LATINOCARE MANAGEMENT CORP
Form 10QSB
August 29, 2002

FORM 10-QSB
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the fiscal quarter ended: June 30, 2002

Commission file number 0-13215

LATINOCARE MANAGEMENT CORPORATION
(Exact name of registrant as specified in its charter)

NEVADA	30-0050402
(State of Incorporation)	(I.R.S. Employer Identification No.)

4150 Long Beach Boulevard, Long Beach, California 90807
(Address of principal executive offices) (Zip Code)

(562) 997-4420
Registrant's telephone number, including area code

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK	OTC

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

The aggregate market value of voting stock held by non-affiliates of the registrant was $1,639,055 as of June 30, 2002 (computed by reference to the last sale price of a share of the registrant's Common Stock on that date as reported by the NASDAQ).

There were 14,557,100 shares outstanding of the registrant's Common Stock as of June 30, 2002.

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

ASSETS

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,388	$ 2,604
Accounts receivable	298	2,922
Prepaid expenses and other assets	119,970	49,291
TOTAL CURRENT ASSETS	127,656	54,817
PROPERTY AND EQUIPMENT:		
Net of accumulated depreciation	191,100	218,600
TOTAL PROPERTY AND EQUIPMENT	191,100	218,600
OTHER ASSETS:		
Deposit	15,478	15,478

TOTAL OTHER ASSETS	15,478	15,478
	$ 334,234	$ 288,895

LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES:		
Accounts payable	$ 263,212	$ 196,387
Accrued expenses	119,249	107,522
Accrued interest payable	98,564	46,034
Income tax payable	1,600	1,600
Sue to related party	496,485	437,756
Note payable - shareholder	1,750,000	1,750,000
TOTAL CURRENT LIABILITIES	2,729,110	2,539,299
SHAREHOLDERS' EQUITY (DEFICIT):		
Common stock, par value $.001; 50,000,000 shares authorized; 14,557,100 and 14,529,100 shares issued and outstanding, respectively	997,680	997,652
Preferred stock, par value $.001; 2,000,000 Shares authorized, no shares issued and outstanding	0	0
ADDITIONAL PAID-IN CAPITAL	34,972	0
ACCUMULATED DEFICIT	(3,427,528)	(3,248,056)
TOTAL SHAREHOLDERS' DEFICIT	(2,394,876)	(2,250,404)
	$ 334,234	$ 288,895

See accompanying notes and accountants' review report
which are integral parts of these consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
REVENUE:				
Management fees- related party	$ 974,812	$ 397,191	$ 1,330,368	$ 908,269

Management fees- others	4,024	17,525	20,845	60,475
	978,836	414,716	1,351,213	968,744
COSTS AND EXPENSES:				
Salaries and benefits	434,198	473,776	916,936	825,068
Professional and consulting fees	58,640	90,724	171,774	237,557
General and administrative	202,760	293,895	361,129	420,519
Depreciation	13,750	25,782	27,500	35,682
	709,348	884,177	1,477,339	1,518,826
OPERATING INCOME (LOSS)	269,488	(469,461)	(126,126)	(550,082)
OTHER INCOME (EXPENSE):				
Interest expense	(26,275)	(13,974)	(52,545)	(26,901)
OTHER INCOME (LOSS) BEFORE INCOME TAXES	243,213	(483,435)	(178,671)	(576,983)
PROVISION FOR INCOME TAXES	0	0	800	800
NET INCOME (LOSS)	$ 243,213	$ (483,435)	$ (179,471)	$ (577,783)
EARNINGS (LOSS) PER COMMON SHARE				
BASIC	0.02	(0.03)	(0.01)	(0.04)
DILUTED	0.02	(0.03)	(0.01)	(0.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	14,539,100	14,529,100	14,543,100	14,529,100
DILUTED	14,539,100	14,529,100	14,543,100	14,529,100

SEE ACCOMPANYING NOTES AND ACCOUNTANTS' REVIEW REPORT
WHICH ARE INTEGRAL PARTS OF THESE CONSOLIDATED FINANCIAL STATEMENTS

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in	Retained Earnings Accumulated Deficit	Total Shareholders' Equity
Balance at December 31, 2001	3,781,455	$ 952,727	$	$ (960,942)	$ (8,215)
Retirement of common stock	(3,270,000)				
Reissuance of new common stock to existing shareholders of the acquiring company	13,471,645				
Issuance of new shares of stock:					
Common stock issued as part of cost of acquiring JNS Marketing	260,000	26,000		(26,000)	0
Common stock issued for services rendered	100,000	10,000			10,000
Common stock issued to private investors prior to acquisition	186,000	8,925		(8,925)	0
Transfer of acquiring company's accumulated deficit	0	0	0	(1,671,685)	(1,671,685)
Consolidated net loss for period ended December 31, 2001	0	0	0	(580,504)	(580,504)
Balance at December 31,2001	14,529,100	$ 997,652		(3,248,056)	(2,250,404)
Private placement Offering	28,000	28	34,972		35,000
Consolidated net income for six months Ended June 30, 2002				(179,471)	(179,471)
Balance at June 30, 2002	14,557,100	$ 997,680	$ 34,972	$(3,427,528)	$(2,394,876)

See accompanying notes and accountants review report which are integral parts of these consolidated financial statements

LATINOCARE MANAGEMENT CORPORATION
(A NEVADA CORPORATION)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR SIX MONTHS ENDED June 30, 2002 AND 2001 (UNAUDITED)

	Six Months June 30, 2002	Six Months June 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) from operations	$ (179,471)	(577,783)
Adjustment to reconcile net income (loss) from operations to cash provided (used) in operating activities:		
Depreciation	27,500	35,682
(Increase) decrease in:		
Accounts receivable	2,624	(1,925)
Prepayments to private placement offering	(70,680)	(34,202)
Increase (decrease) in:		
Due to related party	58,729	433,887
Accounts payable	66,825	79,752
Accrued expense	11,727	29,566
Accrued interest	52,530	(200,469)
Income tax	0	800
Net cash used from operating activities	(30,216)	(234,692)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment	0	(22,472)
Net cash used from investing activities	0	(22,472)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Conversion of debt into equity	0	227,723
Private placement offering	35,000	0
Net cash provided from financing activities	35,000	227,723
Net increase (decrease) in cash	4,784	(29,441)
Cash, beginning of the year	2,604	65,532
Cash, end of the year	$ 7,388	$ 36,091
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	0	0
Cash paid during the period for income taxes	987	0
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:		
Accrued interest on debt to equity conversion	0	$ 27,254

Accrued interest on the equity to debt conversion	52,530	0
Conversion of Debt to equity	$ 0	$1,040,183

See accompanying notes and accountants review report which are integral parts of these consolidated financial statements

LATINOCARE MANAGEMENT CORPORATION
(A NEVADA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(1) General Background and Nature of Operations:

a. General background:

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

The Company was formed upon the reincorporation and change of name of JNS Marketing, Inc. (JNS) which was originally incorporated in Colorado in July 1983. Prior to JNS's acquisition of Latinocare Management Corporation - California in 2001, JNS was a reporting public shell company with no tangible assets, insignificant liabilities and no revenue.

Latinocare Management Corporation - California (LMC) dba Latino Health Care was founded and incorporated on February 23, 1995 as a California for-profit stock corporation. Its sole purpose, when originally organized, was to manage all operations of Latinocare Network Medical Group (IPA), a related party who have common shareholders who influence the activities of both entities.

LMC acquired JNS in November 2001 purchasing 3,270,000 or approximately 86% of the issued and outstanding common stock of JNS Marketing, Inc. in exchange for $300,000. There was a delay in the planned acquisition date due to renegotiation of the acquisition cost which resulted in the issuance of an additional 260,000 new shares of common stock of the Company as part of the purchase price. The 3,270,000 shares common stock were subsequently retired and cancelled. The members of the Board of Directors of the Company before the purchase were replaced with the members of LMC's Board of Directors.

LMC and JNS entered into an Agreement and Plan of Reorganization which will result in a share exchange between

shareholders of two companies, whereby LMC will become a wholly owned subsidiary of the Company. JNS was renamed as Latinocare Management Corporation, reincorporated in the State of Nevada on January 2002 and which is referred in this report as the "Company".

See accountants' review report

LATINOCARE MANAGEMENT CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(1) General Background and Nature of Operations (Cont'd):

a. General background (cont'd):

The Company has a total of 14,557,100 shares of its outstanding common stock issued. 511,455 shares or 3% of the issued and outstanding common stock consist of the original shareholders of the acquired company; 13,471,645 shares or 93% of the outstanding common stock were issued to two members of the Company's Board of Directors; and new shares issued totaling 574,000 shares or 4% of the outstanding common stock issued consists of 260,000 shares of common stock issued to individuals as part of LMC's renegotiated cost of acquiring the Company, 100,0000 shares of common stock issued for services rendered and 214,000 shares of common stock issued to unaffiliated private investors.

b. Nature of operations:

The Company is in the business of providing management, administrative services and marketing for independent practice associations engaged in providing health care services.

The Company has targeted and successfully reached four primary groups: health plans, hospitals, health service recipients and physicians with significant focus on the Latino market.

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

On November 1995, the Company has entered into a twenty-five (25) year Management Services Agreement with Latinocare Network Medical Group, Inc. to provide all management and administrative support, allowing the IPA to focus its efforts on medical governance and patient care management of services as required by health plans and regulations. These services provided by the Company include, among others, utilization management, quality improvement, claims processing, case management and financial services management. Marketing and business development are also provided as added services to the core services included in the Management Services Agreement (collectively,

"Management Services"). The Company acts as the exclusive agent to the IPA with regards to seeking, negotiating, renewing, and executing managed care contracts.

See accountants' review report

LATINOCARE MANAGEMENT CORPORATION
(A NEVADA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(2) Summary of Significant Accounting Policies:

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

The Company's cash and available credit are not sufficient to support operations for the next year. A net loss of $3,248,056 was incurred from inception on February 1995 until December 31, 2001. In the first year of start-up, an operating deficit of $1,750,000 was funded by debt capital provided by Cedars-Sinai Medical Center and was converted to capital equity in 1997. An additional $750,000 deficit has resulted from expenses for capital financing efforts beginning in the fourth quarter of 2000, and subsequently, in 2001. In the third and fourth quarters of 2001, the Company funded capital raising expenses including the purchase and reverse merger with JNS Marketing, Inc.

For the six months ended June 30, 2002, the Company had an additional net loss of $179,471. The Company also had negative working capital and stockholders deficit at June 30, 2002.

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

a. Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary. Inter-company accounts and transactions have been eliminated in the consolidated financial statements.

b. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could

differ from those estimates.

c. Revenue Recognition:

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

See accountants' review report

LATINOCARE MANAGEMENT CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(2) Summary of Significant Accounting Policies (cont'd):

c. Revenue Recognition (cont'd):

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

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

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

d. Cash and Cash Equivalents:

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

e. Accounts Receivable:

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

f. Prepaid Private Placement Costs:

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

g. Property, Equipment and Related Depreciation:

Property and equipment are stated at cost. Maintenance, repairs and minor renewals and betterment's are expensed; major improvements are capitalized.

See accountants' review report

LATINOCARE MANAGEMENT CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(2) Summary of Significant Accounting Policies (cont'd):

g. Property, Equipment and Related Depreciation (cont'd):

Depreciation of property and equipment is provided for using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated Useful Lives
Leasehold improvements	Life of lease
Computer, equipment and office furniture	5 - 10 Years

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

h. Advertising Expenses:

All advertising expenses are expensed as incurred.

i. Income Taxes:

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

j. Adoption of Recent Accounting Standards:

Segment Reporting:

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

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

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

See accountants' review report

LATINOCARE MANAGEMENT CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(2) Summary of Significant Accounting Policies (cont'd):

j. Adoption of Recent Accounting Standards (cont'd):

Business Combination:

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

(3) Private Placement Offering and Prepaid expenses:

Prepaid expenses and other current assets consists of:

	June 30 2002 (unaudited)	December 31 2001 (audited)
Prepaid private placement costs	$ 119,970	$ 46,896
Other current assets		2,395
	$ 119,970	$ 49,291

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

The above prepaid private placement costs consist of printing, mailing and consulting fees that have been incurred from the offering date to June 30, 2002. These costs directly attributable to the offering of securities are deferred and will be charged against the gross proceeds of the offering of securities when the offering ends or is terminated. The gross proceeds received as of June 30, 2002 is $35,000. New shares issued for this offering were 28,000 shares of common stock.

(4) Property and Equipment:

Property and equipment consists of the following:

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Furniture, fixtures and office equipment	$ 83,786	$ 83,785
Leasehold improvement	77,157	77,157
Computers and software	171,013	204,058
	331,956	365,000
Less accumulated depreciation	140,856	146,400
	$ 191,100	$ 218,600

See accountants' review report

LATINOCARE MANAGEMENT CORPORATION
(A NEVADA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(4) Property and Equipment (cont'd):

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

	Three Months ended June 30,		Six Months ended June 30	
	2002	2001	2002	2001
Depreciation	$13,750	$ 24,104	$ 27,500	$ 35,682

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

(5) Notes Payable - Related Party:

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

Cedars Sinai, due July 23, 2002 with interest at 6.0% per annum	$ 1,750,000

The notes for Cedars Sinai matures as follows:

$500,000 shall be paid on or before 120 days on or before the date of the note; $500,000 shall be paid on or before 240 days on or before the date of the note; and $750,000 and all accrued but unpaid

interest shall be paid on or before the expiration of 360 days from the date of the note.

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

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

b. For the next one million dollars repaid ($1,000,000) by the Company, recourse shareholdings shall be reduced from twenty percent (20%) of the issued and outstanding shares to zero percent (0%) of such issued and outstanding shares, or the portion thereof.

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LATINOCARE MANAGEMENT CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(5) Notes Payable - Related Party (cont'd):

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

As of June 30, 2002, no payments were made by the Company nor any collection actions from Cedar Sinai. The Company plans to amend the terms of the above agreement with Cedar Sinai but there is no assurance that an amendment will be made. Cedar Sinai has not demanded a conversion of its note and management believes that it may be receptive to a modification.

(6) Provision for Income Taxes:

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

	Federal	State	Total
Current	$ 0	$ 800	$ 800
Deferred	0	0	0
	$ 0	$ 800	$ 800

Other than the minimum tax due to the State of California, no income tax accruals were recorded because the Company incurred a loss for the previous and current years and has available net operating loss (NOL) carry forwards at year ended December 31, 2001 of approximately

$2,212,504, available to offset future taxable income. These NOL carry forwards expire beginning in 2010 and ending in 2014, fifteen years from the year in which the losses were incurred.

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

(7) Advertising:

Advertising expense consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
TOTAL	$ 2,765	$ 0	$ 4,865	$ 1,096

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LATINOCARE MANAGEMENT CORPORATION
(A NEVADA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(8) Employee Savings Plan:

On August 1, 2000, the Company adopted a 401(K) Profit Sharing Plan and Trust for the benefit of its employees and beneficiaries.

Eligible employees may contribute a portion of their pretax annual compensation within specified limits. A discretionary matching contribution will be provided by the employer which may or may not be limited to its current accumulated net profit.

There are no employer contributions to the plan for the three months ended June 30, 2002 and 2001.

(9) Commitments:

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

Period Ending June 30,	Office Space	Equipment	Total
2003	$ 250,620	$ 70,716	$ 321,336
2004	250,620	70,716	321,336
2005	250,620	70,716	321,336
2006	250,620	70,716	321,336
Thereafter	250,620	70,716	321,336

Total	$ 1,253,100	$ 353,580	$ 1,606,680

Total lease and rent expense consist of the following:

	Three Months Ended June 30, 2002	2001	Six Months Ended June 30, 2002	2001
	(Unaudited)		(Unaudited)	
Equipment lease	$ 26,839	$ 12,248	$ 40,589	$ 22,030
Office Rent	61,810	32,351	124,098	95,975
	$ 88,649	$ 44,599	$164,687	$118,005

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

Due from/(to) related party consists of:

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Due to IPA (net)	$ (586,482)	$ (496,211)
Due from JJ&M Management (net)	33,276	16,478
Due From Latino Family Care (Net)	56,721	41,977
Due to Related Party (Net)	$ (496,485)	$ (437,756)

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

The CEO/President of Latinocare Network Medical Group, Inc. (IPA) is a member of the board of directors and a major stockholder for both the IPA and the Company until his recent death in February 2002. In light of this shareholder's death, the Company has the contractual right to acquire his shares of stock from the IPA and the Company for $2.5 million contingent on the Company making some milestone payments. The Company is in

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LATINOCARE MANAGEMENT CORPORATION
(A NEVADA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(10) Related Party Transactions and Due to Related Parties (cont'd):

a.Latinocare Network Medical Group, Inc./IPA (cont'd):

discussions with the heirs of the shareholder to make the purchase

essentially on the same terms as previously agreed with the shareholder before his death, subject to the availability of capital.

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

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

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

In addition to management fees the Company is also entitled to receive fifty percent (50%) of the IPA's share of hospital (with hospital or HMO) and specialty risk pool settlements. Hospital and risk pools are revenues estimated for hospital and specialist medical expenses held in reserve until actual claims are adjudicated. Surpluses are distributed accordingly after all financial obligations are met.

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LATINOCARE MANAGEMENT CORPORATION
(A NEVADA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(10) Related Party Transactions and Due to Related Parties (cont'd):

a.Latinocare Network Medical Group, Inc./IPA (cont'd):

The management fees from capitation; settlement fees; management fees from marketing and business development; and management fees for other services (operational core expenses) for the management of the IPA, paid and due to the Company were approximately:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	

Management fee-capitation	$ 304,588	$ 375,879	$ 660,144	$ 771,876
Settlement fee	5,738	21,312	5,738	136,393
Management fee- Business development and marketing	253,782	0	253,782	0
Management fee-core operations	410,704	0	410,704	0
Total	$ 974,812	$ 397,191	$1,330,368	$ 908,269

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

Related party receivables and advances payable as of:

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Receivable from related party	$ 180,652	$ 298,322
Payable to Related Party	(767,134)	(794,533)
Due to IPA (Net)	$ (586,482)	$(496,211)

The above outstanding net payable to the IPA of approximately $586,482 and $496,211 as of June 30, 2002 and December 31, 2001 respectively, was used as working capital.

b. Gonzales-D'Avila Enterprise dba JJ&M Management:

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

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LATINOCARE MANAGEMENT CORPORATION
(A NEVADA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Audited) AND
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (Unaudited)

(10) Related Party Transactions (cont'd):

b. Gonzales-D'Avila Enterprise dba JJ&M Management (cont'd):

The outstanding receivable from JJ&M for reimbursement of life

insurance paid by the Company is $33,276 and $16,478 as of June 30,2002 and December 31, 2001, respectively.

c. Latino Family Care

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

The outstanding receivable from Latino Family Care for reimbursement of health insurance and equipment expenses is $56,721 and $41,977 as of June 30, 2002 and December 31, 2001 respectively.

d. Cedars Sinai Medical Center

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

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

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

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(10) Related Party Transactions (cont'd):

d. Cedars Sinai Medical Center (cont'd)

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

Client made no repayment for the above loan as of June 30, 2002. The Company plans to amend the terms of the agreement subsequent to this balance sheet date and the Company believes that Cedar Sinai may be receptive to this amendment.

(11) Significant Management Investment:

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

(12) Stock Option Plan:

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

(13) Subsequent Events:

a. Management agreement with IPA:

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

b. Acquisition

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

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(13) Subsequent Events (cont'd):

c. Private Placement Offering:

On November 30, 2001, a new Private Placement Memorandum was issued for qualified investors in connection with the Company's offer of sale of its common stock. The Company has extended the offering to August 31, 2002. The Company is offering 800,000 Units for a purchase price of $1.25 per Unit (maximum gross proceeds of $1,000,000). Each Unit includes one share of the Company's common stock and one Warrant to purchase one share of the Company's common stock for a purchase price of $2.00 per share at any time until one year after the date that they are issued. The Company has the option to increase a total amount

of the offering by up to an additional $150,000 (120,000 shares). There is no minimum amount of the offering and the maximum offering is $1,150,000 (if the Company exercises its option to increase the maximum amount of the offering). The purchase price for the shares will be payable in full in cash upon subscriptions.

The net proceeds from the offering are expected to be approximately $900,000 after the payment of offering costs including printing, mailing, legal, and accounting costs, and potential selling commissions and finder's or referral fees that may be incurred. The net proceeds from this offering are estimated to be utilized to pay marketing and promotion costs to obtain new enrollees; to finance acquisitions of IPAs; and for working capital purposes.

The Company has incurred prepaid private placement costs as of June 30, 2002 of $119,970. These costs are deferred and will be charged against the gross proceeds of the offering of securities when the offering ends or is terminated.

As of June 30, 2002, the Company has raised minimal capital of $35,000 for which it has issued 28,000 shares of common stock in the private placement. The Company is currently engaged in negotiations with potential financial backers through its investment bank. The Company may receive an equity cash infusion that will enable it to execute its business plan and grow its operation.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

CAUTIONARY STATEMENTS

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

- statements concerning the benefits that the Company expects will result from its business activities and certain transactions the Company has completed, such as the potential for increased revenues, decreased expenses and avoided expenditures; and

- statements of the Company's expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts. These statements may be made expressly in this Form 10-QSB. You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," or similar expressions used in this Form 10-QSB. These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause the Company's actual results to be materially different from any future results expressed or implied by the Company in those statements. The most important facts that could prevent the Company from achieving its stated goals include, but are not limited to, the following:

(a) volatility and/or decline of the Company's stock price;

(b) potential fluctuation in quarterly results;

(c) barriers to raising the additional capital or to obtaining the

financing needed to implement its full business plans;

(d) inadequate capital to continue business;

(e) changes in demand for the Company's products and services;

(f) rapid and significant changes in technology and markets;

(g) litigation with or legal claims and allegations by outside parties;

(h) insufficient revenue to cover operating costs.

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

The Company has continued to support the marketing and business development activities of LatinoCare Network Medical Group ("LCNMG") to increase member lives and add physicians to the provider network. Resources needed to provide this support have continued to be made available after certain significant events (i.e. Tower Bankruptcy) negatively impacted LCNMG's membership. The Company plans to continue to provide this support as it endeavors to raise capital to acquire lives. In the event capital is not available, the Company has examined its operations and that of LCNMG and plans to implement the necessary reductions during the third quarter of fiscal 2002 that it believes will maintain the operations of the Company and return LCNMG to profitability. LCNMG achieved profitability in the five months commencing February 2002 through June 2002, following deficits in 2001 and January 2002. The recent profitability of LCNMG was gained from the new management information system installed, which is expected to allow the Company to provide services in a more cost effective manner as membership increases.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2002 AS COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2001

Total revenue for the six months ended June 30, 2002 increased by $382,470 to $1,351,213 from $968,743 for the six months ended June 30, 2001. The increase is due to additional management fees received by the Company from LNMG related to marketing and business development and the management of the IPA. These additional management fees were calculated and booked at year end for the fiscal year ended December 31, 2001.

Operating and administrative expenses decreased by $80,916 during the six months ended June 30, 2002 to $1,477,339 from $1,518,826 for the six months ended June 30, 2001. Legal expenses decreased by $32,559 for the six months ended June 30, 2002 as compared to the six months ended June 30, 2001. Management fees and service expenses decreased by $72,000 for the six months ended June 30, 2002 as compared to the six months ended June 30, 2001. Expenses for outside consultants decreased by $104,960 for the six months ended June 30, 2002 as compared to the six months ended June 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company had consolidated net cash of $7,388 for the six months ended June 30, 2002 as compared to net cash of $36,091 for the six months ended of June 30, 2001. The Company had a net working capital deficit (i.e. the difference between current assets and current liabilities) of $2,601,454 for the six months ended June 30, 2002 of which $1,848,564 is a note payable to Cedars-Sinai, as compared to a working capital deficit of $423,344 for the six months ended June 30, 2001. Cash flow used for operating activities was $30,216 for the six months ended June 30, 2002 as compared to $234,692 for the six months ended June 30, 2001. There was no cash used for investing activities during the six months ended June 30, 2002, as compared to ($22,472) used during the six months ended June 30, 2001. Net Cash provided by financing activities was $35,000 during the six months ended June 30, 2002 as compared to ($227,723) during the six months ended June 30, 2001.

The Company will have additional capital requirements during 2002 if the Company continues with its plan of acquisition and incubation of new IPAs and projects, and to pay operating costs. There is no assurance that the Company will have sufficient capital to finance its growth and business operations or that such capital will be available on terms that are favorable to the Company or at all. The Company is currently incurring operating deficits which are expected to continue until LNMG increases its patient enrollment, which depends in part on the Company raising additional working capital for marketing and acquisitions. The change is expected to be the result of adjustment to expenses and by increased revenues due to acquisitions, provided that the Company raises additional capital.

The Company expects to have material capital requirements during 2002 as it relates to acquisitions of membership by LNMG, the IPA. Subject to the availability of capital, LNMG and the Company plan to acquire additional membership through the acquisition of IPAs and from individual physicians. The latter method is not the acquisition of physician's practices but rather the transfer of these physicians' membership from other IPAs to LNMG. The funds to make these acquisitions are expected to be generated from a private placement of common stock and warrants currently being made by the Company to raise approximately $1,000,000 of capital. The private placement commenced in late 2001 and involves the offer of 800,000 units at a price of $1.25 per unit. Each unit consists of one share of common stock and one warrant to purchase one share of common stock for a purchase price of $2.00 per share for a period of one year from the date of issuance, subject to extension until the shares underlying the warrants are registered with the Securities and Exchange Commission. The warrantholders have registration rights after issuance of the warrants. To date, approximately $35,000 has been raised in the private placement and a commitment for $25,000 was to be received in the third quarter. There is no assurance that the Company will raise additional capital.

On July 23, 2001, the Cedars-Sinai Medical Center (CSMC) sold its shares of the common stock of Latino Management Corporation, a California corporation ("LMC") to LMC in consideration for a note in the amount of $1.75 million plus simple interest at the rate of 6% per annum. The note was payable in three installments on or before July 23, 2002. The first installment was due in January 2002 and was not paid. As a result, CSMC has the right to convert the

note into 28% of the outstanding common stock of the Company, or a pro rata share if the promissory note is partially repaid. The Company expects to negotiate an extension with CSMC on the promissory note.

LNMG was owned by Roberto Chiprut, M.D. who was a major shareholder and director of the Company and LMC until his recent death. Prior to his death, the Company and Dr. Chiprut had reached agreement and executed a contract for the Company to acquire his IPA and Company stock for $2.5 million contingent on the Company making certain milestone payments. The Company is in discussions with the heirs of Dr. Chiprut to make the purchase on essentially the same terms as previously agreed upon with Dr. Chiprut, subject to the availability of capital. The Company currently does not have the funds to purchase Dr. Chipruts's stock and there is no assurance that the Company will be able to obtain sufficient capital to pay the purchase price for the stock.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
None.

ITEM 2. CHANGES IN SECURITIES
None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None

ITEM 5. OTHER INFORMATION
None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

(b) Reports on Form 8-K.

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

SIGNATURES

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

Dated: August 15, 2002

BY: /s/ Jose J. Gonzalez

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

BY: /s/ Joseph Luevanos

Joseph Luevanos, Director and Chief
Financial Officer