CAREGUIDE INC
Form 10-Q/A
June 04, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Amendment No. 1

FORM 10-Q/A

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

For the quarterly period ended: March 31, 2007

OR

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

For the transition period from ______________ to ____________________________

Commission file number: 0-22319

CAREGUIDE, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	16-1476509
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4401 N.W. 124th Avenue, Coral Springs, FL 33065

(Address of principal executive offices)

(954) 796-3714

(Issuer s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated Filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of May 14, 2007, 67,538,976 shares of the Company s common stock, par value $0.01 per share, were outstanding.

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EXPLAINITORY NOTE

CareGuide, Inc. is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2007 solely to include the certifications of its Chief Executive Officer and Chief Financial Officer. Those certifications were omitted from the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2007.

Except for including the certifications noted above, no other information is being amended by this Form 10-Q/A.

PART I FINANCIAL INFORMATON

Item 1. Financial Statements

CareGuide, Inc. and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, except shares and par values)

	March 31,	December 31,
Assets	**2007 (unaudited)**	**2006**
Current assets:		
Cash and cash equivalents	$ 1,982	$ 5,975
Restricted cash available for current liabilities	3,006	4,717
Securities available for sale	24	24
Securities held for trading	306	284
Notes receivable	-	308
Accounts receivable, net of allowance for doubtful accounts of $585 and $544, respectively	3,866	3,503
Prepaid expenses and other current assets	449	587
Current assets of discontinued operations	343	344
Total current assets	9,976	15,742
Property and equipment, net	2,611	2,948
Intangibles and other assets, net	5,595	5,963
Goodwill	32,673	32,629
Restricted cash	909	908
Total assets	**$ 51,764**	**$ 58,190**
Liabilities and stockholders equity		
Current liabilities:		
Claims payable	$ 5,231	$ 7,260
Line of credit	8,000	8,000
Accounts payable and accrued expenses	4,358	4,932
Deferred revenue	177	1,500
Current tax liability	336	344
Current portion of lease obligations	372	365
Current liabilities of discontinued operations	417	425
Total current liabilities	18,891	22,826
Long-term liabilities:		
Notes payable	6,601	6,520
Lease obligations, net of current portion	1,011	1,107
Deferred tax liability	7	7
Total liabilities	26,510	30,460
Commitments and contingencies		
Stockholders equity:		
Common stock, $.01 par value, 80,000,000 shares authorized; 67,538,976 shares issued and outstanding	675	675
Additional paid-in capital	62,717	62,474
Other comprehensive loss	(32)	(32)
Accumulated deficit	(38,106)	(35,387)
Total stockholders equity	25,254	27,730
Total liabilities and stockholders equity	**$ 51,764**	**$ 58,190**

See notes to unaudited consolidated financial statements.

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CareGuide, Inc. and Subsidiaries
Consolidated Statements of Operations (unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Capitation revenue	$ 3,032	$ 8,705
Administrative and fee revenue	5,139	6,956
Total revenues	8,171	15,661
Cost of services direct service costs, excluding depreciation and amortization of $583 and $340, respectively	6,735	11,731
Gross profit	1,436	3,930
Operating costs and expenses:		
Selling, general and administrative expense	2,989	2,614
Depreciation and amortization	762	549
Total operating costs and expenses	3,751	3,163
Operating (loss) income from continuing operations	(2,315)	767
Other income (expense):		
Interest and other income	104	110
Trading portfolio gain (loss)	22	(16)
Interest expense	(489)	(402)
(Loss) income from continuing operations before income taxes and discontinued operations	(2,678)	459
Income tax (expense) benefit	(44)	21
(Loss) income from continuing operations	(2,722)	480
Income from discontinued operations	3	-
Net (loss) income	(2,719)	480
Accretion of preferred stock	-	(11)
Net (loss) income attributable to common stockholders	$ (2,719)	$ 469
Net comprehensive (loss) income attributable to common stockholders	$ (2,719)	$ 468
Net (loss) income per common share-basic and diluted:		
(Loss) income from continuing operations	$ (0.04)	$ 0.01
Discontinued operations	-	-
Net (loss) income	$ (0.04)	$ 0.01
Weighted average common shares outstanding:		
Basic	67,539	51,072
Diluted	67,539	57,514

See notes to unaudited consolidated financial statements.

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CareGuide, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2007	2006
Cash provided by (used in) operating activities:		
Cash received from customers	$ 6,483	$ 11,534
Direct provider costs and claims settlements paid	(4,560)	(4,711)
Salary and benefits paid	(4,021)	(4,222)
Rent expense paid	(391)	(500)
Professional fees paid	(561)	(27)
Other operating expenses paid	(2,742)	(1,227)
Other income received	104	110
Interest expense paid	(191)	(166)
Income taxes paid	(51)	(4)
Net cash (used in) provided by operating activities	(5,930)	787
Cash provided by (used in) investing activities:		
Purchases of property and equipment	(38)	(30)
Restricted deposits, net	1,710	1,099
Collection of notes receivable	310	-
Cash (used in) acquired in merger, net of acquisition costs	(45)	4,327
Net cash provided by investing activities	1,937	5,396
Cash used in financing activities:		
Principal payments of capital lease obligations	-	(120)
Net cash used in financing activities	-	(120)
Net (decrease) increase in cash and cash equivalents	(3,993)	6,063
Cash and cash equivalents, beginning of period	5,975	2,336
Cash and cash equivalents, end of period	$ 1,982	$ 8,399

Continued on the next page.

CareGuide, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
Continued
(Dollars in thousands)

	Three Months Ended March 31,			
	2007		**2006**	
Reconciliation of net (loss) income to net cash (used in) provided by operating activities:				
Net (loss) income	$	(2,719)	$	480
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Depreciation and amortization	762		549	
Stock option compensation	25		30	
Amortization of warrants	218		229	
Interest expense on notes payable	80		-	
Additional (loss) income from subleases	(121)		310	
Increase in accounts receivable	(362)		(355)	
Decrease in prepaid expenses and other current assets	133		186	
Decrease in claims payable	(2,029)		(1,169)	
Decrease (increase) in accounts payable and accrued expenses	(556)		106	
(Decrease) increase in deferred revenue	(1,323)		429	
Decrease in other assets	-		74	
Reverse trading portfolio (gain) loss	(22)		16	
Decrease in current tax liability	(7)		-	
Deferred tax benefit	-		(98)	
Decrease in current liabilities of discontinued operations	(9)		-	
Net cash (used in) provided by continuing operations	$	(5,930)	$	787

See notes to unaudited consolidated financial statements.

CAREGUIDE, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements for the period ended March 31, 2007

1. Organization and Description of Business

The accompanying financial statements for the three months ended March 31, 2007 and 2006 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for these interim periods. These financial statements should be read in conjunction with the audited financial statements and notes thereto, for the nine months ended December 31, 2006. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results for the entire year.

CareGuide, Inc. (the Company or CareGuide) is a population health management company that provides a full range of healthcare management services to health plans, work/life companies, government entities, and self-funded employers to help them to reduce health care costs while improving the quality of care for the members. The Company has approximately 80 customers across the United States.

The Company s services may be provided under a variety of contractual arrangements, including capitation, fee-for-service, and case rates. CareGuide also provides case management and disease management for administrative fees only. Contracts may include performance bonuses and shared cost savings arrangements.

2. Mergers

On January 25, 2006, the Company merged with CCS Consolidated, Inc. and its subsidiaries (CCS). While the Company was the surviving legal entity in such merger (which may be referred to herein as the PATY Merger), CCS securityholders acquired control of the Company, and accordingly, CCS was deemed the acquirer for purposes of accounting.

On December 8, 2006, pursuant to an Agreement and Plan of Merger, dated as of November 3, 2006, by and among CareGuide, Haelan Acquisition Corporation, an Indiana corporation and a newly formed wholly-owned subsidiary of CareGuide (Merger Sub), Haelan Corporation, an Indiana corporation (Haelan) and Richard L. Westheimer, as securityholders representative (the Haelan Merger Agreement), Merger Sub merged with and into Haelan (the Haelan Merger), and as a result Haelan became a wholly-owned subsidiary of CareGuide. The Haelan Merger Agreement and the Haelan Merger were approved by the shareholders of Haelan at a meeting held on November 20, 2006. In the Haelan Merger, CareGuide paid $1.5 million in cash to Haelan to satisfy certain liabilities of Haelan existing at the closing and specified in the Haelan Merger Agreement, and all outstanding securities of Haelan were exchanged for convertible promissory notes of CareGuide (the Convertible Notes) in the aggregate principal amount of $6.5 million. The Convertible Notes are subordinated to the rights of CareGuide s senior lender.

The Convertible Notes carry an interest rate of 5% per year, compounding annually, mature on December 8, 2009 and are convertible at maturity into shares of common stock of CareGuide, valued based upon the average closing price of the common stock for the 20 consecutive trading days ending on the date prior to conversion. The maturity date of the notes may be accelerated in the event of a sale transaction, as defined in the Convertible Notes, involving CareGuide.

The financial statements presented herein for the three months ended March 31, 2006 are the historical financial statements of the former CCS Consolidated, Inc., with the combined results of operations of the Company (formerly known as Patient Infosystems, Inc.) and CCS Consolidated, Inc. reflected for the period from January 25, 2006 to March 31, 2006.

2. Mergers (continued)

The following unaudited pro forma summary presents the Company s consolidated results of operations for the three months ended March 31, 2006 as if both the PATY Merger and the Haelan Merger had been consummated on January 1, 2006. The pro forma consolidated results of operations include certain pro forma adjustments, including the amortization of identifiable intangible assets, interest and expenses on certain debt (dollars in thousands, except for share and per share data).

	Pro Forma for the Three Months Ended March 31, 2006
Total revenues	$ 17,020
Cost of services direct service costs	(12,494)
Total operating costs and expenses	(4,250)
Other expenses, net	(359)
Net loss from continuing operations	$ (83)
Net loss per common share - basic and diluted	$ -
Weighted average shares outstanding	67,538,976

The pro forma results are not necessarily indicative of those that would have occurred had the acquisitions been consummated on January 1, 2006.

3. Business Operations

The Company realized net loss of approximately $2.7 million for the three months ended March 31, 2007 and had a working capital deficit of $8.9 million at March 31, 2007. The Company s ability to continue as a going concern is dependent upon achieving profitability from future operations sufficient to maintain adequate working capital. These financial statements have been prepared assuming the Company will continue as a going concern. Until the Company can sustain sufficient profitable operations or other revenue-generating activities to be self-sufficient, the Company will remain dependent on other sources of capital. Through March 31, 2007, such capital has been obtained from the issuance of capital stock and borrowings from a financial institution. The Company s primary investors have guaranteed the borrowing from a financial institution (see Note 5) and have committed to provide additional funding to the Company, if required, through January 1, 2008 up to a maximum of $2.0 million. The Company s lender under the Line of Credit has agreed to extend the maturity date of the Line of Credit to January 1, 2009, subject to the negotiation and execution of definitive documentation and the receipt of necessary consents. There can be no assurance that it will be able to restructure the Line of Credit on terms favorable to the Company or at all prior to its current maturity date.

Management s plans for dealing with the adverse effects of these conditions include entering into contracts with additional health plans, achieving positive gross margins by exiting or renegotiating under-performing contracts, reducing operating expenses by challenging staffing levels at all of the Company s locations and considering strategic partnerships with other healthcare companies. The Company is restructuring its operations in 2007 designed to reduce annualized operating expenses by approximately $4.0 million. However, there can be no assurance that the Company will be successful in achieving positive financial results.

4. Summary of Significant Accounting Policies

Risks and Uncertainties

The Company s business could be impacted by continuing price pressure on new and renewal business, the Company s ability to effectively control provider costs, additional competitors entering the Company s markets and changes in federal and state legislation or governmental regulations. Changes in these areas could adversely impact the Company s financial position, results of operations and/or cash flows in the future.

Direct service costs are comprised of the incurred claims paid to third-party providers for services for which the Company is at risk and the related expenses of the Company associated with the providing of its services. Network provider and facility charges for authorized services that have yet to be billed to the Company are estimated and accrued in its Incurred But Not Reported (IBNR) claims payable liability. Such accruals are based on historical experience, current enrollment statistics, patient census data, adjudication and authorization decisions and other information. The IBNR liability is adjusted as changes in these factors occur and such adjustments are reported in the period of determination. Although it is possible that actual results could vary materially from recorded claims in the near term, management believes that the recorded IBNR liability is adequate.

Reclassification

Certain prior period balances have been reclassified to agree with the current year presentation. There was no effect from these reclassifications on the net income for the three months ended March 31, 2006 or stockholders equity reported as of that date.

Depreciation and Amortization

The Company reports all depreciation and amortization expense as an operating expense. For the three months ended March 31, 2007 and 2006, the reported amounts included $583 thousand and $340 thousand, respectively, of depreciation and amortization expenses that were attributable to cost of services.

Restricted Cash

In connection with several of the Company s customer contracts and office leases, the Company is required to maintain letters of credit and has secured these letters of credit by establishing certificates of deposit totaling $3.3 million at March 31, 2007. These certificates of deposit are included in restricted cash in the consolidated balance sheets.

At March 31, 2007, CCS New Jersey, Inc., a subsidiary of the Company, had on deposit $609,000 with the State of New Jersey as a condition of licensure as an Organized Delivery System in New Jersey. This deposit is included as restricted cash in the consolidated balance sheets.

The portion of restricted cash that is available and that the Company intends to use to satisfy current liabilities is included in current assets. The fair value of restricted cash approximates its carrying value.

Long-Lived Assets

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS No. 144) which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30, *Reporting the Results of Operations*, for a disposal of a segment of a business. The Company periodically reviews the carrying value of its long-lived assets to assess recoverability and impairment. The Company recorded no impairments during the three months ended March 31, 2007 or 2006.

4. Summary of Significant Accounting Policies (continued)

Claims Payable

The Company provides for claims incurred but not yet reported based primarily on past experience, together with current factors, using generally accepted actuarial methods. Estimates are adjusted as changes in these factors occur and such adjustments are reported in the year of determination. Although it is reasonably possible that actual results could vary materially from recorded claims in the near term, management believes that recorded reserves are adequate.

The estimates for claims payable are continually reviewed and adjusted as necessary, as experience develops or new information becomes known. Such adjustments are included in current operations.

Reconciliation of Claims Payable
(Dollars in thousands)

	Three Months Ended March 31,	
	2007	**2006**
Claims payable, beginning of period	$ 7,260	$ 9,429
Claims Incurred:		
Current period	2,828	3,658
Prior periods	(297)	(116)
Total incurred claims	2,531	3,542
Paid Claims:		
Current period	(164)	(192)
Prior periods	(2,577)	(1,037)
Claims paid by health plan	(1,819)	(3,482)
Total paid claims	(4,560)	(4,711)
Claims payable, end of period	$ 5,231	$ 8,260

Cost of services for the three months ended March 31, 2007 and 2006 include a benefit of approximately $297 thousand and $116 thousand, respectively, related to the favorable settlement of claims for services included in the prior reporting periods.

4. Summary of Significant Accounting Policies (continued)

Revenue and Major Customers

Capitated fees are due monthly and are recognized as revenue during the period in which the Company is obligated to provide services to members. Administrative fees are recognized during the period in which case management and disease management services are provided. Fee-for-service revenues are recognized during the period in which the related services are provided to members. Fees received in advance are deferred and ultimately recognized in the period in which the Company is obligated to provide service to members.

Certain of the Company s receivables are based on contractual arrangements which may be subject to retroactive adjustments as final settlements are determined. Such amounts are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods upon final settlement.

For the three months ended March 31, 2007 and 2006, 37.1% and 55.6%, respectively, of the Company s total revenue from continuing operations was earned under contracts with affiliates of one customer, Aetna Health Plans (Aetna). The capitated risk contacts with Aetna were terminated effective January 31, 2007. For the three months ended March 31, 2006, 23.3% of the Company s total revenue from continuing operations was earned under contracts with Health Net, Inc. (Health Net). The Health Net contracts were terminated effective May 1, 2006. The Company has contracts with Blue Cross Blue Shield of Michigan (BCBSM). The revenues from BCBSM for the three months ended March 31, 2007 and 2006 were 13.3% and 3.6%, respectively, of the total revenues from continuing operations for these periods. Other than these customers, no other one customer accounted for more than 10% of the Company s total revenue for the three months ended March 31, 2007 and 2006.

Direct Service Costs

Direct service costs are comprised principally of expenses associated with providing the Company s services, including third-party network provider charges. The Company s direct service costs require pre-authorization and are recognized in the month in which services are rendered. Network provider and facility charges for authorized services that have not been billed to the Company (known as incurred but not reported expenses) are estimated and accrued based on the Company s historical experience, current enrollment statistics, patient census data, adjudication decisions and other information. The liability for such costs is included in the caption Claims payable in the accompanying consolidated balance sheets.

Income Taxes

The Company and its subsidiaries file federal tax returns on a consolidated basis, and certain of its subsidiaries file state income tax returns on a separate basis. The Company s provision for income taxes includes federal and state income taxes currently payable and changes in deferred tax assets and liabilities, excluding the establishment of deferred tax assets and liabilities related to acquisitions. Deferred income taxes are accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes* and represent the estimated future tax effects resulting from temporary differences between financial and tax reporting bases of certain assets and liabilities. In addition, future tax benefits, such as net operating loss (NOL) carryforwards, are required to be recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets are reduced by a valuation allowance when, in the opinion of the management, it is more likely than not that some or all of the deferred tax assets will not be realized.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of SFAS Statement No. 109, to clarify certain aspects of accounting for uncertain tax positions, including issues related to the recognition and measurement of those tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 effective January 1, 2007. At December 31, 2006, the Company had available federal net operating loss carryforwards of $66.2 million. Any adjustment in federal income taxes would be offset by a reduction in the net operating loss carryforwards. Upon adoption of FIN 48, the Company reviewed its tax liabilities in connection with various state tax returns and determined that its recorded tax liabilities were adequate. Therefore, there was no effect on the Company s consolidated financial statements upon adoption of FIN 48 on January 1, 2007.

4. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation Plans

In December 2004, the FASB issued Statement of Financial Standard (SFAS) No. 123(Revised), Share-Based Payment (SFAS No.123(R)), establishing accounting standards for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments, or that may be settled by the issuance of those equity instruments. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based stock awards, stock appreciation rights, and employee stock purchase plans. SFAS No. 123(R) replaces existing requirements under SFAS No. 123, Accounting for Stock-Based Compensation, and eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company adopted SFAS 123(R) on April 1, 2006. During the three months ended March 31, 2007, the Company recognized $21,000 in compensation expense for certain stock options in accordance with SFAS No. 123(R). Prior to April 1, 2006, the Company recognized and measured compensation for its stock rights and stock option plans in accordance with APB Opinion No. 25. For the three months ended March 31, 2006, the Company recognized $30,000 of compensation expense in accordance with APB No. 25.

Goodwill and Indefinite Lived Intangible Assets

In July 2001, the FASB issued SFAS No. 141, *Business Combinations* (SFAS No. 141), and SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after September 30, 2001, as well as all purchase method business combinations completed after September 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indeterminable useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144. At March 31, 2007 and 2006, the Company tested goodwill and intangible assets with indeterminable useful lives for impairment and determined that no impairments had occurred.

4. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, with FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. However, for some entities, the application of SFAS No. 157 will change current practice. SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not yet assessed the impact, if any, of SFAS No. 157 on its consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R* ("SFAS No. 158"). SFAS No. 158 improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS No. 158 also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 will be effective as of the end of the fiscal year ending after December 15, 2006. The Company has not yet assessed the impact, if any, of SFAS No. 158 on its consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is expected to expand the use of fair value measurement, which is consistent with the FASB s long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The Company has not yet assessed the impact, if any, of SFAS No. 159 on its consolidated balance sheets.

4. Summary of Significant Accounting Policies (continued)

Net (Loss) Income Per Share

For the three months ended March 31, 2007 and 2006, the calculations of basic and diluted net (loss) income per share were based on (loss) income attributable to common stockholders of $(2,719) thousand and $469 thousand, respectively, and a basic weighted average number of common shares outstanding of 67,538,976 and 51,071,607, respectively. The Company had 70,295,459 and 57,514,475 fully diluted common shares as of March 31, 2007 and 2006, respectively, after giving effect to 2,756,483 and 6,442,868 weighted average shares underlying outstanding stock options and warrants for the same respective periods. The computation of fully diluted loss per share for the three months ended March 31, 2007 did not include any common stock equivalents of outstanding, options or warrants, because the effect would be anti-dilutive due to the net loss from continuing operations in that period. The calculation of the Company s net (loss) income per share for the three months ended March 31, 2007 and 2006 is as follows (dollars in thousands, except per share amounts):

	Three Months Ended	
	March 31,	
	2007	**2006**
(Loss) income from continuing operations	$ (2,722)	$ 480
Dividends and accretion of preferred stock	-	(11)
Net (loss) income attributable to common stockholders from continuing operations	(2,722)	469
Income from discontinued operations	3	-
Net (loss) income attributable to common stockholders	$ (2,719)	$ 469
Weighted average common stock outstanding - basic	67,539	51,072
Weighted average common stock outstanding - diluted	67,539	57,514
Net (loss) income per share, basic and diluted, continuing operations	$ (0.04)	$ 0.01
Income per share, basis and diluted, discontinued operations	-	-
Net (loss) income per share, basic and diluted	$ (0.04)	$ 0.01

5. Long-Term Obligations

Line of Credit

The Company has an $8,000,000 revolving line of credit (the "Line of Credit") with an outside lender for working capital purposes. The Line of Credit bears interest at the outside lender s prime rate plus 1%, which was 9.25% and 8.75% at March 31, 2007 and 2006, respectively, and is scheduled to expire on October 1, 2007. The Line of Credit is collateralized by all of the Company s assets, including its investment in all of its subsidiaries. In addition, the outside lender required that the Company obtain unconditional guaranties (the "Guaranties") from its primary investors. Under the terms of the Guaranties, each participating primary investor unconditionally and irrevocably guarantees prompt and complete payment of its pro rata share of the amount the Company owes under the Line of Credit. At March 31, 2007, the full balance of $8,000,000 was outstanding under the Line of Credit.

Convertible Notes Issued in Haelan Merger

The Company completed the Haelan Merger on December 8, 2006, resulting in the issuance of $6.5 million in aggregate principal amount of Convertible Notes (see Note 2). The Convertible Notes are subordinated to the rights to prior payment of the Company's senior lender under the Line of Credit. The Convertible Notes carry an interest rate of 5% per year, compounding annually, mature on December 8, 2009 and are convertible at maturity into shares of common stock of CareGuide, valued based upon the average closing price of the common stock for the 20 consecutive trading days ending on the date prior to conversion. The maturity date of the Convertible Notes may be accelerated in the event of a sale transaction, as defined in the Convertible Notes, involving the Company.

In the event that the average closing price of the common stock of the Company for the 20 consecutive trading days ending on the date prior to conversion is equal to or greater than $1.50 per share, the outstanding principal and accrued interest under the Convertible Notes will automatically convert into shares of common stock at $1.50 per share. In the event that such average closing price at the time of conversion is less than $1.50 per share, the outstanding principal and accrued interest under the Convertible Notes will convert into shares of common stock at such average closing price, but not less than $1.00 per share, and in such case each holder of a Convertible Note may elect to receive all or a portion of the amounts due under the note in cash in lieu of shares of common stock of CareGuide. After December 8, 2007, or upon a sale transaction, the Company may elect to prepay the amounts then outstanding under the Convertible Notes in cash, subject to the prior approval of the Company s senior lender under the Line of Credit, but upon any such election by the Company, if the average closing price of the Company s common stock for the 20 consecutive trading days ending on the date prior to conversion is at least $1.00 per share, each holder of a Convertible Note may elect to receive all or any portion of the amounts due under the Convertible Note in the form of shares of common stock valued at such average closing price.

6. Stockholders Equity

Capital Stock

The Company is authorized to issue up to 100,000,000 shares of capital stock, 80,000,000 designated as common stock, and 20,000,000 designated as preferred stock. As of March 31, 2007 and 2006, there were 67,538,976 shares of common stock outstanding. The Company s board of directors has approved an amendment to the Company s certificate of incorporation, which would increase the authorized number of shares of common stock from 80,000,000 to 100,000,000 shares. The proposed amendment will be submitted to the Company s stockholders for approval at the Company s 2007 Annual Meeting of Stockholders.

Common Stock held in Escrow

Of the common shares outstanding as of March 31, 2007, 516,796 shares are held by an escrow agent and may be released to Psilos Group Partners II, L.P. (Psilos), a stockholder of the Company, upon the occurrence of certain events (the Success Escrow). In the event that the criteria for payment to Psilos of the shares held in the Success Escrow are not satisfied in full, all or a portion of such shares will be released from the Success Escrow to all former stockholders of CCS at the effective time of the Merger based on the number of shares of CCS s common stock, on an as-converted basis, held by each such holder at the closing of the Merger. The shares are expected to be released from the Success Escrow in August 2007.

2005 Equity Incentive Plan

During the fiscal year ended March 31, 2006, CCS s board of directors and stockholders adopted the CCS Consolidated, Inc. 2005 Equity Incentive Plan (the "2005 Plan") and reserved 1,776,238 shares of CCS common stock for issuance under the 2005 Plan. CCS granted options to certain of its officers under the 2005 Plan to purchase an aggregate of 1,090,095 shares of CCS common stock at $0.30 per share. These options were assumed by the Company as part of the merger with CCS, and were converted into options to purchase an aggregate of 1,399,290 shares of the Company's common stock at an exercise price of $0.2337 per share, based on the exchange ratio for CCS s common stock in the such merger. The options granted under the 2005 Plan and assumed by the Company have a term of ten years from the date of grant. The options were accelerated in connection with the merger so that they were 25% vested as of January 25, 2006 and will vest in 36 monthly installments thereafter. No options were granted for the three months ended March 31, 2007. As discussed in Note 4, during the thee months ended March 31, 2007 and 2006, the Company recognized compensation expense related to these options of $21 thousand and $30 thousand, respectively.

Amended and Restated 1995 Stock Option Plan

The Company continues to administer the Patient Infosystems 1995 Stock Option Plan (the PATY Plan). As of March 31, 2007, there are options to purchase 225,963 shares of the Company's common stock outstanding under the PATY Plan, with a weighted average exercise price of $2.93 per share. The PATY Plan expired in 2005 and no further grants of options may be awarded under the PATY Plan.

2007 Equity Incentive Plan

The Company s board of directors has approved a 2007 Equity Incentive Plan (the 2007 Plan), which approval is subject to the approval of the 2007 Plan by the Company s stockholders at the Company s 2007 Annual Meeting of Stockholders. If approved by the Company s stockholders, the Company will reserve 7,000,000 shares of its common stock for issuance under the terms of the 2007 Plan.

6. **Stockholders Equity (continued)**

Stock-Based Compensation Expense

In accordance with SFAS No. 123(R), which the Company adopted on April 1, 2006, the Company's net income for the three months ended March 31, 2007 gives effect to $21 thousand of expense related to certain stock options and warrants granted in prior periods. Upon adoption of SFAS No. 123(R), the Company used the modified prospective transaction method, which requires that compensation expense be recorded for all non-vested options beginning with the first quarter of adoption. Prior periods were not restated to reflect the impact of adopting SFAS No. 123(R) on April 1, 2006. Income before taxes, net income, cash flows from operating activities, cash flows from financing activities and basic and diluted earnings per share for the three months ended March 31, 2007 were lower by approximately $3 thousand, $0, $0, $0, $0.00 and $0.00, respectively, than if the Company had continued to account for stock-based compensation under APB Opinion No. 25 for awards under the PATY Plan and the 2005 Plan. During the three months ended March 31, 2006 the Company reported such stock option expenses on a pro-forma basis only, in accordance with SFAS No. 123. The Company determines the stock-based employee compensation using the Black-Scholes Option Pricing Model. For comparative purposes, the pro forma net income for three months ended March 31, 2006 is indicated below (dollars in thousands):

	For Th Ended March
Net income attributable to common stockholders, as reported	$
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3)
Pro forma net income	$
Net loss per share basic and diluted as reported	$
Net loss per share basic and diluted pro forma	$
Weighted average common shares basic	51,072
Weighted average common shares - diluted	57,514

The Company did not grant any stock options or other stock awards during the three months ended March 31, 2007 and 2006.

7. Commitments and Contingencies

Commitments

Employment Agreements

The Company has entered into employment agreements with certain management employees, which include, among other things, annual base salaries, non-competition provisions, salary continuation benefits, performance bonuses based upon the overall profitability of the Company and certain other non-cash benefits, including life, health and disability insurance. Employment agreements are automatically renewable for successive one-year terms.

Provisions of Contractual Arrangements

The Company enters into contracts in the ordinary course of business which include reconciliation or savings sharing provisions. In such contracts, savings achieved by the Company against contractual benchmarks are measured to determine a potential penalty or bonus to be paid by or to the Company. No additional revenue is recognized under the contractual provisions until the amount is estimable and realization is reasonably assured. At this time, the Company has no losses under such arrangements which appear to be probable of assertion and for which a reasonable estimate can be determined.

7**. Commitments and Contingencies (continued)**

Litigation

The Company is subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings will not have a material adverse effect on the Company s results of operations or financial position.

Call Option Liability

The Company is party to call option agreements with an underwriter and its affiliates, which entitle certain holders to purchase up to 153,518 shares of American Caresource Holdings, Inc. common stock (ACSH) from the Company for $6.00 per share at any time until October 31, 2010. The options were granted in connection with an offering of the Company s securities underwritten by the holder. The 153,518 shares held for trading are valued at market price, and the call options are considered derivative instruments and are carried at fair value. The fair value of each call option is determined using the Black-Scholes method using the following assumptions at March 31, 2007: volatility 70.79%, interest rate 4.72%, average life of 1.79 years. Changes to the fair market of the trading portfolio and the call option obligation are recognized in the accompanying consolidated statement of operations. For the three months ended March 31, 2007 and 2006, the Company recognized a gain (loss) of $22 thousand and $(16) thousand, respectively, in the trading portfolio, which gains (losses) were partially offset by an increase (decrease) in the call option liability of $16 thousand and $(19) thousand, respectively, for such periods.

As of March 31, 2007, the Company held 166,610 shares of ACSH common stock and has designated 153,518 shares as trading securities because these shares would be used to satisfy the call options.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Management s discussion and analysis provides a review of our operating results and cash flows for the three months ended March 31, 2007 and 2006 and our financial condition at March 31, 2007. The focus of this discussion and analysis is on the underlying business reasons for significant changes and trends affecting our revenues, results of operations, cash flows and financial condition. This discussion and analysis should be read in conjunction with our accompanying consolidated unaudited financial statements and related notes thereto included in this quarterly report, as well as in conjunction with our consolidated audited financial statements for the nine months ended December 31, 2006, included with our Transition Report on Form 10-KSB filed with the SEC on April 17, 2007.

In January 2006, we merged with CCS Consolidated, Inc., a privately held company. At the closing of the merger, the former stockholders of CCS Consolidated owned a majority of our outstanding voting stock and had the right to elect a majority of our board of directors, and the executive management team of CCS Consolidated comprised a majority of the management of the combined company. As a result, the transaction was accounted for as a reverse merger, and CCS Consolidated was deemed to be the acquiring company for accounting purposes. In December 2006, we acquired Haelan Corporation (Haelan), which became a wholly owned subsidiary of CareGuide, Inc.

The review of our operating results and cash flows for the three months ended March 31, 2006 includes the results of CCS Consolidated and its subsidiaries only (excluding the Company (formerly Patient Infosystems, Inc.)) for the period from January 1, 2006 to January 25, 2006 and includes the results of CareGuide, Inc. (formerly Patient Infosystems, Inc.) and its subsidiaries (including CCS Consolidated) from the merger date of January 25, 2006 through March 31, 2006. The review of our operating results and cash flows for the three months ended March 31, 2007 includes the results of CareGuide and all of its subsidiaries, including CCS Consolidated and Haelan. The review of our financial condition as of March 31, 2007 includes CareGuide, Inc. and all consolidated subsidiaries, including CCS Consolidated and Haelan.

Our Business

We are a population health management company that provides a full range of healthcare management services to health plans, work/life companies, government entities, and self-funded employers to help them to reduce health care costs while improving the quality of care for their members. We have approximately 80 customers across the United States.

We focus on population health management solutions as we believe that the steadily rising cost of healthcare for employers and union groups, increasing demands on Medicare and Medicaid funding that are outpacing resources, and an increased interest in healthcare technology and population health management services by the federal government, employers, unions, and large insurers creates a fertile environment for our business model. Furthermore, we believe that our approach to population health management, as discussed below, yields superior results in comparison to traditional disease management programs, and positions us for growth.

We consider one of our greatest strengths to be our proprietary One Care Street product, which we believe has the ability to identify which health members in a covered population are most likely to utilize healthcare services in the next six to twelve months. Without relying on claims data like traditional predictive models, One Care Street has been demonstrated to be able to recognize individuals who will seek care before they have acute needs. In addition, our research has shown that One Care Street can prospectively identify members who are most likely to generate the highest medical costs in each current year, absent intervention by s service provider such as us. Based upon our research in the health perception field, we believe that One Care Street exceeds the predictive power of many traditional models.

Once One Care Street has identified which members will most likely need medical services in the near future, we can offer an array of services to members in need of health intervention. We match each member to what we believe to be the right intensity of service, which can vary from telephonic coaching and links to educational resources for symptoms or chronic condition-related issues to more intensive services such as in-home assessments, face-to-face care management, and remote telemonitoring. Through this matching process, we expect to enhance our customers return on investment.

We have entered into service agreements to develop, implement and operate programs for: (i) patients who

have recently experienced certain cardiovascular events; (ii) patients who have been diagnosed with primary congestive heart failure; (iii) patients suffering from asthma; (iv) patients suffering from diabetes; (v) patients who are suffering from hypertension; (vi) demand management, which provides access to nurses; (vii) case and utilization management services provided by a third party; (viii) various survey initiatives which assess, among other things, satisfaction, compliance of providers or payors to national standards, health status or risk of specific health related events; and (ix) the performance of specific administrative and management functions on behalf of a customer. These contracts provide for fees to be paid to us by our customers based upon the number of patients participating in each of our programs, as well as initial program implementation and set-up fees from customers. In addition, we maintain a 24-hour, seven days a week nurse help line, and we also provide health management services to the public sector.

We have historically had two types of revenue. We can accept risk from a payor such as a health plan on the providing of post-acute services, in which case we would receive a Per Member Per Month fee that is categorized as capitation revenue. Alternatively, we can provide services to health plans and other customers without accepting risk, and for these types of contracts, we may receive a fee on either an administration services only, or ASO, basis or we may provide these services on a fee-for-service basis. For risk contracts, the cost of our services would include the cost of providing clinical care and the claims incurred.

While we have historically derived the majority of our revenues from risk-based contracts, we have been exiting the capitated risk business over the last few years. Our current strategic direction is to develop the "next generation" of disease and care management services, using our predictive modeling, health coaching and our full range of health care interventions. The last of our risk-based contracts terminated January 31, 2007, and we expect most future contracts to be on the basis of ASO or fee-for-service. Related to these business model changes through the first few months of 2007, we reduced our employee count through the elimination of positions directly attributable to our risk-based contracts. In April 2007, we announced an additional restructuring initiative which involves an expected reduction in operating expenses and a strategic realignment of certain functions inside the company.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP, which requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities. We believe that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical to us if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. We believe the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of our consolidated financial statements.

Use of Estimates

In preparing our consolidated financial statements, we use estimates in determining the economic useful lives of our assets, provisions for doubtful accounts, claims liabilities, tax valuation allowances and various other recorded or disclosed amounts. Estimates require us to use our judgment. While we believe that our estimates for these matters are reasonable, if the actual amount is significantly different than the estimated amount, our assets, liabilities or results of operations may be overstated or understated.

Revenue Recognition

We have historically recognized capitated revenue for contracts under which we accept risk. Capitated revenue is recorded by multiplying a contractually negotiated revenue rate per health plan member per month (PMPM) by the number of health plan members covered by our services during the month. These PMPM rates are initially determined during contract negotiations with customers based on estimates of the costs of our services, including the cost of claims. Such rates are generally renegotiated at contract renewal. In certain contracts, the

PMPM rates differ depending on the health plan s lines of business, such as Medicare, commercial or Medicaid. The PMPM rates will also differ in certain cases depending on the type of service provider, such as a skilled nursing facility or a home health provider. Contracts with health plans generally range from one to two years with provisions for subsequent renewal. We have diminished the percentage of our revenue generated from risk-based contracts during 2005 and 2006, and the last of our risk-based contracts was terminated effective as of January 31, 2007.

We also recognize administrative and fee revenue for a variety of contracts. On certain contracts, we receive a fee for providing services without accepting risk for claims. Such contracts include those that pay a set fee each month. Other contracts include a PMPM fee which include a per day per member case rate based on the number of health plan members who receive services during the month. Such fees are negotiated with the health plan or employer group based on estimated costs and anticipated level of services. We recognize fee-for-service revenue for certain services provided for our customers and expenses paid on behalf of our customers for which we are generally reimbursed on a cost-plus basis during the period in which the services are provided.

Some of our revenues are based on contractual arrangements which may be subject to retroactive adjustments as final settlements are determined. Such amounts are recorded on an estimated basis in the period the related services are rendered and are adjusted in future periods upon final settlement. Additionally, certain contracts provide that a portion of our fees may be refundable to the customer (performance-based) if our programs do not achieve, when compared to a baseline period, a targeted percentage reduction in the customer s healthcare costs or other selected criteria that focuses on improving the health of the members. Such fees are recorded as a deferred revenue liability and we recognize the performance-based portion of our monthly fees as revenue based on the most recent assessment of the performance of the particular metric measured in the contract.

Intangibles and Other Assets

Intangible and other assets consist primarily of websites, trade names, trademarks, covenants not to compete, and customer relationships and are generally derived upon acquisitions of subsidiaries. Such intangible assets are amortized to expense over the estimated life of the asset. We engage the services of an independent valuation firm to assist in identification of and valuation of the intangible assets at time of acquisition.

Goodwill

Goodwill is associated with acquisitions and is not amortized. In accordance with GAAP, goodwill is tested annually for impairment, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the impairment test indicates impairment, the goodwill will be written down to the estimated fair value.

Direct Service Costs and IBNR Claims Payable Liability

Direct service costs are comprised of the incurred claims paid to third-party providers for services for which we are at risk and our related expenses associated with providing services. Network provider and facility charges for authorized services that have yet to be billed to us are estimated and accrued in our Incurred But Not Reported (IBNR) claims payable liability. Such accruals are based on historical experience, current enrollment statistics, patient census data, adjudication and authorization decisions and other information. The IBNR liability is adjusted as changes in these factors occur, and such adjustments are reported in the period of determination. Although it is possible that actual results could vary materially from recorded claims in the near term, we believe that our recorded IBNR liability is adequate.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for our judgment in their application. There are also areas in which our judgment in selecting any available alternative would not produce a materially different result. Readers should refer to the notes to our consolidated financial statements included in this report, which contain additional accounting policies and other disclosures required by GAAP.

RESULTS OF OPERATIONS

The following financial table presents unaudited data regarding our results of operations, financial position and cash flows as of and for the three months ended March 31, 2007 and 2006. Such data was derived from our consolidated financial statements. This information should be read in conjunction with our consolidated unaudited financial statements as of March 31, 2007 and for the three months ended March 31, 2007 and 2006 and the related notes thereto. All dollar amounts are stated in thousands of dollars:

	For the Three Months Ended		
	March 31, 2007	**March 31, 2006**	**Fav. (Unfav.) Variance**
Operating Results			
Capitated Revenue			
Aetna	$ 3,032	$ 8,705	$ (5,673)
Total capitated revenue	**$ 3,032**	**$ 8,705**	**$ (5,673)**
Administrative and Fee Revenue			
Health Net	$ 4	$ 3,652	$ (3,648)
Aetna	3	9	(6)
Blue Cross Blue Shield of Michigan	1,089	565	524
InnovaCare Division	-	475	(475)
Customers acquired in Haelan merger	1,218	-	1,218
Other	2,825	2,255	570
Total administrative and fee revenue	**$ 5,139**	**$ 6,956**	**$ (1,817)**
Total Revenue			
Health Net	$ 4	$ 3,652	$ (3,648)
Aetna	3,035	8,714	(5,679)
Blue Cross Blue Shield of Michigan	1,089	565	524
InnovaCare Division	-	475	(475)
Customers acquired in Haelan merger	1,218	-	1,218
Other	2,825	2,255	570
Total revenue	**$ 8,171**	**$ 15,661**	**$ (7,490)**
Percentage of Revenue by Customer			
Health Net	0.1%	23.3%	(23.2)%
Aetna	37.1%	55.6%	(18.5)%
Blue Cross Blue Shield of Michigan	13.3%	3.6%	9.7%
InnovaCare Division	0.0%	3.0%	(3.0)%
Customers acquired in Haelan merger	14.9%	0.0%	14.9%
Other	34.6%	14.5%	20.1%
Total revenue	**100.0%**	**100.0%**	

	For the Three Months Ended		
	March 31, 2007	**March 31, 2006**	**Fav. (Unfav.) Variance**
Direct Service Costs			
Incurred claims	$ 2,529	$ 7,744	$ 5,215
Direct clinical expenses	4,206	3,987	(219)
Total direct service costs	**$ 6,735**	**$ 11,731**	**$ 4,996**
Direct Service Costs as a Percentage of Revenue			
Incurred claims as a percentage of total revenue	30.9%	49.4%	18.5%
Direct clinical expenses as a percentage of total revenue	51.5%	25.5%	(26.0)%
Total direct service costs as a percentage of total revenue	82.4%	74.9%	(7.5)%
Gross profit	**$ 1,436**	**$ 3,930**	**$ (2,494)**
Gross profit as a percentage of total revenue	**17.6%**	**25.1%**	**(7.5)%**
Operating Costs and Expenses			
Selling and administrative expenses	$ 2,989	$ 2,614	$ (375)
Depreciation and amortization expense	762	549	(213)
Total operating costs and expenses	**$ 3,751**	**$ 3,163**	**$ (588)**
Operating (loss) income from continuing operations	**$ (2,315)**	**$ 767**	**$ (3,082)**
Other Income (Expense)			
Interest income	$ 104	$ 110	$ (6)
Interest expense:			
Interest on Line of Credit	(191)	(173)	(18)
Interest on Notes Payable	(80)	-	(80)
Amortization of warrants	(218)	(229)	11
Total interest expense	(489)	(402)	(87)
Trading portfolio gain (loss)	22	(16)	38
Net other income (expense)	**$ (363)**	**$ (308)**	**$ (55)**
(Loss) income from continuing operations before income taxes	**$ (2,678)**	**$ 459**	**$ (3,137)**
Income tax (expense) benefit	(44)	21	(65)
(Loss) income from continuing operations	**(2,722)**	**480**	**(3,202)**
Income from discontinued operations	3	-	3
Net (loss) income	**$ (2,719)**	**$ 480**	**$ (3,199)**

Balance Sheet Data	March 31, 2007	December 31, 2006	Increase (Decrease)
Total Assets			
Cash and cash equivalents	$ 1,982	$ 5,975	$ (3,993)
Restricted cash for current liabilities	3,006	4,717	(1,711)
Securities held for sale	24	24	-
Securities held for trading	306	284	22
Accounts receivable, net	3,866	3,503	363
Other current assets	792	1,239	(447)
Total current assets	**9,976**	**15,742**	**(5,766)**
Goodwill	32,673	32,629	44
Long term assets	9,115	9,819	(704)
Total assets	**$ 51,764**	**$ 58,190**	**$ (6,426)**
Liabilities and Stockholders' Equity			
Claims payable	$ 5,231	$ 7,260	$ (2,029)
Line of Credit	8,000	8,000	-
Other current liabilities	5,660	7,566	(1,906)
Total current liabilities	**18,891**	**22,826**	**(3,935)**
Notes payable	6,601	6,520	81
Lease obligations, net of current portion	1,011	1,107	(96)
Other long-term liabilities	7	7	-
Total liabilities	**26,510**	**30,460**	**(3,950)**
Stockholders' equity	**25,254**	**27,730**	**(2,476)**
Total liabilities and stockholders' equity	**$ 51,764**	**$ 58,190**	**$ (6,426)**

	For the Three Months Ended		
	March 31, 2007	March 31, 2006	Fav.(Unfav.) Variance
Cash Flow Data			
Cash provided by (used in) operating activities:			
Cash received from customers	$ 6,483	$ 11,534	$ (5,051)
Direct provider costs and claims settlements paid	(4,560)	(4,711)	151
Salary and benefits paid	(4,021)	(4,222)	201
Other operating expense			