INNOVATIVE MEDICAL SERVICES
Form 10QSB
June 16, 2003

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the period ended April 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required] For the transition period from ______ to _____

Commission File number 0-21019

INNOVATIVE MEDICAL SERVICES
(Name of small business issuer in its charter)

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

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

619 596 8600
Issuer's telephone number

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

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: 10,494,088 as of June 12, 2003.

INNOVATIVE MEDICAL SERVICES

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The interim financial statements include all adjustments, which in the opinion of management, are necessary in order to make the financial statements not misleading.

CONSOLIDATED BALANCE SHEETS

	April 30 2003 (Unaudited)	July 31 2002 (Restated) (See Note 1)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 53,137	$ 151,257
Accounts receivable, net of allowance for doubtful accounts of $ 39,000 at April 30, 2003 and $111,000 at July 31, 2002	263,551	166,601
Due from officers and employees	16,125	209,437
Inventories	374,315	595,071
Prepaid expenses	91,255	177,445
Total current assets	798,383	1,299,811
Property, Plant and Equipment		
Property, plant and equipment	481,990	613,909

Total property, plant and equipment	481,990	613,909
Noncurrent Assets		
Deposits	9,341	8,954
Patents and licenses	2,610,129	2,626,376
Total noncurrent assets	2,619,470	2,635,330
Total assets	$ 3,899,843	$ 4,549,050
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 863,073	$ 591,031
Accrued liabilities	161,463	118,975
Loans from shareholders	600,000	500,000
Total current liabilities	1,624,536	1,210,006
Stockholders' Equity		
Class A common stock, no par value: authorized 50,000,000 shares, issued and outstanding 10,268,981 at April 30, 2003 and 8,400,899 at July 31, 2002	14,698,203	13,976,448
Warrants: issued and outstanding 737,429 warrants	668,986	8,610
Accumulated deficit	(13,091,882)	(10,646,014)
Total stockholders' equity	2,275,307	3,339,044
Total liabilities and stockholders' equity	$ 3,899,843	$4,549,050

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	For the Nine Months Ended April 30		For the Three Months E April 30	
	2003	2002	2003	200

Net revenues	$ 2,005,448	$ 2,575,624	$ 644,645	$ 877,4
Cost of sales	1,191,663	1,304,151	423,293	498,3
Gross profit	813,785	1,271,473	221,352	379,1
Selling expenses	444,295	581,114	155,727	226,5
General and administrative expenses	1,419,058	1,482,834	478,867	476,0
Research and development	690,491	571,201	266,241	254,9
Start-up costs	635,376	--	--	
Total operating costs	3,189,220	2,635,149	900,835	957,6
Loss from operations	(2,375,435)	(1,363,676)	(679,483)	(578,5
Other income and (expense):				
Interest income	1,332	467	1	1
Interest Expense	(71,765)	(28,857)	(27,000)	(17,6
Other	--	(1,800)	--	(6
Total other income (expense)	(70,433)	(30,190)	(26,999)	(18,1
Net loss	$ (2,445,868)	$(1,393,866)	$ (706,482)	$(596,6
Net loss per common share, basic and diluted	$ (0.27)	$ (0.19)	$ (0.07)	$ (0.

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICITS	Nine Months Ended April 30 2003	Year Ende July 200
Balance, beginning of period	$ (10,646,014)	$ (8,
Net income (loss)	(2,445,868)	(2,
Balance, end of period	$ (13,091,882)	$ (10,

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Nine Months April 30 2003	2
Cash flows from operating activities		
Net loss	$(2,445,868)	$(1,39
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	115,611	14
Depreciation	142,712	20
Services paid for with stock and warrants	760,965	
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(96,950)	(2
(Increase) decrease in due from officers and employees	193,312	(
(Increase) decrease in prepaid expense	177,456	(
(Increase) decrease in inventory	220,756	12
(Increase) decrease in deposits	(387)	
Increase (decrease) in accounts payable	272,042	17
Increase (decrease) in accrued liabilities	42,488	9
Net cash provided (used) by operating activities	(617,862)	(69
Cash flows from investing activities		
Purchase of patents and licenses	(99,365)	(8
Purchase of property, plant and equipment	(10,794)	(15
Deferred acquisition costs	--	(1
Net cash (used) in investing activities	(110,158)	(26
Cash flows from financing activities		
Proceeds from debt obligations	100,000	51
Proceeds from sale of common stock	529,900	43
Net cash provided by financing activities	629,900	95
Net increase (decrease) in cash and cash equivalents	(98,120)	
Cash and cash equivalents at beginning of period	151,257	20
Cash and cash equivalents at end of period	$ 53,137	$ 20
Supplemental disclosures of cash flow information		
Cash paid for interest paid	$ 71,765	$ 2
Cash paid for taxes paid	$ --	$
Noncash investing and financing activities:		
Value of shares issued in exchange for services	$ 165,660	
Value of options issued in exchange for services	$ 59,805	

Value of warrants issued in exchange for startup costs	$ 635,376
Value of shares issued in exchange for Silver Ion Technology patent	$ 1,54

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Financial Statements

The financial statements included herein have been prepared by Innovative Medical Services (the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations, and Innovative Medical Services believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the July 31, 2002 audited financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist and procedures that will be accomplished by Innovative Medical Services later in the year. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year.

The management of the Company believes that the accompanying audited financial statements contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented.

Amounts shown for July 31, 2002 are taken from the audited financial statements of that date as amended.

Note 2. Business Segment and Sales Concentrations

In accordance with the provisions of SFAS No. 131, certain information is disclosed based on the way management organizes financial information for making operating decisions and assessing performance. In determining operating segments, the Company reviewed the current management structure reporting to the chief operating decision-maker ('CODM') and analyzed the reporting the CODM receives to allocate resources and measure performance.

The Company's business activities are divided, managed and conducted in two basic business segments, the Water Treatment segment and the Bioscience segment. These two segments were determined by management based upon the inherent differences in the end use of the products, the inherent differences in the value added processes made by the Company, the differences in the regulatory requirements and the inherent differences in the strategies required to successfully market finished products. The Water Treatment segment includes Commercial Water and Residential Retail products and the Nutripure Water Dealer program. Bioscience includes Axenohl (Silver Ion Technology) and the Innovex line of pest control products.

Segment information is presented in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information. This standard is based on a management approach, which requires segmentation based upon the Company's internal organization and disclosure of revenue and operating income based upon internal accounting methods. The Company's financial reporting systems present various data for management to run the business, including internal profit and loss statements prepared on a basis not consistent with U.S. generally accepted accounting principles.

FOR THE THREE MONTHS ENDED APRIL 30, 2002	Water Treatment	Biosciences	Reconciling Amounts	Consolidated
Revenues				
Commercial Water Treatment				
Fillmaster Products	$260,200			$ 260,200
Replacement Filters	167,000			167,000
Residential Water Treatment	43,100			43,100
Water Dealer Program	111,900			111,900
Silver Ionization	0	$ 202,500		202,500
Pesticide	0	92,700		92,700
Total Revenues	$582,200	$ 295,200		$ 877,400
Operating Income/(Loss)	$143,000	$ (301,400)	$(257,700)	$(416,100)
Segment Assets	$802,400	$ 2,676,900		

FOR THE THREE MONTHS ENDED April 30, 2003	Water Treatment	Biosciences	Reconciling Amounts	Consolidated
Revenues				
Commercial Water Treatment				
Fillmaster Products	$ 328,900			$ 328,900
Replacement Filters	181,500			181,500
Residential Water Treatment	20,700			20,700
Water Dealer Program	101,800			101,800
Silver Ionization	0	$1,200		1,200
Pesticide	0	10,500		10,500
Total Revenues	$632,900	$11,700		$644,600

Operating Income/(Loss)	$189,100	$(368,900)	$(499,700)	$(679,500)
Segment Assets	$427,700	$2,982,900		

FOR THE THREE MONTHS ENDED APRIL 30, 2002	Water Treatment	Biosciences	Reconciling Amounts	Consolidated
Revenues				
Commercial Water Treatment				
Fillmaster Products	$ 844,100			$ 844,100
Replacement Filters	398,100			398,100
Residential Water Treatment	61,700			61,700
Water Dealer Program	293,300			293,300
Silver Ionization	0	$689,000		689,000
Pesticide	0	289,400		289,400
Total Revenues	$1,597,200	$978,400		$2,575,600
Operating Income/(Loss)	$468,400	$(301,400)	$(964,200)	$(797,200)
Segment Assets	$802,400	$2,676,900		

FOR THE THREE MONTHS ENDED APRIL 30, 2002	Water Treatment	Biosciences	Reconciling Amounts	Consolidated
Revenues				
Commercial Water Treatment				
Fillmaster Products	$906,300			$ 906,300
Replacement Filters	493,000			493,000
Residential Water Treatment	138,900			138,900
Water Dealer Program	389,800			389,800
Silver Ionization	0	$29,300		29,300
Pesticide		48,200		48,200
Total Revenues	$1,928,000	$75,500		$ 2,005,500
Operating Income/(Loss)	$622,500	$(1,003,500)	$(1,994,400)	$(2,375,400)
Segment Assets	$427,700	$2,982,900		

Significant customers primarily consisted of domestic retail chain pharmacies. Sales concentrations to major chain stores were approximately $308,200 and export sales were $12,000 for the quarter ended January 31, 2003. Sales concentrations to major chain stores were approximately $977,900 and export sales were $43,500 for the nine months ended April 30,

2003. No customer accounted for more than 10% of consolidated sales.

Note 3. Common Stock

On August 30, 2002, 60,000 shares of common stock valued at $34,200 ($0.57 per share) were issued in exchange for a 1-year agreement for EPA regulatory consulting. On September 18, 2002, 120,000 shares valued at $68,400 ($0.57 per share) were issued in exchange for a 1-year consulting agreement to facilitate the identification and facilitation of sponsored research relationships and outlicensing opportunities for the Company. On September 18, 2002, 65,000 shares valued at $37,050 ($0.57 per share) were issued in exchange for a 1-year marketing and business development consulting agreement. On September 18, 2002, options on 135,000 shares were exercised.

On November 22, 2002 the board of directors approved the Annual Grant of Options to Directors from the 2002 Directors and Officers Stock Option Plan. Officers and directors received a total of 450,000 five-year options with an exercise price of $0.50 per share. On the date of the grant the common stock of the Company closed at $0.45 per share.

During the quarter ended January 31, 2003 the Company conducted a $250,000 private placement in which the Company issued 833,332 shares of common stock to six accredited investors at a price of $0.30 per share. Fees connected with the offering consisted of commissions of $25,000 (10%), 135,106 shares of common stock valued at $58,096 ($0.43 per share), and 71,429 warrants to purchase common stock at $0.30 per share valued at $25,000 ($0.35 per share based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 101.48% and a risk-free interest rate of 5.25%). On December 16, 2002, 200,000 shares of common stock valued at $88,000 ($0.44 per share) were issued for attorney fees incurred in connection with the acquisition of the Axenohl patent. Of this amount $70,600 was booked at the date of the patent acquisition. The Company also received $4,375 from the exercise of employee options during the quarter ended January 31, 2003.

During the quarter ended April 30, 2003 the Company conducted a $200,000 private placement in which the Company issued 400,000 shares of common stock to six accredited investors at a price of $0.50 per share. On March 17, 2003, 12,250 shares of common stock valued at $8,575 ($0.70 per share) were issued for attorney fees.

Note 4. Contracts and Commitments

In January 2003 the Company signed a cross-marketing and licensing agreement with Nickel Ltd., a manufacturer and distributor of wet wipes in Europe. Under the terms of the three-part agreement, the Company is acquiring two "Super Distribution Agreements." The first Super Distribution agreement grants IMS exclusive rights to sell Nickel's Clean Plus(R) janitorial/sanitation product line in the U.S. to suppliers and distributors in the janitorial and sanitation industries, as well as to mass merchandisers. The second Super Distribution agreement establishes a 50/50 joint venture between IMS and Nickel, to be known as CARLINE AMERICA LTD(TM). This agreement permits the IMS-managed and staffed joint venture to sell and distribute Nickel's Clean Plus(R) line of automotive wet wipe products to automotive aftermarket retailers and mass merchandisers in the United States. CARLINE AMERICA LTD will become a consolidated subsidiary accounted for on the equity method.

In the third part of the agreement Nickel Ltd. agrees to process all necessary regulatory and other approvals required as a condition to the commercialization of Axen based products in the European Union and Innovative Medical Services has granted Nickel Ltd. a license for industrial-grade silver di-hydrogen citrate (Axen(TM)) product development in Europe involving hard surface disinfectant sprays (non-exclusive) and hard surface disinfectant wet wipes (exclusive) in the hospital, educational/childcare facilities, hospitality, food processing and military market segments. In exchange, and as total consideration on the Company's part, the Company will issue five-year warrants to Nickel Ltd. to purchase 651,000 shares of common stock for $0.0001 per share valued at $635,376 ($0.976 per share based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 101.48% and a risk-free interest rate of 5.25%). These costs of IMS and CARLINE AMERICA LTD have been expensed as start-up costs in the consolidated financial statements in conformance with SOP 98-5.

In the contract, IMS must purchase a least 1 pallet of each product from Nickel Ltd. per quarter and must purchase, in the aggregate, not less than Euro 15,000,000 of product within the first three years in order to maintain it's exclusivity rights. The contract also requires the Super Distributor to expend a minimum of 5% of sales revenues from the products on advertising and promotion. Once a year the Super Distributor is reimbursed the lesser of 50% of the amounts paid for advertising and promotion or 2.5% of aggregate purchases of product during the period. The contract is for three years and renewable each year thereafter if the minimum requirements are met.

In February 2003 the Company signed an Investment Banking Advisory Agreement with SBI Discovery Group, a member of Softbank Investment Group, to become the Company's non-exclusive financial advisor in connection with the management of a proposed private placement of equity securities and/or debt securities on a best efforts basis. The agreement contemplates that the gross dollar amount of securities to be offered in the private placement shall be up to $3,000,000 in equity and $1,000,000 in debt. In the contract the Company and the investment banker shall enter into a Managing Dealer Agreement which contains a fee agreement equivalent to a 10% selling fee, a 3% non-accountable expense allowance and warrants to purchase 10% of the underlying securities sold. The Managing Dealer Agreement will also provide for the issuance of 2,000,000 warrants at $2.00 for twelve months effective upon the closing of the contemplated financing. The agreement provides for an escrow agreement that shall not allow closing on less than $2,000,000 and a monthly retainer to the investment banker of $5,000 per month for six months.

Note 5. Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for

Guarantees, Including Indirect Guarantees of Indebtedness of Others". Interpretation 45 is effective for financial statements of interim or annual periods fiscal years ending after December 15, 2002 and requires the following disclosures of the Company's product warranties:

The Company provides a standard warranty of two years for replacement parts on all Fillmaster systems sold. Most of the Company's chain customers have entered into multi-year contracts for the Customer Service Plan 2000. The CSP 2000 provides an extended unlimited warranty on all Innovative Medical Services pharmacy products; significant discounts on maintenance item costs; free software upgrades for the Fillmaster 1000e and Scanmaster; automatic replacement filter shipments; and simplified, annual invoicing. When the customer buys a dispenser on the Customer Service Plan 2000 they agree to pay a fixed annual fee that covers replacement filters and parts. The Company monitors the costs of providing replacement parts other than filters. This cost has remained steady and is computed as a percentage of related revenues. The following is a summary of changes in the Company's product warrantee liability.

	Beginning Liability	Expense Incurred	Warranty Payments	Ending Liability
Three months ended April 30, 2003	$38,660	$29,178	$19,178	$48,660
	======	======	======	======
Nine months ended April 30, 2003	$41,445	$33,578	$26,363	$48,660
	======	=======	======	======

Note 6. Reclassifications

Certain reclassifications have been made to previously reported statements to conform to the Company's current financial statement format.

Note 7. Subsequent Events

In May and June 2003, the Company conducted a private placement of common stock, and as a result, issued 120,000 shares of common stock to 3 accredited investors at $0.50 per share.

ITEM 2

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

The following discussion and analysis should be read in conjunction with the audited and unaudited financial statements of Innovative Medical Services.

OVERVIEW

Innovative Medical Services began as a provider of pharmaceutical water purification products. Although our current revenues are still primarily from the pharmacy industry, we have expanded from our niche pharmacy market into other, broader markets with new products, including residential and commercial water filtration systems, silver ion bioscience technologies and boric acid based pesticide technologies.

Water Treatment Division

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. We also market proprietary National Sanitation Foundation certified replacement filters for the Fillmaster Systems.

Our Nutripure(R) line of water treatment and filtration systems includes a line of Nutripure whole-house water softening systems, a line of Nutripure reverse osmosis point-of-use systems, the Nutripure 2000 countertop water filtration system and the Nutripure Sport filtered sport bottle. We distribute our various Nutripure products in several ways, including retail sales, catalogue placement, business-to-business sales and internet promotion.

Bioscience Division

Our bioscience division features a patented, aqueous disinfectant called Axenohl(TM) (silver di-hydrogen citrate). Based on the EPA toxicity categorization of antimicrobial products that ranges from Category I (high toxicity) down to Category IV, Axen, with its combination of the biocidal properties of ionic silver and citric acid, is an EPA Category IV antimicrobial for which precautionary labeling statements are normally not required. This compares with Category II warning statements for most leading brands of antimicrobial products.

The initial EPA registration for use of Axenohl and Axen (12-parts per million formula) as hard surface disinfectants was issued in 2001. In March 2003, we received Environmental Protection Agency (EPA) registration for our new Axen-30(TM) formulated Category IV hard surface disinfectant product for commercial, industrial and consumer applications. Axen-30 is a 30-part per million (ppm) use-dilution formula of our patented antimicrobial technology, Axenohl.

The recent EPA approval allows us to expand the existing Axen efficacy claims as a hard surface disinfectant to include a 30 second kill time on standard indicator bacteria, a 24 hour residual kill on standard indicator bacteria, a 2 minute kill time on some resistant strains of bacteria, 10 minute kill time on fungi, 30 second kill time on HIV Type I, and 10 minute kill time on other viruses. These claims distinguish the efficacy of Axen-30 from many of the leading commercial and consumer products currently on the market, while maintaining lower toxicity ratings.

We plan to pursue additional EPA and FDA regulatory approvals for other applications. Additional possible uses for this product include wound care, topical infection care, personal disinfecting retail products, food processing, and food safety applications which may require FDA approvals, as well as municipal water treatment and point-of-use/point-of-entry water treatment products, which may require additional EPA approvals.

Our bioscience division also includes a line of pesticide technologies. Branded as Innovex(TM), the product line launched in October 2001 with our EPA-approved, patent-pending RoachX(TM). Subsequently, we have developed and launched additional products in the Innovex product line, including and AntX75(TM) baits, two formulas of EPA-exempt non-toxic TrapX rodent lure, Pro's Choice(TM) caulk for pest control operators, and EPA approved CleanKill(TM), the Axen-based hard surface disinfectant for the pest control industry.

United States Department of Agriculture testing confirms that RoachX is over 96% effective in three to four days with one application for indoor and outdoor eradication of cockroaches, and can be used near children and food preparation areas. Boric acid is a well-known and effective deterrent of cockroaches and will kill them on contact, but cockroaches do not naturally eat the repellent. Although many pesticide products contain boric acid as the listed active ingredient, we believe RoachX to be new because of the endothermic reaction caused by the combination of boric acid and polyglycol that produces three unique results: 1) The formula protects the boric acid from water and humidity, 2) When combined with an attractant, the cockroaches perceive the formulation as food and will actually eat the polyglycol-encapsulated boric acid, and 3) The formula acts as a time-released pesticide, allowing the cockroach to return to the nest before it dies and then becomes a "bait station" for other roaches in the colony. We believe the product line, containing particular formulas and attractants for specific pests, is effective against cockroaches, ants, palmetto bugs, silverfish, waterbugs, ticks, fleas, lice and garden pests.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL 30, 2003 VERSUS THREE MONTHS ENDED APRIL 30, 2002 During the quarter, we continued to realize revenues from multiple product lines in our different divisions. In order to be more informative regarding distribution of revenues, discussion of revenues will be in terms of our water treatment segment and our bioscience segment, which includes silver ionization and pesticide divisions.

Revenues of $644,600 in the quarter ended April 30, 2003 were 27% lower than the $877,400 in revenues reported for the quarter ended April 30, 2002. The decrease was due to a decrease in sales in the biosciences division. During the quarter, water treatment division revenues of $632,900 were 9% higher than the $582,200 in the prior quarter. Bioscience segment revenues in the current quarter of $11,700 were 96% lower than the $295,200 in the prior quarter and reflect a large decrease in both silver ionization and pesticide product sales.

The increase in water treatment division revenues was due primarily to increased sales of Fillmaster systems which increased $68,700 from $260,200 in the quarter ended April 30, 2002 to $329,900 in recent quarter. The market continues to be very competitive, and we expect revenues from our commercial/retail water treatment products to continue their historic steady growth.

The decrease in pesticide product sales was due to the change in sales strategy implemented earlier this year, including a change from salaried sales employees to commissioned outside sales representatives. During the quarter, we continued to refocus our market strategy from marketing primarily to the pest control industry wholesalers to include marketing directly to major industry leaders. The change in sales and marketing strategy resulted in a decrease in sales as we restructure the pesticide division to more effectively target the professional pest control industry's need for highly effective but least toxic pest control products. We believe that our restructuring will result in increased sales, but we recognize that we face significant competition from larger, better capitalized companies in this market. We expect to see a shift toward increasing pest control product sales in the coming quarter.

The decrease in silver ionization sales was due to lack of sales of Axen to Dodo & Company. In March 2001, we signed a five-year contract to provide Axenohl to Dodo & Company, a Korean cosmetics manufacturer and marketer. Under the contract, Dodo & Company would purchase approximately $1.2 million dollars of product from us over five years. In addition to the purchase price, the contract calls for us to receive a reimbursement for research and development and a royalty on sales of the Axen-containing products. The contract requires Dodo & Company to obtain appropriate regulatory clearances in South Korea, but we have no documentation to show that this has been completed. We believe that Dodo & Company has miscalculated the royalties due to us, and we have requested that Dodo & Company reevaluate their royalty calculations. Dodo & Company has requested a renegotiation of the contract including the royalty fee calculation. During last fiscal year, Dodo & Company continued to expand its A-Clinic Club line to include over 10 different products, all of which contain Axenohl as an active ingredient. Because of Dodo & Company's significant investment in the product line, we believed we would be able to renegotiate the contract to the satisfaction of both parties; however, in early December 2002, we were informed by the Chairman of Dodo & Company that Dodo & Company has begun a bankruptcy reorganization process. Until the contract matter is resolved and Dodo & Company restabilizes, we will not ship additional product to Dodo & Company.

The disinfectant market is highly competitive, and we anticipate that market acceptance of a brand new technology may be a long term achievement. In addition to competition challenges, we believe that the investment necessary to pursue research testing and regulatory approval for Axenohl products will continue to be significant. As we receive additional regulatory approvals for Axenohl, however, we expect revenues to develop quickly. For example, now that we have received EPA approval on the Clean Kill 30-part per million formulation of Axen, we expect to see a shift toward increasing Axenohl division product sales in the coming quarter and we believe that sales of Clean Kill 30 will have a significant impact on revenues in future.

We continue to believe that pesticide technologies will have a material impact on revenues in the coming quarters, and we continue to believe that the silver ion technologies will ultimately become the largest revenue generator for Innovative Medical Services.

Gross profit for the quarter ended April 30, 2003 was $221,400 versus $379,100 in 2002. Gross profit percentage of 34% in 2003 was lower when compared to 43% in 2002 because of the decrease in Axenohl sales associated with higher margins and the increase in Nutripure dealer program revenues which have proportionally lower margins.

Loss from operations for the quarter ended April 30, 2003 was $679,500 versus loss from operations of $578,500 for the same period in 2002. During the quarter, General and Administrative expenses remained virtually unchanged at $478,900 in fiscal 2003 versus $476,000 in fiscal 2002. Selling expense decreased approximately $70,900, or 31%, from $226,600 in 2002 to $155,700 in 2003 because of a decreased use of salaried sales personnel and an increase in the use of commissioned salespeople. Research and Development increased $11,200 over the same period in 2002 from $255,000 to $266,200. This increase was the result of continued time and resources devoted to the development and testing of our emerging pesticide and silver ion technology product lines.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED APRIL 30, 2003 VERSUS NINE MONTHS ENDED APRIL 30, 2002

Revenues of $2,005,500 in the nine months ended April 30, 2003 were 22% lower than the $2,575,600 in revenues reported for the nine months ended April 30, 2002. The decrease was due to a decrease in sales in the biosciences division. During the recent nine months, water treatment division revenues of $1,928,000 were 21% higher than the $1,597,200 in the prior nine-month period. Bioscience segment revenues in the current period of $75,500 were 92% lower than the $978,400 in the prior nine-month period and reflect a large decrease in both silver ionization and pesticide product sales. The increase of $330,800 in water treatment division revenues was made up of an increase of $62,200 in Fillmaster product sales, a $94,900 increase in replacement filter sales, a $77,200 increase in Residential Water Treatment sales and an increase of $96,500 in the

Nutripure dealer program revenues.

Gross profit for the nine months ended April 30, 2003 was $813,800 versus $1,271,500 in 2002. Gross profit percentage of 41% in 2003 was lower versus 49% in 2002 because of the decrease in Axenohl sales associated with higher margins and the increase in Nutripure dealer program revenues which have proportionally lower margins.

Loss from operations for the nine months ended April 30, 2003 was $2,375,400 versus a loss of $1,363,700 for the same period in 2002. Of the loss in the current period, $635,400 was non-cash start-up costs (651,000 warrants valued at $0.976 per warrant) used to acquire a three-part cross marketing and licensing agreement described below in the Liquidity and Capital Recourses section. Selling expense decreased approximately $136,800, or 24%, from $581,100 in 2002 to $444,300 in 2003 because of a decreased reliance on salaried sales personnel. During the current nine months, General and Administrative expenses decreased 7% or $63,700 from $1,482,800 in fiscal 2002 to $1,419,100 in fiscal 2003. Administrative expenses were lower in spite of an increase in amortization costs associated with purchased patents and licenses. Research and Development costs were higher, increasing $119,300 or 21% from $571,200 in the nine months ended April 30, 2002 to $690,500 in the current period. The increase was due mainly to costs associated with development of bioscience division products, including Axenohl, RoachX, AntX and Clean Kill.

LIQUIDITY AND CAPITAL RESOURCES

From inception through April 30, 2003, we have financed our operations primarily through our initial public offering in August of 1996 and by subsequent private placement stock sales. In addition, the Company had obtained short term financing through a $500,000 line of credit. In September 2002 the Company renegotiated its line of credit and extended it until November 2003. The extension includes an increase from $500,000 to $600,000 at an interest rate of 1 1/2 % per month secured against the entire assets of the Company excluding the Axenohl patent. We believe that sales from our new product lines will not provide sufficient capital resources to sustain operations and fund product development through fiscal year 2003. In the short term, we expect to raise capital through equity sales as necessary to fund future growth until we operate above the break-even point. We continually evaluate 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 our stockholders.

In January 2003 the Company signed a cross-marketing and licensing agreement with Nickel Ltd., a manufacturer and distributor of wet wipes in Europe. Under the terms of the three-part agreement, the Company is acquiring two "Super Distribution Agreements." The first Super Distribution agreement allows IMS to sell Nickel's Clean Plus(R) janitorial/sanitation product line in the U.S. to suppliers and distributors in the janitorial and sanitation industries, as well as to mass merchandisers. The second Super Distribution agreement establishes a 50/50 joint venture between IMS and Nickel, to be known as CARLINE AMERICA LTD(TM). This agreement permits the IMS-managed and staffed joint venture to sell and distribute Nickel's Clean Plus(R) line of automotive wet wipe products to automotive aftermarket retailers and mass merchandisers in the United States. In the third part of the agreement Nickel Ltd. agrees to process all necessary regulatory and other approvals required as a condition to the commercialization of Axen based products in Europe and Innovative Medical Services has granted Nickel Ltd. a license for industrial-grade silver di-hydrogen citrate (Axen(TM)) product development in Europe involving hard surface disinfectant sprays (non-exclusive) and hard surface disinfectant wet wipes (exclusive) in the hospital, educational/childcare facilities, hospitality, food processing and military market segments. In exchange, and as total consideration on the

Company's part, the Company will issue warrants to Nickel Ltd. to purchase 651,000 shares of common stock for $0.0001 per share valued at $635,000. Although no cash was expended to acquire these agreements, it is contemplated that plans to utilize the contracts will require a significant outlay of capital over the next twelve months. This situation is aided by a condition of the contract in which Nickel Ltd. has extended its normal terms of 45 days from shipment to 30 days beyond the terms IMS extends to the retailer, not to exceed 170 days. The contract also calls for CARLINE AMERICA LTD to obtain accounts receivable financing.

The Company is currently attempting to strengthen its liquidity position by working with an investment banker to obtain financing consisting of a combination of debt and equity instruments. The Company requires an outside source of capital to fund planned projects relating to new product development and related product launches, research and development projects, regulatory approvals and the execution of the two Super Distribution agreements with Nickel Ltd. This is because the Company's operations are not expected to generate cash flows, within the next twelve months, sufficient to fund planned expansion. If funds are not available, the Company believes that it can maintain viability, if necessary, by scaling back current and planned expansion projects. The Company has no long-term debt.

As a condition of the purchase agreement of the Axenohl patent, the Company agreed to make certain royalty payments to NVID of 5% of the gross product sales with a minimum royalty payment total of $1,000,000 for the period from November 15, 2001 to July 31, 2004 and subsequently $1,000,000 per year for the remaining life of the patent. The contract states that at July 31, 2004 the Company shall have the right, in its sole and absolute discretion, to do one of the following: a) pay $1,000,000 in cash or common stock of the Company to NVID, less royalty amounts already paid, on or before July 31, 2004, b) transfer the patent back to NVID, at which time the Company would be released of any future minimum payments and granted a license to manufacture and distribute products covered by the patent, or c) cancel any royalty obligation under the contract by selling or assigning its ownership of the patent to a third party and paying NVID a percentage of the gross proceeds of 10% or 5% depending on how near the date of the transfer is to July 31, 2004. The Company has not recorded or accrued an amount for the minimum royalty payments in the financial statements because it has not determined which of these options it intends to exercise.

Our liquidity is unaffected by the financing program offered to participating dealers in the Nutripure water dealer program. We receive funds from our lender and disperse the funds to the dealer, less a commission charged by us, upon completion of the contract. The lender disperses funds to us. We record a liability when the funds are received and relief of liability when funds are dispersed, and we do not retain liability on the credit extended.

During the fiscal nine months ended April 30, 2003, our current assets to liabilities ratio decreased from 1.07 to 0.49. Current assets decreased $492,800 from $1,291,200 at July 31, 2002 to $798,400 at April 30, 2003 due to a decrease in inventories associated with lower sales volume and a decrease in officer and employee loans. Current liabilities increased $414,500 from $1,120,000 to $1,624,500. This increase was due mainly to an increase in loans from shareholders of $100,000 and an increase in accounts payable of approximately $272,100.

Fixed assets decreased approximately 131,900 due mainly to depreciation of equipment. Noncurrent assets remained unchanged at $2,600,000 consisting almost entirely of Patents and Licenses.

Cash flows used from operations were $626,500 in the nine months April 30, 2003 and $691,900 in 2002. For fiscal 2003, cash flows used in investing activities included $10,800 for the purchase of machinery and equipment and $99,400 for the purchase of patents and licenses. In fiscal 2002 cash flows used in investing activities included $159,800 for the purchase of machinery and equipment and $87,200 for the purchase of patents and licenses.

Cash flows from financing activities were $538,500 in fiscal 2003 and $954,600 in fiscal 2002. Financing activities for the current period included the addition of $100,000 in loans payable from a line of credit renegotiated in September 2002. Cash flows from financing activities also included an increase of common stock of $538,500. During the current nine-month period the Company conducted a $250,000 private placement in which the Company issued 833,332 shares of common stock to six accredited investors at a price of $0.30 per share and a $200,000 private placement in which the Company issued 400,000 shares of common stock to six different accredited investors at a price of $0.50 per share. The Company also received $81,325 from the exercise of options. In the prior period, cash flows from financing activities included the addition of $500,000 in notes payable from a line of credit established in September 2001. Cash flows from financing activities in the prior period also included an increase of common stock of $435,300 which included a $400,000 private placement in which the Company issued 250,000 shares of common stock to eleven accredited investors at a price of $1.60 per share. The Company also received approximately $68,000 from the exercise of options.

ITEM 3.

CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

PART 2   OTHER INFORMATION

ITEM 1

LEGAL PROCEEDINGS

There have been no developments in the case involving Innovative Medical Services and Zedburn Corporation et. al. in Circuit Court of Pinellas County, Florida as previously disclosed and incorporated by reference herein from Annual Report on Form 10KSB for fiscal year ended July 31, 2002 as filed on October 29, 2002.

On August 8, 2002, Billy Stapleton and Susie Stapleton filed a complaint for patent infringement in the United States District Court Eastern District of Tennessee at Knoxville, against Innovative Medical Services' product RoachX. On August 12, 2002 Billy and Susie Stapleton filed an amended complaint. On May 2, 2003 IMS filed its answer to amended complaint, denying allegations generally and specifically, and stating nine affirmative defenses to the amended complaint. IMS believes Stapleton's amended complaint is frivolous and without merit.

ITEM 2.

CHANGES IN SECURITIES

On December 16, 2002, 200,000 shares of common stock were issued in exchange for attorneys fees incurred in connection with the acquisition of the Axenohl patent. On January 28, 2003, an option on 12,500 shares was exercised. In January 2003 we conducted a private placement of common stock, and as a result, we issued 833,332 shares of common stock to six accredited investors at a price of $0.30 per share. In March 2003, we issued 12,250 in exchange for attorneys fees incurred in connection with the acquisition of the Axenohl patent. In April we conducted a private placement of common stock and, as a result, we issued 400,000 shares of common stock to 6 accredited investors at $0.50 per share. In May and June 2003, we conducted a private placement of common stock and, as a result, we issued 120,000 shares of common stock to 3 accredited investors at $0.50 per share. In May 2003, we issued 135,107 shares of common stock in exchange for financial advising services.

With respect to the sales made, we relied on Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The securities were offered solely to accredited or sophisticated investors who were provided all of the current public information available on Innovative Medical Services.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5.

OTHER INFORMATION

Not applicable.

ITEM 6.

EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

A. The following Exhibits are filed as part of this report pursuant to Item 601 of Regulation S-B:

3.1 (1) -- Articles of Incorporation, Articles of Amendment and Bylaws
3.1.1(13) -- Articles of Amendment dated March 11, 2002
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 (8) -- Axenohl License Agreement
10.4 (9) -- Weaver - Roach X Assignment
10.5 (9) -- Dodo Agreement [CONFIDENTIAL TREATMENT REQUESTED FOR CERTAIN OMITTED INFORMATION FILED SEPARATELY]
10.6 (8) -- Promissory Note of Michael Krall
10.7 (8) -- Promissory Note of Gary Brownell
10.8 (9) -- Nutripure Dealer Agreement
10.9 (9) -- Sales Finance Agreement
010.10 (10)-- ETIH2O, Inc., Acquisition Agreement
10.11 (11) -- NVID Litigation Settlement Agreement
10.12 (12) -- Addendum #1 to NVID Settlement Agreement
13 (13) -- 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 as amended on October 19, 2001
(8) Incorporated by reference from the Amended Annual Report on Form 10KSB for the fiscal year ended July 31, 2000 filed on October 19, 2001
(9) Incorporated by reference from Amended Form 10QSB for the nine month period ended April 30, 2001 filed on October 19, 2001
(10) Incorporated by reference from the Amended Annual Report on Form 10KSB for the fiscal year ended July 31, 2001 filed on November 13, 2001
(11) Incorporated by reference from Current Report on Form 8-K filed on December 6, 2001
(12) Incorporated by reference from Amended Current Report on Form 8-K filed on December 7, 2001
(13) Incorporated by reference from the Annual Report on Form 10KSB for the fiscal year ended July 31, 2002 filed on October 29, 2002

B. Reports on Form 8-K:

We filed a Form 8-K Current Report, Item 9, on April 1, 2003.

SIGNATURES

Pursuant to the requirement 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

(Registrant)

By: /s/ Michael L. Krall

Michael L. Krall, President/CEO
June 12, 2003

By: /s/ Gary Brownell

Gary Brownell, Chief Financial Officer
June 12, 2003

CERTIFICATIONS

I, Michael L. Krall, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Innovative Medical Services;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

/s/ Michael L. Krall

Michael L. Krall
President/CEO

CERTIFICATIONS

I, Gary Brownell, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Innovative Medical Services;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

/s/ Gary Brownell

Gary Brownell
Chief Financial Officer