment Contract/Michael L. Krall

10.2 (7) -- Manufacturing, Licensing and Distribution Agreement dated March 26, 2001

10.3 -- Axenohl License Agreement dated November 24, 1999

10.4 (8) -- Weaver - Roach X Assignment dated January 4, 2001

10.5 (9) -- Dodo Agreement dated March 5, 2001 [CONFIDENTIAL TREATMENT REQUESTED FOR CERTAIN SECTIONS]

10.6 -- Promissory Note of Michael L. Krall

10.7 -- Promissory Note of Gary Brownell

10.8 (9) -- Nutripure Dealer Agreement

10.9 (9) -- Sales Finance Agreement

11 -- Statement re: computation of per shares earnings

21 -- Subsidiaries of the Registrant

(1) Incorporated by reference from Form SB-2 registration statement SEC File # 333-00434 effective August 8, 1996
(2) Incorporated by reference from S-3 registration statement, SEC File #333-36248 effective on May 17, 2000
(3) Incorporated by reference from S-3 registration statement, SEC File #333-55758 effective on February 26, 2001
(4) Incorporated by reference from S-3 registration statement SEC File #333-61664 filed on May 25, 2001
(5) Incorporated by reference from pre-effective amendment no. 1 to S-3 registration statement SEC File #333-61664 filed on July 10, 2001
(6) Incorporated by reference from pre-effective amendment no.2 to S-3 registration statement SEC File #333-61664 filed on August 13, 2001
(7) Incorporated by reference from Current Report on Form 8-K filed on May 24, 2001
(8) Incorporated by reference from Form 10-QSB/A for the six month period ended January 31, 2001 filed on August 13, 2001
(9) Incorporated by reference from Form 10-QSB/A for the nin month period ended April 30, 2001 filed on August 13, 2001

SIGNATURES

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

INNOVATIVE MEDICAL SERVICES

/s/ MICHAEL L. KRALL August 10, 2001

Michael L. Krall, Chairman/President/CEO

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

NAME	TITLE	DATE
/s/ DENNIS BROVARONE Dennis Brovarone	Director	August 10, 2001
/s/ GARY BROWNELL Gary Brownell	Chief Financial Officer and Director	August 10, 2001

/s/ PATRICK GALUSKA	Director	August 10, 2001
Patrick Galuska		
/s/ MICHAEL L. KRALL	President/CEO and Director	August 10, 2001
Michael L. Krall		
/s/ EUGENE PEISER	Director	August 10, 2001
Eugene Peiser		
/s/ DONNA SINGER	Executive Vice President and Director	August 10, 2001
Donna Singer		