

QUANTUM GROUP INC /FL  
Form PRE 14A  
June 29, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

**The Quantum Group, Inc.**

(Name of Registrant as Specified In Its Charter)

**N/A**

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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No fee required.

..

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Title of each class of securities to which transaction applies:

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(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)

Amount previously paid:

(2)

Form, Schedule or Registration Statement No.:

(3)

Filing Party:

(4)

Date Filed:

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**THE QUANTUM GROUP, INC.**

**3460 Fairlane Farms Road, Suite 4**

**Wellington, Florida 33414**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON AUGUST 31, 2006**

To the Stockholders of The Quantum Group, Inc.:

**NOTICE IS HEREBY GIVEN** that an Annual Meeting of Stockholders (the Annual Meeting ) of The Quantum Group, Inc., a Nevada corporation (the Company ), will be held on August 31, 2006 at the Gaylord Palms Resort and Convention Center, 6000 W. Osceola Parkway, Kissimmee, Florida 34746 at 1:00 pm Eastern Daylight Savings Time, for the following purposes:

1.

To elect 7 individuals to serve as members to the Company s Board of Directors to hold office until the Company s annual meeting of stockholders to be held in 2007 and until their successors are duly elected and qualified;

2.

To ratify the appointment of Daszkal Bolton LLP as independent auditors of the Company for the fiscal year ending October 31, 2006;

3.

To effectuate a reverse stock split of the Company s outstanding common stock; and

4.

To transact such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

All stockholders are cordially invited to attend; however, only stockholders of record at the close of business on July \_\_, 2006 ( Record Date ) are entitled to notice of and to vote at the Annual Meeting or any adjournments thereof.

**The Board of Directors recommends that you vote FOR the Board s nominees to serve as directors and FOR Proposal 2 and 3.**

By Order of the Board of Directors,

Chairman and President

July \_\_, 2006

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED RETURN ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES. STOCKHOLDERS WHO EXECUTE A PROXY CARD MAY NEVERTHELESS ATTEND THE MEETING, REVOKE THEIR PROXY AND VOTE THEIR SHARES IN PERSON.**

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**THE QUANTUM GROUP, INC.**

**3460 Fairlane Farms Road, Suite 4**

**Wellington, Florida 33414**

**PROXY STATEMENT**

**FOR**

**ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON**

**AUGUST 31, 2006**

**INTRODUCTION**

The accompanying proxy is solicited by the Board of Directors of The Quantum Group, Inc. (the Company, we, us and similar terms) to be voted at the Annual Meeting of Stockholders to be held at the Gaylord Palms Resort and Convention Center, 6000 W. Osceola Parkway, Kissimmee, Florida 34746 at 1:00 pm Eastern Daylight Savings Time on August 31, 2006 (the Annual Meeting), and any adjournments thereof. When such proxy is properly executed and returned, the shares it represents will be voted at the meeting as directed. If no specifications are indicated, the shares will be voted in accordance with the recommendation of the Board with respect to each matter submitted to the Company's stockholders for approval. Abstentions and broker non-votes will not be voted, but will be counted for determining the presence of a quorum.

The cost of preparing and mailing the enclosed proxy materials, which are estimated to be approximately \$22,500, will be borne by the Company. The Company may use the services of its officers and employees (who will receive no additional compensation) to solicit proxies. In addition to the use of the mails, proxies may be solicited by telephone, mailgram, facsimile, telegraph, cable and personal interview. The Company intends to request banks and brokers holding shares of the Company's common stock to forward copies of the proxy materials to those persons for whom they hold shares and to request authority for the execution of proxies. The Company may also retain the services of a solicitation firm to aid in the solicitation of proxies. If it does so, the Company will pay the fees and expenses of such firm.

A list of stockholders entitled to vote at the Annual Meeting will be available for examination by any stockholder for a proper purpose during normal business hours at the offices of the Company for a period of at least ten days preceding the Annual Meeting.

**VOTING AT THE ANNUAL MEETING**

The shares entitled to vote at the Annual Meeting consist of shares of the Company's common stock (the Common Stock), with each share entitling the holder to one vote. At the close of business on July \_\_, 2006, the Record Date for the Annual Meeting, there were issued and outstanding 24,497,361 shares of the Company's Common Stock. This Proxy Statement and the accompanying form of proxy are first being sent to stockholders on or about July \_\_, 2006.

Each proxy that is properly signed and received prior to the Annual Meeting will, unless revoked, be voted in accordance with the instructions on such proxy. If no instruction is indicated, the shares will be voted FOR the election of the nominees for director listed in this proxy statement; FOR ratification of the appointment of Daszkal Bolton LLP; FOR the reverse split and FOR the approval of such other business that may properly come before the Annual Meeting or any postponement or adjournment thereof. A stockholder who has given a proxy may revoke such proxy at any time before it is voted at the Annual Meeting by delivering a written notice of revocation or duly executed proxy bearing a later date to the Secretary of the Company or by attending the meeting and voting in person.

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A quorum of stockholders is necessary to take action at the Annual Meeting. A majority of the outstanding shares of the Company's common stock, represented in person or by proxy, will constitute a quorum. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspector of election appointed for the Annual Meeting. The inspector of election will determine whether or not a quorum is present at the Annual Meeting. The inspector of election will treat abstentions as shares of common stock that are present and entitled to vote for purposes of determining the presence of a quorum.

The seven nominees for director shall be elected as directors of the Company if they receive the affirmative vote of a majority of the shareholders of common stock present in person or represented by proxy at the Annual Meeting. The vote required for ratification of Daszkal Bolton LLP as our independent auditors for the fiscal year ending October 31, 2006 is the affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting. The vote required for effectuating the reverse split is the affirmative vote of a majority of the Company's outstanding shares of common stock. For purposes of determining stockholder approval of such proposals, abstentions will be treated as shares of common stock voted against adoption of such proposals.



**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of our common stock as of the Record Date for: (a) each person known by us to own beneficially more than 5% of our of common stock; (b) each of our directors; (c) each of our executive officers; and (d) all directors and executive officers as a group. The percentage of beneficial ownership for the following table is based on 24,497,361 shares of common stock outstanding on the Record Date.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of the date of this proxy statement are deemed to be beneficially owned by the person holding such options for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated below, to our knowledge, all persons and entities listed below have sole voting and investment power over their shares of common stock, except to the extent that individuals share authority with spouses under applicable law. Unless otherwise indicated below, the address for the persons and entities listed below is 3460 Fairlane Farms Road, Suite 4, Wellington, Florida 33414.

| <b>Name/Address of Beneficial Owner</b>                  | <b>Amount/Nature of Beneficial Ownership of Common Stock</b> | <b>Percentage of Beneficial Ownership</b> |
|--|--|---|
| Guillama, Noel(1)(7)                                     | 9,812,287  | 40.05%                                    |
| Cohen, Donald B.(2)                                      | 1,370,006  | 5.59%                                     |
| Guillama, Susan J.(3)(8)                                 | 1,302,725  | 5.32%                                     |
| Baker, James D.(4)                                       | 235,006  | *   |
| Haggerty, Mark(5)  | 230,006  | *   |
| Rosenbaum, Michael(6)                                    | 2,500  | *   |
| Nauert, Peter  | 252,500  | 1.03%                                     |
| Directors and Executive Officers, as a group (7 persons) | 13,205,030   | 53.90%                                    |

\*

Less than 1%

(1)

Includes (a) 7,492,125 shares held by Mr. Guillama; (b) 520,078 shares held by Guillama Family Holdings, Inc in which Mr. Guillama owns 100% interest; (c) 300,078 shares held by Mr. Guillama's adult son; (d) 1,000,000 shares held by Guillama, Inc in which Mr. Guillama owns 100% interest; (e) 200,000 shares issuable upon the exercise of options at \$0.40 per share until October 1, 2010; and (f) 300,006 shares issuable upon the exercise of options at \$0.50 per share until June 27, 2011. This does not include 299,994 shares issuable upon the exercise of options at \$0.50 per share until December 26, 2012. Mr. Guillama disclaims all shares and has no interest in the holdings of Mrs. Guillama.

(2)

Includes (a) 1,070,000 shares; (b) 150,000 shares issuable upon the exercise of options at \$0.40 per share until October 1, 2010; and (c) 150,006 shares issuable upon the exercise of options at \$0.50 per share until June 27, 2011. Does not include 149,994 shares issuable upon the exercise of options at \$.50 per share until December 26, 2012.

(3)

Includes (a) 962,678 shares; (b) 190,041 shares held by her minor son; and (c) 150,006 shares issuable upon the exercise of options at \$.50 per share until June 27, 2011. Does not include 149,994 shares issuable upon the exercise of options at \$0.50 per share until December 26, 2012. Mrs. Guillama disclaims all shares and has no interest in the holdings of Mr. Guillama.

(4)

Includes (a) 127,500 shares; (b) 20,000 shares transferable upon the exercise of options at \$0.001 per share owned by Mr. Guillama (c) 10,000 shares issuable upon the exercise of options at \$0.40 per share until

October 1, 2010; and (d) 75,006 shares issuable upon the exercise of options at \$0.50 per share until June 27, 2011. Does not include (a) 74,994 shares issuable upon the exercise of options at \$0.50 per share until December 26, 2012 and (b) 2,500 shares issuable quarterly at a rate of 833 per month until October 1, 2006.

(5)

Includes (a) 92,500 shares; (b) 35,000 shares held by Linda Jean Haggerty (c) 2,500 shares transferable upon the exercise of options at \$0.01 per share on shares owned by Mr. Guillama until July 24, 2008; (d) 12,500 shares transferable upon the exercise of options at \$0.01 per share until July 24, 2008 held by Linda Jean Haggerty; (e) 10,000 shares issuable upon the exercise of options at \$0.40 per share until October 1, 2010 and (f) 75,006 shares issuable upon the exercise of options at \$0.50 per share until June 27, 2011. Does not include (a) 74,994 shares issuable upon the exercise of options at \$0.50 per share until December 26, 2012 and (b) 2,500 shares issuable quarterly at a rate of 2,500 per quarter until October 1, 2006.

(6)

Includes 2,500 shares. Does not include (a) 297,450 held by his wife, Maj-Britt Rosenbaum and (b) 166,667 shares to be issued in connection with the extension of the a note held by his wife. Mr. Rosenbaum disclaims all shares and has no interest in the holdings of Maj-Britt Rosenbaum.

(7)

Mr. Guillama has granted options to affiliated and non-affiliated persons to purchase 1,590,514 shares of the Company at \$0.001 per share, of his personal holdings. Of these 1,590,514 options granted, 257,642 options remain unexercised, of which 35,000 options were granted to directors and their affiliated persons and 222,642 options were granted to unaffiliated persons.

(8)

Susan Guillama is the wife of Noel Guillama.

**PROPOSAL 1****ELECTION OF DIRECTORS****Nominees and Directors**

Seven directors will be elected at the Annual Meeting. The nominees for director, if elected, will serve until the annual meeting of stockholders to be held in 2007 and until his successor is duly elected and qualified. Our Bylaws authorize our Board to determine the number of directors, and our Board currently provides for seven directors. These provisions, together with provisions of our articles of incorporation and by-laws, allow the Board to fill vacancies or increase its size, and may deter or hinder a shareholder from removing incumbent directors and filling such vacancies with its own nominees in order to gain control of the Board.

All nominees have consented to being named herein and have indicated their intention to serve as directors of the Company, if elected. Unless authority to do so is withheld, the persons named as proxies will vote the shares represented by such proxies for the election of the named nominees. In case any of the nominees become unavailable for election to the Board of Directors, which is not anticipated, the persons named as proxies shall have full discretion and authority to vote or refrain from voting for any other nominees in accordance with their judgment. Vacancies on the Board may be filled by the remaining director or directors, even though less than a quorum, for the unexpired term of such vacant position.

| <b>Name</b>       | <b>Age</b> | <b>Position</b>  |
|-------------------|------------|--|
| Noel J. Guillama  | 46         | Chairman, President, and Director                                    |
| Donald B. Cohen   | 52         | Vice President, Chief Financial Officer and Director                 |
| Susan D. Guillama | 46         | Vice President, Secretary, Chief Administrative Officer and Director |
| James D. Baker    | 62         | Director   |
| Mark Haggerty     | 57         | Director   |
| Michael Rosenbaum | 68         | Director   |
| Peter Nauert      | 62         | Director   |

***Noel J. Guillama, Chairman, President, and Director***

Since 2003, Mr. Guillama has been Chairman and President of The Quantum Group, Inc. Mr. Guillama was Founder, Chairman, President and Chief Executive Officer of Metropolitan Health Networks, Inc. of West Palm Beach, Florida, (AMEX:MDF) from its inception on January 16, 1996 to February 1, 2000. Prior to 1996, Mr. Guillama was Vice President of Development for MedPartners, Inc. (NYSE:DRX), a Birmingham, Alabama-based physician practice management company with revenues of over \$5 billion at the time of his departure. Prior to MedPartners, he served as Director and Vice President of Operations for Quality Care Networks, Inc., a South Florida based comprehensive group practice with 36 physicians and 7 offices. Mr. Guillama is a member of both the American College of Health Care Executives and the Medical Group Management Association. Mr. Guillama continues to hold active licensure as a Building Contractor, Real Estate Broker, Mortgage Broker and Insurance Broker in the State of Florida. Mr. Guillama is a graduate of Massachusetts Institute of Technology's (MIT) Birthing of Giants Entrepreneurial Leadership Program (1997-1999).

***Donald B. Cohen, Vice President, Chief Financial Officer and Director***

Mr. Cohen is a co-founder of Quantum. Prior to joining Quantum, he served as Chief Financial Officer of I-Titan Communications Network, Inc. a technology design and manufacturer from April 2001 through January 2002. He also served as Chief Financial Officer and Director of Metropolitan Health Networks, Inc. (AMEX:MDF) from April 1996

to April 1999. While at Metropolitan, Mr. Cohen was directly responsible for all accounting, reporting and SEC disclosures and was instrumental in designing and installing the company's extensive management information and billing and collections system connecting numerous sites into a state-of-the-art leading edge financial system. He additionally served as a consultant for the company through January 2000. Prior to this, Mr. Cohen was Vice President and Chief Financial Officer of ProSports Video Response, Inc., a sports media company, from 1989 to 1992, Vice President and Chief Financial Officer of BDS, Inc., a specialty food manufacturing company, from 1987 to 1989, and Director of Finance of Tel-Plus Communication of Southern California from 1984 to 1986. From 1993 to 1995, Mr. Cohen worked for Ocwen Financial Corporation designing

and implementing a loan accounting system. Mr. Cohen received a Bachelor of Science degree from California State University, Northridge, and was certified as a CPA in the State of California.

***Susan D. Guillama, Vice President, Secretary, Chief Administrative Officer and Director***

Mrs. Guillama has over 18 years of experience in consulting, human resources and facilities operations. Mrs. Guillama had been an outside consultant with Quantum from September 2000 to April 2003, when she joined Quantum. Prior to joining Quantum, she was employed by ALLTEL Information Services, a banking software company, from early 2001 through April 2003 where she led the human resources and training departments for a national division focused on banking software solutions. Prior to 2001, she had her own consulting organization, Jacobs Consulting, which focused on employee initiatives such as change management, outplacement and transition services, customer service and career workshops, general employment consulting, and other training initiatives. Mrs. Guillama is a certified master trainer, recruiter and interviewer and holds certifications from Gallup, London House, DDI, and is certified by the American Institute of Baking in Food Processing, Sanitation & Hygiene. She is a member the Society of Human Resource Management and the Palm Beach County HR Association. Mrs. Guillama earned her Bachelor's degree in Communication from the University of South Florida, and an Associate's degree in Pre-Law from Andrew College. Additional professional training includes an extensive three-year executive graduate program. Mrs. Guillama is the wife of Noel J. Guillama.

***James D. Baker, Director***

Mr. Baker has many years of experience as Chief Executive Officer and director of several start-up companies. He has founded and operated several profitable computer-based high technology companies where he played a key role in their launch. From the beginning of 2003 until the present time, Mr. Baker has been a Director, President and Chief Executive Officer of Q-Net Technologies, Inc. (QNTI), a public company created to introduce consumer technology and value added Internet services into the Chinese market. From 2000 until 2002, Mr. Baker was the President of TargitInteractive, Inc. a interactive marketing services provider that delivers millions of e-mail messages on the Internet daily for major clients such as General Motors, Mercedes, Warner Brothers, Kraft Foods, Lexus, and many other advertisers. Mr. Baker currently serves as a director of the Company. Mr. Baker received a Bachelor of Science degree in industrial management from the University of Cincinnati and pursued a Master's degree in Business Administration at the University of Michigan.

***Mark Haggerty, JD, Director***

From 2003 to present Mr. Haggerty has acted as in-house legal counsel to a SEC licensed investment advisory corporation. From 1993 to 2003 he was President of Voice & Wireless Corporation, a public telecommunications company. In 1996, Mr. Haggerty was a co-founder of Metropolitan Health Networks, Inc. (AMEX:MDF) and acted as Chairman of its advisory board. Mr. Haggerty is an elected county official having recently been elected to his third term as Hennepin County Parks Commissioner and serves as its Vice-Chairperson. In addition to his being licensed to practice law in the Minnesota and United States Supreme Courts, he also is licensed as a series 7 and 63 securities representative from the NASD and the SEC. Mr. Haggerty was a guarantor for two corporations which went insolvent resulting in a bankruptcy filing in October 2005. Mr. Haggerty is a graduate of the University of Minnesota Law School.

***Peter Nauert, Director***

Peter Nauert serves as a member of the Company's Board of Directors since February 9, 2006. Mr. Nauert is the Founder and Chairman of Insurance Capital Management (ICM), a national Company which provides marketing, web-based technology and specialty products for insurance and financial services. Prior to founding ICM, Mr. Nauert was Chairman and CEO of Ceres Group, Inc. (Nasdaq: CERG) from July 1998 to June 2002. In 1998, Mr. Nauert led an investor group that purchased Central Reserve Life Insurance Company (CRLC), a financially troubled health

insurance company. He founded Ceres Group, Inc., as the new holding company of CRLC. Through management changes and a series of acquisitions, Mr. Nauert achieved first-year profit turnaround and continuing yearly profits. Mr. Nauert received a Bachelor of Science degree in Business Administration from Marquette University as well as a Juris Doctor (J.D.) from George Washington University.

***Michael Rosenbaum, Director***

Michael Rosenbaum serves as a member of the Company's Board of Directors since February 9, 2006. Mr. Rosenbaum has extensive experience in law, mergers and acquisitions, merchant banking and finance.

Mr. Rosenbaum has served as a Director for Protrak International since 1984, and continues in this role today. Protrak is the company behind the development and delivery of Customer Relationship Management software (CRM) and Sales Force Automation (SFA) to the investment management industry. From 1998 to 2000, he served as a director and officer of Throttlebox Media, a company that specialized in the sales of downloadable multimedia entertainment. Mr. Rosenbaum is currently a principal in the real estate development of Nail Bay, which is comprised of approximately 160 acres and is located on Virgin Gorda in the British Virgin Islands. Mr. Rosenbaum has been active in Israeli Technology Partners for the last five years having also served as a Director from 2002 through 2004. This organization invests in high tech companies that are based in, or are based upon, technology that was developed in Israel. Mr. Rosenbaum received a Bachelor of Arts degree from Yale in Economics and Political Science, as well as a Bachelor of Law (LL.B) from Columbia University. Additionally, Mr. Rosenbaum possesses a Master of International Affairs, also from Columbia University.

### **Information Concerning the Board of Directors**

During the year ended October 31, 2005 the Company's Board of Directors held 4 meetings. Each member of the Board participated in each action of the Board. During fiscal year ended October 31, 2005, James Baker and Mark Haggerty qualified as independent directors as defined by NASD Marketplace Rule 4200. Subsequent to fiscal year ended October 31, 2005, Peter Nauert and Michael Rosenbaum joined the board of directors. They both qualify as independent directors.

### **Committees of the Board of Directors**

The Company has three committees, which were elected at the Company's Board of Directors meeting on February 9, 2006: Audit, Executive and Compensation and Option Committee.

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The Audit Committee selects the independent auditors, reviews the results and scope of the audit and other services provided by independent auditors. It reviews and evaluates internal control functions. As an advisory function of the committee, members also participate in financings, review budgets prior to presentation to the Board of Directors and review budgets vs. actual reports. The Board of Directors has elected Mr. Haggerty and Mr. Rosenbaum as the members of the Audit Committee for fiscal year ending October 31, 2006. Mr. Haggerty was the sole member of the audit committee during the fiscal year ending October 31, 2005. The Company believes that each member of the audit committee qualifies as an *audit committee financial expert*, as such term is defined under federal securities law. The audit committee met 4 times during fiscal year ending October 31, 2005. The Company has adopted an Audit Committee which is included as Exhibit A to this proxy statement.

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The Executive Committee may exercise the power of the Board of Directors in the management of business and affairs at any time when the Board of Directors is not in session. The Executive Committee shall, however, be subject to the specific directions of the Board of Directors, and is currently composed of Mr. Guillama, Ms. Guillama and Mr. Baker. All actions of the Executive Committee require a unanimous vote. The committee met 2 times during fiscal year ending October 31, 2005.

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The Compensation and Option Committee for fiscal year ending October 31, 2006 consists of Ms. Guillama, Mr. Nauert and Mr. Haggerty. This committee makes recommendations to the Board of Directors concerning compensation for executive officers, employees and consultants of the Company and makes recommendations concerning the Company's Stock Option Plan. All actions of the Compensation Committee require a unanimous vote.



The committee consisted of Ms. Guillama and James Baker during fiscal year ending October 31, 2005 and met 2 times during the fiscal year.

The Company does not have a standing nominating committee, as the entire Board of Directors performs the functions of such committee. The Company does not have a nominating committee charter.

## **Legal Proceedings**

None.

## **Code of Ethics**

The Company has adopted three Codes of Conduct that collectively covers all officers, directors, employees, consultants and independent contractors of the Company. One Code of Conduct is for employees in general and second Code of Ethics is for all consulting and/or contracted positions, and the third addresses senior officers, board members and accounting personnel of the Company. The first and second Codes of Conduct set Company policy on inside information, conflicts of interest, trading of inside information, management and accounting ethics and compliance with all local, state, and federal laws. The third one has special consideration for the handling of corporate financials and disclosure information. The Codes of Conduct may be reviewed at the Company's website [www.qtum.com](http://www.qtum.com). The Code of Ethics for principal executives has been previously filed with the Company's Form 10-KSB Annual Report for the fiscal year ending October 31, 2004.

## **Section 16(A) Beneficial Ownership Reporting Compliance**

Based solely upon a review of Forms 3, 4, and 5, and amendments thereto, and reports, furnished to the Company for the fiscal year ended October 31, 2005, certain number of the Company's directors, officers, or stockholders beneficially owning more than 10% of any class of equity securities of the Company, there were no failures to file any necessary forms under Section 16(a) of the Securities Exchange Act of 1934 during the most recent fiscal year.

## **Stockholder Communication with the Board**

There is no formal process for shareholders to communicate with the board. However, the individual charged with such communication is Susan D. Guillama who is a member of the board.

**EXECUTIVE COMPENSATION****Compensation of Directors**

The Company reimburses all directors for their expenses in connection with their activities as directors of the Company. In addition, during February 2006 the Company granted each outside director approximately 30,000 shares of stock, vested over three years, and \$10,000 to be paid in stock, calculated by taking the average of the last 10 closing days prior to the end of the fiscal year 2006. It is expected that compensation to outside directors will increase as their responsibility expands and the Company develops. The directors will make themselves available to consult with the Company's management as well as serve on one or more of its Committees. The directors of the Company that are also employees of the Company do not receive additional compensation for their services as directors.

**Executive Compensation**

As of November 1, 2004, our board has approved annual compensation of \$200,000 for Mr. Guillama, and \$96,000 each for Mrs. Guillama and Mr. Cohen. We expect to pay Mr. Guillama, Mr. Cohen and Mrs. Guillama compensation and bonuses to be negotiated with Compensation Committee of the Company. As of October 31, 2005, the Company has accrued a total of \$393,000 in compensation for Mr. Guillama, \$121,000 for Mr. Cohen, and \$117,000 for Mrs. Guillama. The Company has also accrued \$37,400 for the compensation of Outside Directors.

We have no employment agreement with any of our executive or any other officers. All officers currently serve at the pleasure of the Board of Directors. We intend however to enter into written employment contracts with our executive officers in the future.

**SUMMARY COMPENSATION TABLE****ANNUAL COMPENSATION**

The following tables present information concerning the cash compensation and stock options provided to the Company's Chief Executive Officer and each additional executive officer for the fiscal years ended October 31, 2005, 2004 and 2003.

| <b>Name and Principal Position</b>  | <b>Fiscal Year</b> | <b>(1) Salary</b> | <b>Other Annual Compensation</b> | <b>Restricted Stock Award</b> | <b>Securities Underlying Options</b> |
|---|--------------------|-------------------|----------------------------------|-------------------------------|--------------------------------------|
| Noel J. Guillama<br>President, Chairman, CEO                                    | 2005               | \$200,000         | \$                               |                               | 258,099                              |
|   | 2004               | \$134,000         |                                  |                               |                                      |
|   | 2003               | \$ 84,000         |                                  |                               | 200,000                              |
| Donald B. Cohen<br>Vice President,<br>CFO, Director                             | 2005               | \$ 96,000         | \$                               | 30,000                        | 151,914                              |
|   | 2004               | \$ 87,000         | \$12,500                         | 30,000                        |                                      |
|   | 2003               | \$ 25,000         | \$ 1,500                         |                               | 150,000                              |
| Susan D. Guillama<br>Vice President, Secretary,<br>Chief Administrative Officer | 2005               | \$ 96,000         | \$                               |                               | 83,340                               |
|   | 2004               | \$ 87,000         | \$                               |                               |                                      |
|   | 2003               | \$ 25,000         | \$                               |                               |                                      |

Director

(1)

Amounts include all accrued compensation whether paid or unpaid during the fiscal year.

**OPTIONS AND SARS GRANTED****IN THE YEAR ENDED OCTOBER 31, 2005 TO EXECUTIVES**

| Name             | Number of Securities Underlying Options/SARs | Percent of Total Options Granted to Employees in Fiscal year | Exercise or Base Price (\$/Share) | Expiration Date                      | Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciate for Option Term |            |
|------------------|--|--|-----------------------------------|--------------------------------------|---|------------|
|                  |  |  |                                   |                                      | 5%  | 10%        |
| Noel J. Guillama | 600,000                                      | 34.0%  | \$ 0.50                           | Jan 27, 2010<br>thru<br>Dec 26, 2012 | \$ 339,000  | \$ 473,500 |
| Donald B. Cohen  | 300,000                                      | 17.0%  | \$ 0.50                           | Jan 27, 2010<br>thru<br>Dec 26, 2012 | \$ 169,500  | \$ 236,750 |
| Susan Guillama   | 300,000                                      | 17.0%  | \$ 0.50                           | Jan 27, 2010<br>thru<br>Dec 26, 2012 | \$ 169,500  | \$ 236,750 |

On December 27, 2004, the Board of Directors granted Noel J. Guillama 600,000 and Donald B. Cohen and Susan Guillama 300,000 each, five-year options to purchase common stock of the Company to be vested over three (3) years. The Board granted these options as the Company has been unable to provide these executives competitive compensation.

**AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND****FY-END OPTION/SAR VALUES**

| Name              | Shares Acquired On Exercise (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)<br>Exercisable/Unexercisable | Value Of Unexercised In The-Money Options/SARs at Fiscal Year-End (\$) Exercisable/Unexercisable (1) |
|-------------------|---------------------------------|---------------------|--|--|
| Noel Guillama     |                                 |                     | 366,670/433,330  | \$148,335/\$151,665  |
| Donald B. Cohen   |                                 |                     | 233,340/216,216  | \$ 96,669/\$ 75,831  |
| Susan D. Guillama |                                 |                     | 83,340/216,660   | \$ 29,169/\$ 75,831  |

(1)

The closing sale price of the Common Stock on October 31, 2005, as reported by the OTC Bulletin Board, was \$0.85 per share. Value is calculated by multiplying (a) the difference between \$0.85 and the option exercisable price by (b) the number of shares of Common Stock underlying.



## Equity Compensation Plans

The per share exercise price of shares granted under the plan shall not be less than 90% of the fair market value of common stock on the grant date. Officers, directors and key employees of and consultants to the Company will be eligible to receive incentive stock options, non-qualified options or stock grants under the plan. Only officers, directors and employees of the Company who are employed by the Company or by any subsidiary thereof are eligible to receive incentive options.

Under the plan, the Company granted 60,000 shares of common stock and no options during the year ended October 31, 2005. There were no options or stock granted during the year ended October 31, 2004.

|   | 2005                         |                        |   | Common<br>Stock<br>Grants | 2004                              |   |
|---|------------------------------|------------------------|---|---------------------------|-----------------------------------|---|
|   | Incentive<br>Stock<br>Grants | Number<br>of<br>Shares | Options<br>Weighted<br>Average<br>Exercise<br>Price |                           | Options<br>Number<br>of<br>Shares | Options<br>Weighted<br>Average<br>Exercise<br>Price |
| Outstanding at<br>beginning of the period                 |                              |                        |   |                           |                                   |   |
| Granted   | 60,000                       |                        |   |                           |                                   |   |
| Exercised   |                              |                        |   |                           |                                   |   |
| Forfeited   |                              |                        |   |                           |                                   |   |
| Outstanding at October<br>31,                             | 60,000                       |                        |   |                           |                                   |   |
| Exercisable at October<br>31,                             |                              |                        |   |                           |                                   |   |
| Available for issuance<br>at October 31 under the<br>plan |                              | 4,940,000              |   |                           | 5,000,000                         |   |

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On May 28, 2003, Transform Pack completed the acquisition of Quantum HIPAA Consulting Group, Inc., a Florida Corporation based in Wellington, Florida. Quantum HIPAA Consulting Group is in the business of advising the healthcare industry on the implementation of regulations created to comply with the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Transform Pack made the acquisition by issuing 27,000,000 shares of Common Stock (\$0.004 par value) to Noel J. Guillama, the sole stockholder of Quantum HIPAA Consulting Group, in exchange for all the issued and outstanding shares of Quantum HIPAA Consulting Group. As a result, of the acquisition on May 28, 2003, Mr. Guillama became the direct and beneficial owner of approximately 80.18 % of the issued and outstanding shares of the Company. Prior to the acquisition of Quantum HIPAA Consulting Group, there was no affiliation or other relationship between Transform Pack and Quantum HIPAA Consulting Group or Mr. Guillama.

At a Special Meeting of the shareholders held on January 30, 2004 the majority of the shareholders agreed to issue 13,300,000 post reverse shares and 200,000 Series A Preferred Stock (subsequently cancelled and returned to the Company) to the majority shareholder of the Company, Mr. Guillama, of both QMT and RHS for 80% of each of those companies. Mr. Guillama had previously granted 7,175,000 options exercisable at \$.001 per share on the shares he owned in the two companies. Of this amount, 1,000,000 options are held by an affiliate of Mr. Guillama, 2,180,000

are held by Directors of the Quantum Group and 3,995,000 are held by non-affiliates.



**AUDIT COMMITTEE REPORT**

The Audit Committee oversees the Company's financial reporting process. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards. In addition, the Audit Committee discussed with the independent accountants matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees).

The Audit Committee discussed with Company's independent auditors the overall scope and plans for their respective audit. The Audit Committee meets with the independent auditors to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

The Company's independent accountants also provided to the Audit Committee the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent accountants the accountants' independence.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in the Annual Report on Form 10-KSB for the year ended October 31, 2005 for filing with the Securities and Exchange Commission. The Audit Committee and the Board have also recommended, subject to shareholder approval, the selection of the Company's independent auditors.

Audit Committee  
MARK HAGGERTY

**Approval of Proposal 1**

The seven nominees for director that receive the affirmative vote of a majority of the votes cast in person or by proxy at the Annual Meeting shall be elected as directors of the Company.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ELECTION OF THE DIRECTOR NOMINEES.**

**PROPOSAL 2**

**PROPOSAL TO RATIFY THE APPOINTMENT OF  
DASZKAL BOLTON LLP AS INDEPENDENT AUDITORS OF THE COMPANY FOR  
THE FISCAL YEAR ENDING OCTOBER 31, 2006**

**General**

At the Annual Meeting, stockholders will be requested to ratify the Board of Directors' engagement of Daszkal Bolton LLP for the fiscal year ending October 31, 2006. It is not expected that representatives of Daszkal Bolton LLP will be present at the Annual Meeting. If representatives of Daszkal Bolton LLP are present, such representatives will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. Although the Board of Directors of the Company is submitting the appointment of Daszkal Bolton LLP for shareholder ratification it reserves the right to change the selection of Daszkal Bolton LLP as auditors, at any time during the fiscal year, if it deems such change to be in the best interest of the Company, even after shareholder ratification. If the appointment is not ratified, our Board will consider whether it should select other independent auditors.

**Fees to Auditors**

**Audit Fees:** The aggregate fees, including expenses, billed by Daszkal Bolton LLP in connection with the audit of the Company's consolidated financial statements for the review of the Company's financial information included in its Annual Report on Form 10-KSB for the year ended October 31, 2005 and year ended October 31, 2004 was \$25,500 and \$20,948, respectively.

**Audit Related Fees:** The aggregate fees, including expenses, billed by Daszkal Bolton LLP for services reasonably related to the audit for the year ended October 31, 2005 and year ended October 31, 2004 were \$-0- and \$-0-, respectively.

**Tax Fees:** The aggregate fees, including expenses, billed by Daszkal Bolton LLP for tax services during the year ended October 31, 2005 and year ended October 31, 2004 was \$4,800 and \$-0-, respectively.

**All Other Fees:** The aggregate fees, including expenses, billed for all other services rendered to the Company by Daszkal Bolton LLP during year ended October 31, 2005 and year ended October 31, 2004 was \$-0- and \$-0-, respectively.

The Audit Committee approves all professional services and fees provided by our principal accountants. For the year 2005 and 2004, the audit committee approved only professional services rendered by our principal accountants for the audit of our annual financial statements and review of our financial statements included in our Form 10-QSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years and tax compliance.

**Approval of Proposal 2**

The approval of Proposal 2 by the stockholders requires that the votes cast favoring Proposal 2 exceed the votes cast opposing Proposal 2.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF DASZKAL BOLTON  
LLP AS INDEPENDENT AUDITORS OF THE COMPANY FOR THE FISCAL YEAR ENDING OCTOBER  
31, 2006**



### PROPOSAL 3

**AUTHORIZE THE BOARD OF DIRECTORS TO EFFECT A REVERSE STOCK SPLIT OF OUR OUTSTANDING COMMON STOCK TO COMPLY WITH THE INITIAL LISTING REQUIREMENTS OF A NATIONAL SECURITIES EXCHANGE OR INITIAL QUOTATION REQUIREMENTS ON AN AUTOMATIC QUOTATION SYSTEM OF A NATIONAL SECURITIES ASSOCIATION AND UPON A DETERMINATION BY THE BOARD THAT A REVERSE STOCK SPLIT IS IN THE BEST INTEREST OF OUR STOCKHOLDERS.**

#### General

The Company intends to submit an initial listing application for the listing of its common stock on a national securities exchange or quotation of its common stock on an automatic quotation system of a national securities association. Among other requirements, the initial listing qualifications of the American Stock Exchange require a minimum trading price of \$3.00 per share and the initial quotation qualifications of the Nasdaq Capital require a minimum bid price of \$4.00 per share. The American Stock Exchange and Nasdaq Capital Market also require that a minimum of 1,000,000 shares of common stock be publicly held. The closing bid price of our common stock on July \_\_, 2006 was \$\_\_\_\_\_ per share and approximately \_\_\_\_\_ shares were publicly held. While the Company provides no assurances that it will be accepted for trading on a national securities exchange or automatic quotation system of a national securities association, it desires to affect a reverse stock split sufficient to sustain a closing bid price or quotation price in excess of \$3.00 or \$4.00 per share, respectively, yet maintain the minimum public float requirement. In order to comply with initial listing requirements the Board of Directors voted unanimously to authorize and recommend that our stockholders approve a proposal to effect a minimum of a 1-for-3 reverse stock split (the Reverse Stock Split ) of the Company's Common Stock that may be effected in one or more increments by our Board depending on market conditions at any time or from time to time until the next annual stockholders' meeting. Pursuant to the Reverse Stock Split, a minimum of 3 shares (or such greater number of shares as the Board of Directors deems appropriate to meet initial listing requirements) of the outstanding shares of our Common Stock on the date of the Reverse Stock Split (the Old Shares ) will be automatically converted into one share of our Common Stock (the New Shares ). The Reverse Stock Split, if authorized by our stockholders, will be effected only as required to obtain the listing of the Company's common stock on the American Stock Exchange or other national securities exchange or quotation on the automatic quotation system of a national securities association and upon a determination by our Board of Directors to such effect that the Reverse Stock Split will result in the greatest marketability and liquidity of our Common Stock, based upon the prevailing market conditions, the likely effect on the market price of our Common Stock and other relevant factors. The Reverse Stock Split will become effective upon filing of a Certificate of Amendment (the Certificate of Amendment ) to our Certificate of Incorporation with the Nevada Secretary of State. A form of the Certificate of Amendment is included as Exhibit B to this proxy statement.

#### Purpose and Effect of Proposed Reverse Stock Split

One of the key requirements for the initial listing on a national securities exchange or initial quotation on the automatic quotation system of a national securities association is that our common stock must satisfy an initial trading or quotation price (\$3.00 for the American Stock Exchange and \$4.00 for the Nasdaq Capital) per share. The closing bid price of our common stock on \_\_\_\_\_, 2006 was \$\_\_\_\_\_ per share. Accordingly, the Company believes that the Reverse Stock Split will improve the price level of our common stock so that we may be accepted for trading on a national securities exchange or quotation on the automatic quotation system of a national securities association, provided we meet all other listing requirements. Our Board also believes that the higher share price, which should result from the Reverse Stock Split, will help generate interest in the Company among investors.

Despite our Board's belief, the effect of the Reverse Stock Split upon the market price for our common stock cannot be predicted. There can be no assurance that the market price per New Share of our Common Stock after the Reverse Stock Split will rise in proportion to the reduction in the number of Old Shares of our Common Stock outstanding

resulting from the Reverse Stock Split, or that such price will either exceed or remain in excess of the minimum price per share as required by a national securities exchange or quotation on the automatic quotation system of a national securities association. The market price of our Common Stock may also be based on our performance and other factors, some of which may be unrelated to the number of shares outstanding.

The Reverse Stock Split will affect all of our stockholders uniformly and will not affect any stockholder's percentage ownership interests in us or proportionate voting power, except to the extent that the Reverse Stock Split results in any of our stockholders owning a fractional share. In lieu of issuing fractional shares, we will issue any stockholder who otherwise would have been entitled to receive a fractional share as a result of the Reverse Stock Split one share of our Common Stock. There will be no change in the number of authorized shares.

The Reverse Stock Split would have the following effects upon the number of shares of our Common Stock outstanding and the number of authorized and unissued shares of our Common Stock. Upon the effectiveness of the Reverse Stock Split, the number of shares owned by each stockholder will be reduced by the ratio of up to 1 to 3 (or such greater ratio as the Board of Directors deems appropriate to meet listing or quotation standards) shares of Common Stock he, she or it owned immediately prior to the Reverse Stock Split. The per share loss and net book value of our Common Stock will be increased because there will be fewer shares of our Common Stock outstanding.

Assuming a 1-for-3 Reverse Stock Split, the principal effect of the Reverse Stock Split will be that (i) the number of shares of Common Stock issued and outstanding (including those issued pursuant to the Company's Stock Option Plan) will be reduced from 24,497,361 shares to approximately 8,165,787 shares and (ii) all outstanding options and warrants entitling the holders thereof to purchase shares of Common Stock will enable such holders to purchase, upon exercise of their options, 1/3rd of the number of shares of Common Stock which such holders would have been able to purchase upon exercise of their options immediately preceding the Reverse Stock Split at the same aggregate price required to be paid therefor upon exercise thereof immediately preceding the Reverse Stock Split.

The Reverse Stock Split will not effect the par value of our Common Stock. As a result, on the effective date of the Reverse Stock Split, the stated capital on our balance sheet attributable to the Common Stock will be reduced to 1/3rd of its present amount (assuming a 1-for-3 Reverse Stock Split), and the additional paid-in capital account shall be credited with the amount by which the stated capital is reduced.

### **Manner of Effecting The Reverse Stock Split and The Exchange Stock Certificates**

In the event our stockholders approve the Reverse Stock Split and following the determination by our Board of whether or not to effect the Reverse Stock Split, the Reverse Stock Split will be effected by the filing of the Certificate of Amendment with the Secretary of the State of Nevada. The Reverse Stock Split will become effective on the date of filing the Certificate of Amendment unless we specify otherwise (the Effective Date). As soon as practicable after the Effective Date, we will send a letter of transmittal to each holder of record of Old Shares outstanding on the Effective Date. The letter of transmittal will contain instructions for the surrender of certificates representing the Old Shares. Upon proper completion and execution of the letter of transmittal and return thereof, together with certificates representing Old Shares, a stockholder will be entitled to receive a certificate representing the number of New Shares into which his Old Shares have been reclassified as a result of the Reverse Stock Split. Stockholders should not submit any certificates until requested to do so. No new certificate will be issued to a stockholder until such stockholder has surrendered his outstanding certificates together with the properly completed and executed letter of transmittal. Until surrendered, each outstanding certificate representing Old Shares will be deemed for all corporate purposes after the Effective Date to evidence ownership of New Shares in the appropriately reduced number.

### **No Rights of Appraisal**

Under the Nevada General Corporation Law, our stockholders are not entitled to appraisal rights with respect to our proposed amendment to our charter to effect the Reverse Stock Split and we will not independently provide our stockholders with any such right.





### **Certain Federal Income Tax Consequences**

We believe that the federal income tax consequences of the Reverse Stock Split to holders of Old Shares and holders of New Shares will be as follows:

1.

Except as set forth in (5) below, no gain or loss will be recognized by a stockholder on the surrender of the Old Shares or receipt of a certificate representing New Shares.

2.

Except as set forth in (5) below, the aggregate tax basis of the New Shares will equal the aggregate tax basis of the Old Shares exchanged therefor.

3.

Except as set forth in (5) below, the holding period of the New Shares will include the holding period of the Old Shares if such Old Shares were held as capital assets.

4.

The conversion of the Old Shares into the New Shares will produce no gain or loss to us.

5.

The federal income tax consequences of the receipt of an additional share in lieu of a fractional interest is not clear but may result in tax liabilities which should not be material in amount in view of the low value of the fractional interest.

Our beliefs regarding the tax consequence of the Reverse Split are not binding upon the Internal Revenue Service or the courts, and there can be no assurance that the Internal Revenue Service or the courts will accept the positions expressed above.

This summary does not purport to be complete and does not address the tax consequences to holders that are subject to special tax rules, such as bank, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident foreign individuals, broker-dealers and tax exempt entities.

The state and local tax consequences of the Reverse Stock Split may vary significantly as to each stockholder, depending upon the state in which he resides.

The foregoing summary is included for general information only. Accordingly, stockholders are urged to consult their own tax advisors with respect to the Federal, State and local tax consequences of the Reverse Stock Split.

### **Approval of Proposal 3**

Approval of the Reverse Stock Split will require the affirmative vote of a majority of the outstanding shares of our common stock.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE REVERSE STOCK SPLIT**



**INTEREST OF CERTAIN PERSONS IN OPPOSITION  
TO MATTERS TO BE ACTED UPON**

Management is not aware of any substantial interest, direct or indirect, by securities holdings or otherwise of any officer, director, nominee for director, or associate of the foregoing persons in any matter to be acted on, as described herein.

**STOCKHOLDER PROPOSALS**

Proposals of stockholders of the Company, which are intended to be presented, by such stockholders at the annual meeting of stockholders to be held in 2007 must be received by the Company no later than March 31, 2007, in order to have them included in the proxy statement and form of proxy relating to that meeting.

**OTHER MATTERS**

Management is not aware of any other matters to be presented for action at the Meeting. However, if any other matter is properly presented, it is the intention of the persons named in the enclosed form of proxy to vote in accordance with their best judgment on such matters.

**ACCOMPANYING REPORTS**

The Company's Annual Report on Form 10-KSB for the year ended October 31, 2005 and Quarterly Report for the period ended April 30, 2006 (without exhibits) accompany this proxy statement. The exhibits are available without charge to stockholders upon request to Secretary, The Quantum Group, Inc., 3460 Fairlane Farms Road, Suite 4, Wellington, Florida 33414.

NOEL J. GUILLAMA  
Chairman and President

**THE QUANTUM GROUP, INC.**

**CHARTER OF THE AUDIT COMMITTEE OF THE  
BOARD OF DIRECTORS**

**I.**

**STATEMENT OF POLICY**

This Charter specifies the scope of the responsibilities of the Audit Committee (the *Committee*) of the Board of Directors (the *Board*) of The Quantum Group (the *Company*) and the manner in which those responsibilities shall be performed, including its structure, processes and membership requirements.

The primary purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and reporting to the Board on the integrity of the financial reports and other financial information provided by the Company to any governmental body or to the public, and on the Company's compliance with legal and regulatory requirements. The Committee shall also review the qualifications, independence and performance, and approve the terms of engagement, of the Company's independent auditor, review the performance of the Company's internal audit function, and prepare any reports required of the Committee under rules of the Securities and Exchange Commission. Consistent with these functions, the Committee should encourage continuous improvement of, and should foster adherence to, the Company's financial policies, procedures and practices at all levels. The Committee's primary duties and responsibilities are to:

•

Retain the independent auditor, evaluate their independence, qualifications and performance, and approve the terms of engagement for audit service and non-audit services.

•

Review with management and the independent auditor, as appropriate, the Company's financial reports and other financial information provided by the Company to any governmental body or the public, and the Company's compliance with legal and regulatory requirements.

•

Regularly communicate with the independent auditor, internal auditors (if any) and financial and senior management and regularly report to the Board.

•

Establish and observe complaint procedures regarding accounting, internal auditing controls and auditing matters.

•

Prepare the report required by the Securities and Exchange Commission.

The Company shall provide appropriate funding, as determined by the Committee, to permit the Committee to perform its duties under this Charter and to compensate its advisors. The Committee, at its discretion, has the authority

to initiate special investigations, and, if appropriate, hire special legal, accounting or other outside advisors or experts to assist the Committee, to fulfill its duties under this Charter. The Committee may also perform such other activities consistent with this Charter, the Company's Bylaws and governing law, as the Committee or the Board deems necessary or appropriate.

## II.

### ORGANIZATION AND MEMBERSHIP REQUIREMENTS

The Committee shall be comprised of two or more directors selected by the Board, each of whom shall satisfy the independence and experience requirements of AMEX or such other exchange or market on which the Company's securities may be listed. In addition, the Committee shall not include any member who:

- accepts any consulting, advisory, or other compensatory fee from the Company, other than in his or her capacity as a member of the Committee, the Board, or any other committee of the Board, or
- is an affiliated person of the Company or any subsidiary of the Company.

Each member of the Committee must be able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. In addition, at least one member shall have past employment experience in finance or accounting, professional certification in accounting, or other comparable experience or background resulting in the individual being financially sophisticated, including being or having been a chief executive, chief financial, or other senior officer with financial oversight responsibilities. If possible, at least

one member shall be a financial expert as determined in accordance with the rules and regulations of the Securities and Exchange Commission.

The members of the Committee shall be appointed by the Board on the recommendation of the Nominating Committee and shall serve until their successors are duly elected and qualified or their earlier resignation or removal. Any member of the Committee may be replaced by the Board on the recommendation of the Nominating Committee. Unless a chairman is elected by the full Board, the members of the Committee may designate a chairman by majority vote of the full Committee membership.

### **III.**

#### **MEETINGS**

The Committee shall meet as often as it determines, but not less frequently than quarterly. The Committee can meet at a time and location of its preference or via telephone conference call. The Committee may form and delegate authority to subcommittees when appropriate, or to one or more members of the Committee. The Committee shall meet with management, internal auditors (if any) and the independent auditor in separate executive sessions as appropriate, but at least quarterly. The Committee shall meet with the independent auditor and management on a quarterly basis to review the Company's financial statements and financial reports. The Committee shall maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board. The Committee will also record its summaries of recommendations to the Board in written form, which will be incorporated as part of the minutes of the Board meeting at which those recommendations are presented.

### **IV.**

#### **COMMITTEE AUTHORITY AND RESPONSIBILITIES**

##### **A.**

##### **Oversight of the Company's Independent Auditor**

The Committee shall be directly and solely responsible for the engagement and oversight of any independent auditor employed by the Company for the purpose of preparing or issuing an audit report or related work. Each independent auditor shall report directly to the Committee. The Committee shall:

1.

Obtain periodically from the independent auditor a formal written statement of the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, and, in particular, describing all relationships between the auditor and the Company, and discuss with the auditor any disclosed relationships or services that may impact auditor objectivity and independence.

2.

Obtain and review annually a report from the independent auditor describing (i) the auditor's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review or peer reviews or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, and any steps taken to deal with such issues, and (iii) all relationships between the independent auditor and the Company.

3.

Evaluate annually the qualifications, performance and independence of the independent auditor, including whether the independent auditor's quality-control procedures are adequate, the review and evaluation of the lead partner of the independent auditor, taking into account the opinions of management and the Company's internal auditors, and report to the Board on its conclusions, together with any recommendations for additional action.

4.

Adopt a policy assuring the rotation, as required by law, of the lead audit partner every five years, and consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm, and report to the Board on its conclusions.