

Access Plans USA, Inc.
Form 10-Q/A
November 19, 2007

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**U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549**

**FORM 10-Q/A
(Amendment No. 1)**

(Mark One)

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

For the Three Months Ended March 31, 2007

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
Commission File Number: 001-15667
ACCESS PLANS USA, INC.**

(Exact name of business issuer as specified in its Charter)

OKLAHOMA
(State or other jurisdiction of
incorporation or organization)

73-1494382
(I.R.S. Employer
Identification No.)

**4929 WEST ROYAL LANE, SUITE 200
IRVING, TEXAS**
(Address of principal executive offices)

75063
(Zip Code)

(866) 578-1665
(Issuer's telephone number)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer: Accelerated filer: Non-accelerated filer:

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of November 19, 2007 the Registrant had outstanding 20,269,145 shares of Common Stock, \$.01 par value.

ACCESS PLANS USA, INC.
FORM 10-Q/A
(Amendment No. 1)
For the Quarter Ended March 31, 2007
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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the "Report") is being filed to amend Access Plans USA, Inc.'s (the "Company") Quarterly Report on Form 10-Q filed on May 15, 2007 (the "Original Report"), for the three month period ended March 31, 2007. The purpose of the amendment is to reflect the restatement of the Company's previously issued financial statement as of and for the three month period ended March 31, 2007, and the notes related thereto, as described below. The information in this Report is stated as of the date of the Original Report and does not reflect subsequent results, events or developments. Such subsequent results, events or developments include, among others, the information and events subsequently described in our Quarterly Reports on Form 10-Q. For a description of such subsequent results, events or developments, please read our Exchange Act Reports filed with the Securities and Exchange Commission since the date of the Original Report, which update and supersede information contained in the Original Report and this Report. Concurrently with the filing of this Quarterly Report on Form 10-Q/A, the Company is also filing a Quarterly Report on Form 10-Q/A for the quarterly period ended June 30, 2007 to restate its consolidated financial statements included therein.

This Report amends the Company's consolidated financial statements and related notes to reflect a failure to record a portion of the Company's insurance commission expense related to one of their insurance products. At the September 6, 2007 Audit Committee meeting, it was concluded that the previously issued unaudited financial statements for the quarter ended March 31, 2007 were not accurate and should not be relied upon. Additionally, in conjunction with the restatement of those financial statements for the reason just stated, we have adjusted the accounting for certain intangible assets acquired in the acquisition of Insurance Capital Management USA, Inc. ("ICM") on January 30, 2007 to give effect to the recently completed allocation of the purchase price of that acquired company among various infinite life and finite life intangible assets and related adjustments to amortization expense. For further information on the restatement, see Part I, Item 1 Financial Statements on page 3 in this report and Note 1 to the consolidated financial statements included herein.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

Our financial statements which are prepared in accordance with Regulation S-X are set forth in this report beginning on page 23.

Restatement

During August 2007, subsequent to the filing of Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007, we discovered that there was a failure, beginning in February of this year, to record a portion of our insurance commission expense related to one of our insurance products in the newly acquired insurance marketing division. The failure resulted from a change in the data gathering process, relied upon for purposes of calculating agent commissions for the particular insurance product. The errors were not detected on a timely basis due in part to transitions in responsibility immediately following our merger-acquisition of the insurance marketing division in January 2007. This resulted in an underpayment to the agents and an underreporting of commission expense.

In conjunction with the acquisition of ICM, the Company evaluated whether a portion of the purchase price should be allocated to identifiable intangible assets separate from goodwill based on Statement of Financial Accounting Standards No. 141 Business Combinations. Accordingly, we determined that intangible assets arose in the ICM acquisition from two kinds of customer relationships: 1) relationships with policyholders who had policies in force at the acquisition date that were sold by ICM agents prior to the acquisition date (Customer Contracts) and 2) relationships with independent agents who will write business with us because of the relationships they have with members of ICM management (Agent Relationships). We used an income approach for valuation of acquired in-force policies by calculating the net present value of the earnings stream of those policies, adjusted for a projected policy declination rate. We used a similar income approach for valuation of policies projected to be written in the future by those independent agents who will write business with us because of the relationships they have with members of ICM management by calculating the net present value of the earnings stream of those policies. The intangible asset amount allocated for Customer Contracts is \$1,800,000 and for Agent Relationships is \$1,900,000. These assets are being amortized on a straight-line basis over estimated lives of three years and eight years, respectively.

The following table sets forth the effect of the restatement made to correct the error in our reported first quarter 2007 commission expense, record the allocation of purchase price to finite life intangibles and related deferred income taxes, record amortization of the value assigned to finite life intangibles arising from the ICM acquisition, as described above, reclassify certain deferred revenues and other minor adjustments.

| Dollars in Thousands | Three Months Ended March 31, | |
|----------------------------------|-------------------------------------|------------------------|
| | Previously Reported | Restated Amount |
| Balance Sheet: | | |
| Goodwill and other intangibles | \$ 20,750 | \$ 21,050 |
| Deferred tax asset | 387 | |
| Accrued commissions | 623 | 755 |
| Total assets | 34,682 | 34,595 |
| Other accrued liabilities | 1,761 | 1,788 |
| Deferred revenue, net | 4,118 | |
| Deferred commissions | | 3,662 |
| Deferred enrollment fees, net | | 435 |
| Current liabilities | 10,145 | 10,283 |
| Long-term deferred tax liability | | 46 |
| Total liabilities | 10,545 | 10,729 |
| Additional paid-in capital | 36,899 | 36,898 |
| Accumulated deficit | (15,460) | (15,730) |
| Total stockholders' equity | 24,137 | 23,866 |

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| | | |
|--|----------|----------|
| Total liabilities and stockholders' equity | 34,682 | 34,595 |
| Statement of Operations: | | |
| Commission expense | \$ 3,033 | \$ 3,163 |
| General and administrative | 1,791 | 1,931 |
| Total operating expenses | 8,259 | 8,529 |
| Operating loss | (59) | (329) |
| Net loss | (55) | (325) |
| Basic net loss per share | (0.00) | (0.02) |
| Diluted net loss per share | (0.00) | (0.02) |

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

The following discussion is qualified in its entirety by the more detailed information in our 2006 Annual Report on Form 10-K and the financial statements contained in this report, including the notes thereto, and our other periodic reports filed with the Securities and Exchange Commission since December 31, 2006 and our Schedule 14A Proxy Statement filed with the Commission on December 29, 2006 (collectively referred to as the Disclosure Documents). Certain forward-looking statements contained in this report and in the Disclosure Documents regarding our business and prospects are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate and actual events and results may materially differ from anticipated results described in the forward-looking statements. Our ability to achieve these results is subject to the risks and uncertainties discussed in our Form 10-K and in our Proxy Statement. Any forward-looking statements contained in this report represent our judgment as of the date of this report. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements.

Access Plans USA, Inc. (Access Plans) develops and distributes quality affordable consumer driven healthcare programs for individuals, families, affinity groups and employer groups across the nation. Our products and programs are designed to deal with the rising costs of healthcare. They include health insurance plans and non-insurance healthcare discount programs to provide solutions for the millions of Americans who can no longer afford or do not have access to traditional health insurance coverage.

The current organization of our business, including our new Insurance Marketing Division, is a result of our January 30, 2007 merger with Insurance Capital Management USA, Inc. (ICM). As a result of this merger, and to properly reflect our broadened mission of providing access to affordable healthcare for all Americans, we changed our name from Precis, Inc. to Access Plans USA, Inc. Beginning in 2007, our operations are organized under three business divisions:

Consumer Plan Division. Our Consumer Plan Division, which operates as The Capella Group, Inc. (Capella) and was previously referred to as the Consumer Healthcare Savings segment, develops and markets non-insurance medical discount programs and defined benefit plans through multiple distribution channels.

Insurance Marketing Division. Our Insurance Marketing Division, which operates as Insuraco USA LLC (Insuraco), provides web-based technology, specialty products and marketing of individual health insurance products and related benefit plans, primarily through a broad network of independent agency channels.

Regional Healthcare Division. Our Regional Healthcare Division, which operates as Access HealthSource, Inc./Access Administrators, Inc. (AAI) and was previously referred to as the Employer and Group Healthcare Services segment, offers third party claims administration, provider network management, and utilization management services for employer groups that utilize partially self funded strategies to finance their employee benefit programs.

Critical Accounting Policies

Basis of Presentation. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Company's wholly-owned subsidiaries, Capella, Insuraco, and AAI. All significant inter-company accounts and transactions have been eliminated. Certain reclassifications have been made to prior period financial statements to conform to the current presentation of the financial statements.

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Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain significant estimates are required in the evaluation of goodwill and intangible assets for impairment. Actual results could differ from those estimates and such differences could be material.

Fair Value of Financial Instruments. The recorded amounts of cash, short-term investments, accounts receivable, income taxes receivable, notes receivable, accounts payable, accrued liabilities, income taxes payable, capital lease obligations and short-term debt approximate fair value because of the short-term maturity of these items.

Recently Issued Accounting Standards. On September 15, 2006, the Financial Accounting Standard Board (FASB) issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value measurements in financial reporting. While the standard does not expand the use of fair value in any new circumstance, it has applicability to several current accounting standards that require or permit entities to measure assets and liabilities at fair value. This standard defines fair value, establishes a framework for measuring fair value in U.S. Generally Accepted Accounting Principles (GAAP) and expands disclosures about fair value measurements. Application of this standard is required beginning in 2008. Management is currently assessing what impact, if any, the application of this standard could have on the Company's financial statements.

Revenue Recognition. Revenue recognition varies based on source.

Consumer Plan Division Revenues. We recognize Care Entréetm program membership revenues, other than initial enrollment fees, on each monthly anniversary date. Membership revenues are reduced by the amount of estimated refunds. For members that are billed directly, the billed amount is collected almost entirely by electronic charge to the members' credit cards, automated clearinghouse or electronic check. The settlement of those charges occurs within a day or two. Under certain private label arrangements, the Company's private label partners bill their members for the membership fees and the Company's portion of the membership fees is periodically remitted to the Company. During the time from the billing of these private-label membership fees and the remittance to it, the Company records a receivable from the private label partners and records an estimated allowance for uncollectible amounts. The allowance of uncollectible receivables is based upon review of the aging of outstanding balances, the credit worthiness of the private label partner and its history of paying the agreed amounts owed.

Membership enrollment fees, net of direct costs, are deferred and amortized over the estimated membership period that averages eight to ten months. Independent marketing representative fees, net of direct costs, are deferred and amortized over the term of the applicable contract. Judgment is involved in the allocation of costs to determine the direct costs netted against those deferred revenues, as well as in estimating the membership period over which to amortize such net revenue. The Company maintains a statistical analysis of the costs and membership periods as a basis for adjusting these estimates from time to time.

Insurance Marketing Division Revenues. The revenue of our insurance marketing division is primarily from sales commissions paid to it by the insurance companies it represents; these sales commissions are generally a percentage of premium revenue. Commission income and policy fees, other than enrollment fees and corresponding commission expense payable to agents, are generally recognized at their gross amount, as earned on a monthly basis, until such time as the underlying policyholder contract is terminated. Advanced commissions received are recorded as deferred revenue. Initial enrollment fees are deferred and amortized over the estimated lives of the respective programs. The estimated weighted average life for the programs sold ranges from eighteen months to two years and is based upon the Company's historical policyholder contract termination experience.

Regional Healthcare Division Revenues. AAI's principal sources of revenues include administrative fees for third party claims administration, network provider fees for the preferred provider network and utilization and management fees. These fees are based on monthly or per member per month fee schedules under specified contractual agreements. Revenues from these services are recognized in the periods in which the services are performed and when collection is reasonably assured.

Commission Expense. Commissions on consumer plan revenues are accrued in the month in which a member has enrolled in the Care Entréetm program. Commissions on insurance policy premiums are generally recognized as incurred on a monthly basis until such time as the underlying policyholder contract is terminated. Commissions on

consumer plan revenues are only paid to the Company's independent marketing representatives in the following month after the related membership fees have been received by the Company. Advances of commissions up to one year are paid to agents in the insurance marketing division based on certain insurance policy premium commissions. The Company does not pay advanced commissions on consumer plan membership sales.

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Stock Option Expense and Option-Pricing Model. Recognized compensation expense for stock options granted to employees includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Binomial Lattice option-pricing model is used to estimate the option fair values. The option-pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility, the expected pre-vesting forfeiture rate and the risk-free interest rate. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending March 31, 2007 equal to the expected option term. Expected pre-vesting forfeitures were estimated based on actual historical pre-vesting forfeitures over the most recent periods ending March 31, 2007 for the expected option term. The risk-free interest rate is based on the interest rate of zero-coupon United States Treasury securities over the expected option term.

Income Taxes. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The net deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Accounts Receivable. Accounts receivable generally represent commissions and fees due from insurance carriers and plan sponsors. Accounts receivable are reviewed on a monthly basis to determine if any receivables will be potentially uncollectible. An allowance is provided for any accounts receivable balance where recovery is considered to be doubtful. Bad debt is written off as incurred.

Advanced Agent Commissions. The Company's insurance marketing subsidiary advances agent commissions for certain insurance programs. Repayment of the advanced commissions is typically accomplished by withholding earned commissions from the agent until such time as the outstanding balance, plus accumulated interest, has been fully repaid. Advanced agent commissions are reviewed on a quarterly basis to determine if any advanced agent commissions will likely be uncollectible. An allowance is provided for any advanced agent commission balance where recovery is considered to be doubtful. Any bad debt is written off as incurred. The Company believes all such balances will be collected in full by the carriers and, accordingly, has not recorded any obligation attributable to this contingent liability.

Fixed Assets. Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and principally on accelerated methods for tax purposes. Leasehold improvements are depreciated using the straight-line method over their estimated useful lives or the lease term, whichever is shorter. Ordinary maintenance and repairs are charged to expense as incurred. Expenditures that extend the physical or economic life of property and equipment are capitalized.

Acquisitions. On January 30, 2007, the Company completed its merger with Insurance Capital Management USA, Inc. (ICM). Under the terms of the merger, the shareholders of ICM received shares of Company common stock based on the adjusted earnings before income taxes, depreciation and amortization (adjusted EBITDA) of ICM and its subsidiary companies. On January 30, 2007, the ICM shareholders were issued 4,498,529 common stock shares of the Company. Further, the ICM shareholders will receive an additional 2,257,853 common stock shares of the Company since the acquired ICM companies achieved adjusted EBITDA of \$1,250,000 over four consecutive calendar quarters ending on December 31, 2006. The obligation to issue these stocks has been recorded in the Company's balance sheet as stocks issuable pursuant to a business combination of \$3,522,000.

Reclassifications. Certain prior period amounts have been reclassified to conform to the current period's presentation.

Results of Operations

Consumer Plan Division. The operating results for our Consumer Plan Division were as follows:

For the Three Months Ended March 31,
Dollar Percent

| Dollars in Thousands | 2007 | 2006 | Change | Change |
|-----------------------------|-------------|-------------|---------------|---------------|
| Revenues | \$ 3,104 | \$ 4,145 | \$ (1,041) | (25.1%) |
| Operating expenses: | | | | |
| Commissions | 702 | 1,133 | (431) | (38.0%) |
| Cost of operations | 1,276 | 1,351 | (75) | (5.6%) |
| Sales and marketing | 205 | 314 | (109) | (34.7%) |
| General and administrative | 778 | 1,082 | (304) | (28.1%) |
| Total operating expenses | 2,961 | 3,880 | (919) | (23.7%) |
| Operating income | \$ 143 | \$ 265 | \$ (122) | (46.0%) |
| Percent of revenue: | | | | |
| Revenues | 100% | 100% | | |
| Operating expenses: | | | | |
| Commissions | 22.6% | 27.3% | | |
| Cost of operations | 41.1% | 32.6% | | |
| Sales and marketing | 6.6% | 7.6% | | |
| General and administrative | 25.1% | 26.1% | | |
| Total operating expenses | 95.4% | 93.6% | | |
| Operating income | 4.6% | 6.4% | | |

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Service Revenues. Our Consumer Plan Division programs have been under continuing pressure from increasing competition and regulatory scrutiny, as well as the unwillingness of some healthcare providers to accept our savings cards based on concerns over assurance of payment. In late 2002, we implemented an escrow account requirement to address provider concerns over assurance of payment. While this feature had shown limited success in improving acceptance by providers, it made our programs more complex and difficult to sell. As of December 2006, we discontinued these Personal Medical Accounts (PMA's) and returned the funds that we held in those accounts to our customers. In some of the states in which we have a significant number of members, especially Florida, Texas and California, our healthcare savings products are under scrutiny by state regulators and officials. This regulatory scrutiny has impaired our ability to market these products in those states and elsewhere, further contributing to the decline in membership enrollments and increases in terminated memberships. The table below reflects the decline in our Consumer Plan Division program membership over the preceding eight fiscal quarters:

| | 1st Qtr 2005 | 2nd Qtr 2005 | 3rd Qtr 2005 | 4th Qtr 2005 | 1st Qtr 2006 | 2nd Qtr 2006 | 3rd Qtr 2006 | 4th Qtr 2006 | 1st Qtr 2007 |
|---|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Member Count | | | | | | | | | |
| End of Qtr Percent Change | 51,895 (8.88%) | 46,514 (10.37%) | 41,958 (9.79%) | 37,952 (9.54%) | 37,281 (1.77%) | 35,823 (3.91%) | 34,020 (5.03%) | 31,826 (6.45%) | 30,649 (3.70%) |
| Average revenue per member, net of sales and marketing costs | \$ 25.70 | \$ 26.24 | \$ 26.16 | \$ 24.03 | \$ 23.86 | \$ 22.54 | \$ 22.40 | \$ 22.32 | \$ 23.75 |

During the first quarter of 2007, the Consumer Plan Division concentrated resources on three functions designed to increase sales later in the year: 1) new product development and product packaging, in which new features were added to existing products and new product lines were created, including defined benefit programs that provide limited insured benefits; 2) identification and targeting of new distribution channels, including tele-sales call centers and a new independent agent distribution program; and 3) enhanced systems applications to streamline processing of business to facilitate a wider range of distribution channels and expand the company's web-based technology capabilities.

Commissions. The decrease in commissions from first quarter 2006 to 2007 is due to the decreased membership revenue discussed previously. The decrease in commissions as a percentage of revenues is primarily due to reduced override commissions for terminated sales representatives.

Cost of Operations. The decrease in cost of operations from first quarter 2006 to 2007 was due to reduction in personnel costs related to outsourcing customer service functions that was implemented in December 2006 of \$350,000 and a decrease in provider network fees related to decreased revenue of \$211,000, offset by an increase in customer service outsourcing fees of \$252,000 and short-term system enhancement costs for new applications to support new product initiatives of \$161,000. The increase in cost of operations as a percent of revenue is primarily due to the increase in system cost as discussed previously.

Sales and Marketing Expenses. The decrease in sales and marketing expenses from first quarter 2006 to 2007 was primarily due to decreases in direct marketing activities.

General and Administrative Expenses. The decrease in general and administrative expenses from first quarter 2006 to 2007 was primarily due to decreases in consulting and other operational costs of \$382,000 as the result of the office relocation and other management initiatives, offset by increased legal costs of \$101,000.

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Insurance Marketing Division. The operating results for our Insurance Marketing Division were as follows:

| Dollars in Thousands | For the Three Months Ended March 31, | | Dollar Change | Percent Change |
|----------------------------|--------------------------------------|------|---------------|----------------|
| | (Restated) 2007 | 2006 | | |
| Revenues | \$ 3,343 | \$ | \$ 3,343 | 100.0% |
| Operating expenses: | | | | |
| Commissions | 2,455 | | 2,455 | 100.0% |
| Cost of operations | 34 | | 34 | |
| Sales and marketing | 634 | | 634 | 100.0% |
| General and administrative | 245 | | 105 | 100.0% |
| Total operating expenses | 3,368 | | 3,368 | 100.0% |
| Operating (loss) | \$ (25) | \$ | \$ (25) | 100.0% |
| Percent of revenue: | | | | |
| Revenues | 100% | 0% | | |
| Operating expenses: | | | | |
| Commissions | 73.4% | 0.0% | | |
| Cost of operations | 1.0% | 0.0% | | |
| Sales and marketing | 19.0% | 0.0% | | |
| General and administrative | 7.3% | 0.0% | | |
| Total operating expenses | 100.7% | 0.0% | | |
| Operating (loss) | (0.7)% | 0.0% | | |

Operating results for the Insurance Marketing Division are included only from February 2007 forward, after the completion on January 30, 2007 of the acquisition of Insurance Capital Management USA, Inc. However, ICM's 2006 results prior to acquisition are discussed below for comparative purposes.

Service Revenues. Revenues for the months of February and March, 2007 reflected above averaged \$1,672,000 per month, compared to an average of \$1,377,000 per month during the first quarter of 2006, prior to the acquisition, an increase of 21%.

Operating Income. Operating loss for the months of February and March, 2007 average \$12,000 per month, compared to an average income of \$64,000 per month during the first quarter of 2006, a decrease of 119%. The decrease in operating income resulted from the amortization on other intangible assets.

Regional Healthcare Division. The operating results for our Regional Healthcare Division were as follows:

| Dollars in Thousands | For the Three Months Ended March 31, | | Dollar Change | Percent Change |
|----------------------|--------------------------------------|----------|---------------|----------------|
| | 2007 | 2006 | | |
| Revenues | \$ 1,736 | \$ 1,916 | \$ (180) | (9.4%) |
| Operating expenses: | | | | |
| Cost of operations | 1,156 | 1,154 | 2 | 0.2% |

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|----------------------------|--------|--------|----------|---------|
| Sales and marketing | 129 | 169 | (40) | (23.7%) |
| General and administrative | 220 | 153 | 67 | 43.8% |
| Total operating expenses | 1,505 | 1,476 | 29 | 2.0% |
| Operating income | \$ 231 | \$ 440 | \$ (209) | (47.5%) |
| Percent of revenue: | | | | |
| Revenues | 100% | 100% | | |
| Operating expenses: | | | | |
| Cost of operations | 66.6% | 60.2% | | |
| Sales and marketing | 7.4% | 8.8% | | |
| General and administrative | 12.7% | 8.0% | | |
| Total operating expenses | 86.7% | 77.0% | | |
| Operating income | 13.3% | 23.0% | | |

Service Revenues. The primary element of our Regional Healthcare Division is our wholly-owned subsidiary, AAI, which we acquired in June 2004, through which we offer full third-party administration services. Through AAI, we provide a wide range of

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healthcare claims administration services and other cost containment procedures that are frequently required by state and local governmental entities and other large employers that have chosen to self fund their required healthcare benefits. AAI helps us offer a more complete suite of healthcare service products. Also through AAI, we provide individuals and employee groups access to preferred provider networks, medical escrow accounts and full third-party administration capabilities to adjudicate and pay medical claims.

Regional Healthcare Services' revenues during first quarter 2007 decreased primarily due to the decline in the number of lives covered under its plans.

Cost of Operations. The increase in cost of operations as a percent of revenue from first quarter 2006 to first quarter 2007 is because fixed costs did not decline proportionately with the revenue decline discussed above.

Sales and Marketing Expenses. The decrease in sales and marketing expenses from first quarter 2006 to first quarter 2007 was primarily due to decreases in sales and public relations activities. AAI maintains direct relationships with its large self-funded clients in the El Paso market and does not utilize advertising or outside sales forces.

General and Administrative Expenses. The increase in general and administrative expenses from first quarter 2006 to first quarter 2007 was primarily due to severance costs related to a former marketing officer and benefits costs of \$54,000 in the first quarter of 2007. The increase in general and administrative expenses as a percent of revenue from first quarter 2006 to first quarter 2007 is because fixed costs did not decline proportionately with the revenue decline discussed above.

Corporate and Other. The operating costs for our corporate and other activities were as follows:

| Dollars in Thousands | For the Three Months Ended March 31, | | | |
|----------------------------|--------------------------------------|----------|---------------|----------------|
| | 2007 | 2006 | Dollar Change | Percent Change |
| Revenues | \$ 17 | \$ 32 | \$ (15) | (46.9%) |
| Commissions | 6 | 14 | (8) | (57.1%) |
| General and administrative | 689 | 517 | 172 | 33.3% |
| Total operating expenses | 695 | 531 | 164 | 30.9% |
| Operating loss | \$ (678) | \$ (499) | \$ (179) | 35.9% |

Until December, 2006 we reported the financial results of our wholly-owned subsidiary Care Financial of Texas, L.L.C. (Care Financial) as a separate segment, Financial Services. Financial Services included two divisions - Care Financial which offered high deductible and scheduled benefit insurance policies and Care 125 which offered life insurance and annuities, along with Healthcare Savings Accounts (HSAs), Healthcare Reimbursement Arrangements (HRAs) and medical and dependent care Flexible Spending Accounts (FSAs). Care 125 was discontinued in December 2006 and Care Financial is now included with Corporate and Other.

Service Revenues and Commissions. Revenues for Care Financial continue to decline as the Company has de-emphasized this product line.

General and Administrative Expenses. The increase in general and administrative expenses from first quarter 2006 to first quarter 2007 was primarily due to stock options awarded to officers and directors of \$260,000 during the first quarter 2007.

Income Tax Provision

SFAS 109, *Accounting for Income Taxes*, requires the separate recognition, measured at currently enacted tax rates, of deferred tax assets and deferred tax liabilities for the tax effect of temporary differences between the financial reporting and tax reporting bases of assets and liabilities, and net operating loss carry forward balances for tax purposes. A valuation allowance must be established for deferred tax assets if it is more likely than not that all or a portion will not be realized. At December 31, 2006, we had a non-current deferred tax asset of \$1,249,000 and a current deferred tax liability of \$387,000. A valuation allowance of \$862,000 reduced the net non-current deferred tax

asset to \$387,000. The non-current deferred tax asset is primarily due to the net operating loss carry-forward that if not utilized will expire at various dates through 2026. At March 31, 2007, we had a non-current deferred tax liability of \$46,000 and a current deferred tax liability of \$387,000. The change in the non-current deferred tax amount as compared to December 31, 2006 is primarily due to the acquisition of ICM.

On July 14, 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes guidance to address inconsistencies among

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entities with the measurement and recognition in accounting for income tax positions for financial statement purposes. Specifically, FIN 48 addresses the timing of the recognition of income tax benefits. FIN 48 requires the financial statement recognition of an income tax benefit when the company determines that it is more-likely-than-not that the tax position will be ultimately sustained. We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. We have analyzed all filing positions in federal and state tax jurisdictions where we are required to file income tax returns. Our major tax jurisdictions include the federal jurisdiction and the state of Texas. Tax years open to examination include 2003 through 2006 for the federal return. A federal audit for 2004 has been completed with no change to our tax liability. Texas tax returns are open to examination for years 2002 through 2005. The Texas returns for Capella for the years 2002-2005 are currently under examination. We believe that our income tax positions and deductions will be sustained on audit. Accordingly, no reserves for uncertain income tax positions have been recorded in the financial statements pursuant to FIN 48. We have elected to recognize penalties and interest related to tax liabilities as a component of income tax expense and income taxes payable. As of March 31, 2007, income taxes payable included \$90,000 of accrued interest expense and \$26,000 of accrued penalties related to state tax liabilities. The statement of operations for March 31, 2007 does not include any interest expense or penalties related to tax liabilities. We plan to settle the state tax liabilities and pay any related interest and penalties during 2007.

Liquidity and Capital Resources

Operating Activities. Net cash provided by operating activities for the quarters ended March 31, 2007 and 2006 was \$358,000 and \$615,000, respectively. The decrease in net cash provided by operating activities of \$257,000 was due primarily to a receipt of a state franchise tax refund of \$133,000 in first quarter of 2006.

Investing Activities. Net cash provided by investing activities for the quarter ended March 31, 2007 was \$253,000 and net cash used in investing activities for the quarter ended March 31, 2006 was \$748,000. The increase in net cash from investing activities of \$1,001,000 was due primarily to cash used in a business combination related to our acquisition of AAI of \$701,000 in the first quarter of 2006 and cash provided by the decrease in the requirement to maintain restricted short-term investments of \$320,000 in first quarter of 2007.

Financing Activities. Net cash used in financing activities for the quarters ended March 31, 2007 and 2006 was \$94,000 and \$68,000, respectively. The increase in net cash used in financing activities of \$26,000 was primarily due to net decrease in short-term debt of \$44,000, offset by net decrease in capitalized lease payment obligation of \$18,000.

On March 31, 2007 and December 31, 2006 we had working capital of \$2,193,000 and \$3,996,000, respectively. This decline of \$1,803,000 is due primarily to the increase in short-term debt that was included in the acquired liabilities related to the ICM acquisition.

We have obtained revolving line of credit facilities and short-term notes from a commercial banking institution. The proceeds are used to fund the advancing of agent commissions for certain programs. These debt obligations are collateralized by certain future commissions and fees. At March 31, 2007, the revolving line of credit facilities aggregated \$1,250,000. Accordingly, we are able to borrow an additional \$392,000 provided that the borrowings are restricted to the funding of advanced agent commissions. \$827,000 of the total commercial bank borrowings of \$1,760,000 mature and become payable July 15, 2007. We are the primary party on the loan agreement but Peter Nauert, our former Chairman, had executed a personal guarantee. Mr. Nauert passed away on August 19, 2007. As a result, amounts outstanding to the commercial bank became due immediately. We are currently working with the commercial bank and Mr. Nauert's estate to arrange alternative financing arrangements. There is no assurance that we will be able to arrange alternative financing or that we will have future borrowings available to us from the commercial bank or Mr. Nauert's estate on terms satisfactory to us or advantageous to our stockholders. As a result, we may face substantial difficulty in obtaining sufficient capital to finance our funding of advanced agent commissions.

As part of the ICM acquisition, we assumed a three-year loan that was obtained in November 2006, from a specialty lending corporation of which \$600,000 remains outstanding at March 31, 2007. \$200,000 of the outstanding balance has been classified as short-term debt and the remaining balance of \$400,000 has been classified as long-term debt. The loan bears interest at prime plus 5.0%. We are the primary party on the loan agreement and Peter Nauert, our former Chairman, had executed a personal guarantee. As stated above, Mr. Nauert passed away on August 19,

2007. As a result, amounts outstanding to that lender became due immediately. We are currently working with the specialty lending corporation and Mr. Nauert's estate to arrange alternative financing arrangements. There is no assurance that we will be able to arrange alternative financing or that we will have future borrowings available to us from the specialty lending corporation or Mr. Nauert's estate on terms satisfactory to us or advantageous to our stockholders. As a result, we may face substantial difficulty in obtaining sufficient capital to finance our funding of advanced agent commissions.

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Other than our \$188,000 capital lease obligations, we do not have any capital commitments. We anticipate that our capital expenditures for 2007 will not significantly exceed the amount incurred during 2006. We have pledged \$1,100,000 of cash and investment securities to secure our arrangements with banks and clearing agencies for clearing our credit card and automated clearing house charges, which are the principal means of collecting revenue in our consumer card division. Additionally, we may utilize capital for strategic acquisitions should such opportunities present themselves. We require working capital to advance commissions to our agents prior to our receipt of the underlying commission from the insurance carrier. Additionally, while we have generated cash from operating activities in the past, the decline in revenues in certain of our operating divisions or increases in the cost of our corporate activities may reduce cash provided from operations or lead to the use of cash in operating activities. While we believe that we currently have access to a sufficient amount of working capital to meet our needs, our ability to grow the Insurance Marketing Division will depend on our ability to gain access to increasing amounts of working capital sources. We believe that our existing cash and cash equivalents, and cash provided by operations, will be sufficient to fund our normal operations and capital expenditures for the next 12 months. However, growth in our Insurance Marketing Division, loss of access to borrowing arrangements or losses incurred in operations may necessitate additional financing to fund future advances or our operations.

Because our capital requirements cannot be predicted with certainty, there is no assurance that we will not require any additional financing during the next 12 months, and if required, that any additional financing will be available on terms satisfactory to us or advantageous to our stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any investments in market risk sensitive instruments.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and our Chief Financial Officer are primarily responsible for establishing and maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. These controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Furthermore, our Chief Executive Officer and our Chief Financial Officer are responsible for the design and supervision of our internal controls over financial reporting that are then effected by and through our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These policies and procedures

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

In connection with our quarter end close process and the preparation of this report, an evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures over financial reporting. Based on that evaluation, the CEO and CFO had concluded that the Company's disclosure controls and procedures were not effective at March 31, 2007, due to one material weakness and one significant deficiency in internal control over financial reporting noted below. Our management reported to our auditors and the audit

committee of our board of directors that, other than the changes being implemented to remediate the material weakness and significant deficiency noted below, no other change in our disclosure controls and procedures and internal control over financial reporting occurred during the first quarter of 2007 that would materially affect or was reasonably likely to

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materially affect our disclosure controls and procedures or internal control over financial reporting. In conducting their evaluation of our disclosure controls and procedures and internal controls over financial reporting, our management, including our Chief Executive Officer and Chief Financial Officer, did not discover any fraud that involved management or other employees who have a significant role in our disclosure controls and procedures and internal controls over financial reporting. The discovery, in August 2007, of the failures in February through June to completely and accurately record a portion of our insurance commission expense related to one of our insurance products, as described above in Part I, Item 1 Financial Statements (Unaudited), indicates that the remediation of the material weakness that we believed had been accomplished was not completely effective. Furthermore, there were significant changes in our disclosure controls and procedures, internal controls over financial reporting, or other factors that could significantly affect our disclosure controls and procedures or internal controls over financial reporting subsequent to the date of their evaluation consisting of corrective actions necessary or taken to correct significant deficiencies in our internal controls and disclosure controls and procedures. Therefore, based on this more recent information, the Interim Chief Executive Officer and the Chief Financial Officer have now concluded that the Company's disclosure controls and procedures were not effective at March 31, 2007, due the material weakness in internal control over financial reporting noted below.

Changes to Internal Control over Financial Reporting

During the first quarter of 2007 and the subsequent evaluation of disclosure controls and procedures effective as of March 31, 2007, management recognized a material weakness related to processes and controls for the recording of insurance commission revenues and related insurance commission expenses for the insurance marketing operation acquired during the quarter that were not sufficient to provide for the timely and complete recording of insurance commission transactions, and a significant deficiency related to processes and controls for recording stock option expense pursuant to SFAS 123R that did not provide for timely recording of stock option expense.

We were unable to remediate these weaknesses before the end of the first quarter, although we implemented partial remediation of the material weakness related to recording insurance commission revenue and expense in the form of interim changes to internal control over financial reporting that materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting during the first quarter. Also, we conducted additional procedures and implemented interim manual control procedures which we believed at the time were sufficient to assure the accuracy of the financial statements for the first quarter of 2007 contained in Form 10-Q as originally filed. However, the discovery during August 2007 of the failure to record a portion of our insurance commission expense related to one of our insurance products, as described in Item 1 above, revealed that those interim manual control procedures were not sufficient to ensure that all commission related transactions were completely and accurately captured and recorded. That processing failure resulted from a data input oversight causing a failure to record a portion of our insurance commission expense for one of our insurance products in the newly acquired insurance marketing division beginning in February this year. The data input oversight resulted from a change in the data gathering process, relied upon for purposes of calculating agent commissions for the particular insurance product. This operational data input oversight occurred during transitions in responsibility during our merger-acquisition of the insurance marketing division in January 2007 and was not detected on a timely basis. This resulted in an underpayment to the agents and an underreporting of commission expense.

After the quarter end, management launched initiatives to put into operation new processes and controls to address the material weakness and the significant deficiency described above. Management believes that these new controls will remediate the deficiencies in the Company's internal control over financial reporting that existed as of March 31, 2007, and that these internal controls will be effective at the reasonable assurance level. However, since these changes were implemented after the quarter end, these changes did not alter the conclusion of management that our internal controls were not effective at the quarter end. Since the discovery of the commission underpayment described above, we have also taken steps to consolidate the disparate insurance marketing commission processing functions into a single unit and to implement additional controls for the verification of commission calculations. However, we have not yet concluded that the material weakness in internal control over financial reporting related to such commission expenses has been fully remediated.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no new legal proceedings to report during the three months ended March 31, 2007. There have been no developments on legal proceedings discussed in our 2006 annual report on Form 10-K.

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ITEM 1A. RISK FACTORS

Our Risk Factors

The matters discussed below and elsewhere in this report should be considered when evaluating our business operations and strategies. Additionally, there may be risks and uncertainties that we are not aware of or that we currently deem immaterial, which may become material factors affecting our operations and business success. Many of the factors are not within our control. We provide no assurance that one or more of these factors will not:

adversely affect the market price of our common stock,

adversely affect our future operations,

adversely affect our business,

adversely affect our financial condition,

adversely affect our results of operations,

require significant reduction or discontinuance of our operations,

require us to seek a merger partner, or

require us to sell additional stock on terms that are highly dilutive to our shareholders.

THIS REPORT CONTAINS CAUTIONARY STATEMENTS RELATING TO FORWARD LOOKING INFORMATION.

We have included some forward-looking statements in this section and other places in this report regarding our expectations. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements, or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Some of these forward-looking statements can be identified by the use of forward-looking terminology including believes, expects, may, will, should or anticipates or the negative thereof, other variations thereon or comparable terminology, or by discussions of strategies that involve risks and uncertainties. You should read statements that contain these words carefully because they:

discuss our future expectations,

contain projections of our future operating results or of our future financial condition, or

state other forward-looking information.

We believe it is important to discuss our expectations. However, it must be recognized that events may occur in the future over which we have no control and which we are not accurately able to predict. Any forward-looking statements contained in this report represent our judgment as of the date of this report. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements.

DURING THE FIRST QUARTER OF 2007 AND DURING 2006, 2005 AND 2004 WE INCURRED LOSSES FROM OPERATIONS AND THESE LOSSES MAY CONTINUE.

During the three months ended March 31, 2007 and the years ended December 31, 2006, 2005 and 2004 we incurred losses from continuing operations of \$ 325,000, \$6,814,000, \$13,229,000 and \$1,657,000, respectively and net losses of \$ 325,000, \$7,724,000, \$13,371,000 and \$1,956,000, respectively. As part of those operating losses and net losses, we incurred goodwill impairment charges of \$6,866,000 including tax considerations of \$426,000, \$12,900,000 and \$2,000,000 in 2006, 2005 and 2004, respectively. In 2006, we recorded goodwill impairment charges of \$4,066,000 including tax considerations of \$426,000 for AAI and \$2,800,000 for Capella, respectively. In 2005, we

recorded a goodwill impairment charge of \$12,900,000 related to Capella. In 2004, we recorded a goodwill impairment charge of \$2,000,000 related to Foresight, Inc. (Foresight). The operating loss before goodwill impairment charges in 2005 was primarily attributable to the continuing costs associated with our Care Entréetm medical savings program. There

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is no assurance that losses from our Care Entréetm medical savings program will not continue or that our other operations will become or continue to be profitable in 2007 or thereafter.

OUR REVENUES IN THE CONSUMER PLAN DIVISION ARE LARGELY DEPENDENT ON THE INDEPENDENT MARKETING REPRESENTATIVES, WHOSE REDUCED SALES EFFORTS OR TERMINATION MAY RESULT IN SIGNIFICANT LOSS OF REVENUES.

Our success and growth depend in large part upon our ability to attract, retain and motivate the network of independent marketing representatives who principally market our Care Entréetm medical savings program and the USA Healthcare Savings products that we are introducing in 2007. Our independent marketing representatives typically offer and sell the Care Entréetm program on a part-time basis, and may engage in other business activities. These marketing representatives may give higher priority to other products or services, reducing their efforts devoted to marketing our Care Entréetm program. Also, our ability to attract and retain marketing representatives could be negatively affected by adverse publicity relating to our Care Entréetm program and operations.

Under our network marketing system, the marketing representatives' downline organizations are headed by a relatively small number of key representatives who are responsible for a substantial percentage of our total revenues. The loss of a significant number of marketing representatives, including any key representatives, for any reason, could adversely affect our revenues and operating results, and could impair our ability to attract new distributors.

A LARGE PART OF OUR CONSUMER PLAN DIVISION REVENUES ARE DEPENDENT ON KEY RELATIONSHIPS WITH A FEW PRIVATE LABEL RESELLERS AND WE MAY BECOME MORE DEPENDENT ON SALES BY A FEW PRIVATE LABEL RESELLERS.

Our revenues from sales of our independent marketing representatives have declined and continue to decline. As a result, we have become more dependent on sales made by private label resellers to whom we sell our discount medical programs. If sales made by our independent marketing representatives continue to decline or if our efforts to increase sales through private label resellers succeed, we may become more dependent on sales made by our private label resellers. Because a large number of these sales may be made by a few resellers, our revenues and operating results may be adversely affected by the loss of our relationship with any of those private label resellers.

DEVELOPMENT AND MAINTENANCE OF RELATIONSHIPS WITH PREFERRED PROVIDER ORGANIZATIONS ARE CRITICAL AND THE LOSS OF SUCH RELATIONSHIPS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

As part of our business operations, we must develop and maintain relationships with preferred provider organizations within each market area that our services are offered. Development and maintenance of these relationships with healthcare providers within a preferred provider organization is in part based on professional relationships and the reputation of our management and marketing personnel. Because many members that receive healthcare services are self-insured and responsible for payment for healthcare services received, failure to pay or late payments by members may negatively affect our relationship with the preferred provider organizations. Consequently, preferred provider organization relationships may be adversely affected by events beyond our control, including departures of key personnel and alterations in professional relationships and members' failures to pay for services received. The loss of a preferred provider organization within a geographic market area may not be replaced on a timely basis, if at all, and may have a material adverse effect on our business, financial condition and results of operations.

WE CURRENTLY RELY HEAVILY ON ONE KEY PREFERRED PROVIDER ORGANIZATION AND THE LOSS OF OR A CHANGE IN OUR RELATIONSHIP WITH THIS PROVIDER COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

Private Healthcare Systems (PHCS), a division of MultiPlan, Inc., is the preferred provider organization through which most of our members obtain savings on medical services through our Care Entréetm program. The loss of PHCS as a preferred provider organization or a disruption of our members' access to PHCS could affect our ability to retain our members and could, therefore, adversely affect our business. While we currently enjoy a good relationship with PHCS and MultiPlan, there are no assurances that we will continue to have a good relationship with them in the future, or that MultiPlan, having recently acquired PHCS, may choose to change its business strategy in a way that adversely affects us by either limiting or terminating our members' access to the PHCS network or by entering into

agreements with our competitors to provide their members access to PHCS.

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WE FACE COMPETITION FOR MARKETING REPRESENTATIVES AS WELL AS COMPETITIVE OFFERINGS OF HEALTHCARE PRODUCTS AND SERVICES.

Within the healthcare savings membership industry competition for members is becoming more intense. We offer membership programs that provide products and services similar to or directly in competition with products and services offered by our network-marketing competitors as well as the providers of such products and services through other channels of distribution. Some of our private label resellers have chosen to sell a product that is competitive to ours in order to maintain multiple sources for their products. Others may also choose to sell competing products. Furthermore, marketing representatives have a variety of products that they can choose to market, whether competing with us in the healthcare market or not.

Our business operations compete in two channels of competition. First, we compete based upon the healthcare products and services offered. These competitors include companies that offer healthcare products and services through membership programs much like our programs, as well as insurance companies, preferred provider organization networks and other organizations that offer benefit programs to their customers. Second, we compete with all types of network marketing companies throughout the U.S. for new marketing representatives. Many of our competitors have substantially larger customer bases and greater financial and other resources.

We provide no assurance that our competitors will not provide healthcare benefit programs comparable or superior to our programs at lower membership prices or adapt more quickly to evolving healthcare industry trends or changing industry requirements. Increased competition may result in price reductions, reduced gross margins, and loss of market share, any of which could adversely affect our business, financial condition and results of operations. There is no assurance that we will be able to compete effectively with current and future competitors.

GOVERNMENT REGULATION MAY ADVERSELY AFFECT OR LIMIT OUR OPERATIONS.

Most of the discount medical programs that we offer through our Consumer Plan Division are sold without the need for an insurance license by any federal, state or local regulatory licensing agency or commission. In comparison, companies that provide insurance benefits and operate healthcare management organizations and preferred provider organizations are regulated by state licensing agencies and commissions. These regulations extensively cover operations, including scope of benefits, rate formula, delivery systems, utilization review procedures, quality assurance, enrollment requirements, claim payments, marketing and advertising. Several states have enacted laws and regulations overseeing discount medical plans. We do not know the full extent of these regulations and additional states may also impose regulation. Our need to comply with these regulations may adversely affect or limit our future operations. The cost of complying with these laws and regulations has and will likely continue to have a material effect on our financial position.

Government regulation of health and life insurance, annuities and healthcare coverage and health plans is a changing area of law and varies from state to state. Although we are not an insurance company, the insurance companies from which we obtain our products and financial services are subject to various federal and state regulations applicable to their operations. These insurance companies must comply with constantly evolving regulations and make changes occasionally to services, products, structure or operations in accordance with the requirements of those regulations. We may also be limited in how we market and distribute our products and financial services as a result of these laws and regulations.

AS A RESULT OF THE INTRODUCTION OF PERSONAL MEDICAL ACCOUNTS, OUR FINANCIAL POSITION AND RESULTS OF OPERATIONS MAY CONTINUE TO BE ADVERSELY IMPACTED BY A DECREASE IN THE NUMBER OF HEALTHCARE SAVINGS PROGRAM MEMBERSHIPS THAT WE CAN SELL AND MAINTAIN.

While we believe that the introduction of our Personal Medical Accounts (PMA) was an important product evolution, the initial impact of this introduction has negatively affected our business. This impact is the result of additional difficulties in selling and maintaining memberships in our program because of the added complexity. Although we have terminated our PMA program, there is no assurance that we will be able to overcome these difficulties, and we may not be able to increase the number of memberships that are sold and maintained. As a result, our financial position and results of operations may be negatively affected.

THE FAILURE OF OUR NETWORK MARKETING ORGANIZATION TO COMPLY WITH FEDERAL AND STATE REGULATION COULD RESULT IN ENFORCEMENT ACTION AND IMPOSITION OF PENALTIES, MODIFICATION OF OUR NETWORK MARKETING SYSTEM, AND NEGATIVE PUBLICITY.

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Our network marketing organization is subject to federal and state laws and regulations administered by the Federal Trade Commission and various state agencies. These laws and regulations include securities, franchise investment, business opportunity and criminal laws prohibiting the use of pyramid or endless chain types of selling organizations. These regulations are generally directed at ensuring that product and service sales are ultimately made to consumers (as opposed to other marketing representatives) and that advancement within the network marketing organization is based on sales of products and services, rather than on investment in the company or other non-retail sales related criteria.

The compensation structure of a network marketing organization is very complex. Compliance with all of the applicable regulations and laws is uncertain because of:

the evolving interpretations of existing laws and regulations, and

the enactment of new laws and regulations pertaining in general to network marketing organizations and product and service distribution.

Accordingly, there is the risk that our network marketing system could be found to not comply with applicable laws and regulations that could:

result in enforcement action and imposition of penalty,

require modification of the marketing representative network system,

result in negative publicity, or

have a negative effect on distributor morale and loyalty.

Any of these consequences could have a material adverse effect on our results of operations as well as our financial condition.

THE LEGALITY OF OUR NETWORK MARKETING ORGANIZATION IS SUBJECT TO CHALLENGE BY OUR MARKETING REPRESENTATIVES, WHICH COULD RESULT IN SIGNIFICANT DEFENSE COSTS, SETTLEMENT PAYMENTS OR JUDGMENTS, AND COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Our network marketing organization is subject to legality challenge by our marketing representatives, both individually and as a class. Generally, these challenges would be based on claims that our marketing network program was operated as an illegal pyramid scheme in violation of federal securities laws, state unfair practice and fraud laws and the Racketeer Influenced and Corrupt Organizations Act. Proceedings resulting from these claims could result in significant defense costs, settlement payments, or judgments, and could have a material adverse effect on us.

WE MAY HAVE EXPOSURE AND LIABILITY RELATING TO NON-COMPLIANCE WITH THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996 AND THE COST OF COMPLIANCE COULD BE MATERIAL.

In April 2003 privacy regulations promulgated by The Department of Health and Human Services pursuant to the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA imposes extensive restrictions on the use and disclosure of individually identifiable health information by certain entities. Also as part of HIPAA, the Department of Health and Human Services has issued final regulations standardizing electronic transactions between health plans, providers and clearinghouses. Healthcare plans, providers and claims administrators are required to conform their electronic and data processing systems to HIPAA electronic transaction requirements. While we believe we are currently compliant with these regulations, we cannot be certain of the extent to which the enforcement or interpretation of these regulations will affect our business. Our continuing compliance with these regulations, therefore, may have a significant impact on our business operations and may be at material cost in the event we are subject to these regulations. Sanctions for failing to comply with standards issued pursuant to HIPAA include criminal and civil sanctions.

DISRUPTIONS IN OUR OPERATIONS DUE TO IMPLEMENTATION OF OUR MANAGEMENT INFORMATION SYSTEM MAY OCCUR AND COULD ADVERSELY AFFECT OUR CLIENT

RELATIONSHIPS.

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We recently transitioned to our new management information system. This is a proprietary system and we do not rely on any third party for its support and maintenance. There is no assurance that we will be able to continue operating without experiencing any disruptions in our operations or that our relationships with our members, marketing representatives or providers will not be adversely affected or that our internal controls will not be adversely affected.

WE HAVE MANY COMPETITORS AND MAY NOT BE ABLE TO COMPETE EFFECTIVELY WHICH MAY LEAD TO A LACK OF REVENUES AND DISCONTINUANCE OF OUR OPERATIONS.

We compete with numerous well-established companies that design and implement membership programs and other healthcare programs. Some of our competitors may be companies that have programs that are functionally similar or superior to our programs. Most of our competitors possess substantially greater financial, marketing, personnel and other resources than us. They may also have established reputations relating to their programs.

Due to competitive market forces, we may experience price reductions, reduced gross margins and loss of market share in the future, any of which would result in decreases in sales and revenues. These decreases in revenues would adversely affect our business and results of operations and could lead to discontinuance of operations. There can be no assurance that:

we will be able to compete successfully;

our competitors will not develop programs that render our programs less marketable or even obsolete; or

we will be able to successfully enhance our programs when necessary.

THE GOODWILL ACQUIRED PURSUANT TO OUR ACQUISITIONS OF CAPELLA, AAI AND ICM MAY BECOME FURTHER IMPAIRED AND REQUIRE A WRITE-DOWN AND THE RECOGNITION OF AN IMPAIRMENT EXPENSE THAT MAY BE SUBSTANTIAL.

In connection with our acquisitions of Capella, AAI and ICM, we recorded goodwill that had an aggregate asset value of \$17,485,000 at March 31, 2007. This carrying value has been reduced through impairment charges of \$6,866,000 including tax considerations of \$426,000 in 2006, \$12,900,000 in 2005, and \$2,000,000 in 2004. In the event that the goodwill is determined to be further impaired for any reason, we will be required to write-down or reduce the value of the goodwill and recognize an additional impairment expense. The impairment expense may be substantial in amount and, in such case, adversely affect the results of our operations for the applicable period and may negatively affect the market value of our common stock.

OUR SUBSIDIARY, AAI, DERIVES A LARGE PERCENTAGE OF ITS INCOME FROM A FEW KEY CLIENTS AND THE LOSS OF ANY OF THOSE CLIENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

AAI provides full service third-party administration services to adjudicate and pay medical claims for employers who have self-funded all or any portion of their healthcare costs. Their primary market is governmental entities in the metropolitan area of El Paso, Texas, including cities and school districts. There are a limited number of these types of entities within that metropolitan area. During 2006 we incurred a \$4,066,000 goodwill impairment charge including tax considerations of \$426,000 as a result of the reduction in the number of lives covered under plans we administer. There is no assurance that AAI will obtain renewal or extension of those contracts in 2007. The loss of any of these contractual relationships will adversely affect on our operating results and the loss of more than one of these contractual relationships could have a material adverse effect on our financial condition.

WE MAY FIND IT DIFFICULT TO INTEGRATE INSURACO S BUSINESS AND OPERATIONS WITH OUR BUSINESS AND OPERATIONS.

Although we believe that Insuraco s marketing and distribution of insurance products and financial services will complement and fit well with our business and the need for marketing of our healthcare savings programs and third-party claims administration services, Insuraco s business is new to us. Our unfamiliarity with this business may make it more difficult to integrate Insuraco s operations with ours. We will not achieve the anticipated benefits of the merger-acquisition unless we successfully integrate the Insuraco operations. There can be no assurance that this will occur.

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WE ARE DEPENDENT ON THIRD PARTY SERVICE PROVIDERS AND THE FAILURE OF SUCH SERVICE PROVIDERS TO ADEQUATELY PROVIDE SERVICES TO US COULD AFFECT OUR FINANCIAL RESULTS BECAUSE SUCH FAILURE COULD AFFECT OUR RELATIONSHIP WITH OUR CUSTOMERS.

As a cost efficiency measure, we have entered into agreements with third parties for their provision of services to us in exchange for a monthly fee normally calculated on a per member basis. These services include the enrollment of members through different media, operation of a member-services call center, claims administration, billing and collection services, and the production and distribution of fulfillment member marketing materials. One of these is our agreement with Lifeguard Emergency Travel, Inc. (Lifeguard) for the provision of these services to many of our members and prospective members. As a result of these outsourcing agreements, we may lose direct control over these key functions and operations. The failure by Lifeguard or any of our other third party service providers to perform the services to the same or similar level of quality that we could provide could adversely affect our relationships with our members, customers, marketing representatives and our ability to retain and attract members, customers, marketing representatives and, accordingly, have a material adverse effect on our financial condition and results of operations.

THE AVAILABILITY OF OUR INSURANCE PRODUCTS AND FINANCIAL SERVICES ARE DEPENDENT ON OUR STRATEGIC RELATIONSHIPS WITH VARIOUS INSURANCE COMPANIES AND THE UNAVAILABILITY OF THOSE PRODUCTS AND SERVICES FOR ANY REASON MAY RESULT IN SIGNIFICANT LOSS OF REVENUES.

We are not an insurance company and only market and distribute insurance products and financial services developed and offered by insurance companies. We must develop and maintain relationships with insurance companies that provide products and services for a particular market segment (the elderly, the young family, etc.) that we in turn make available to the independent agents with whom they have contracted to sell the products and services to the individual consumer. Of the eight insurance companies with whom Insuraco had strategic relationships prior to our acquisition, more than 95% of 2006 and 2005 Insuraco s revenue was attributable to the insurance products and financial services offered by five of the companies. Thus, we are dependent on a relatively small number of insurance companies to provide product and financial services for sale through our channels.

Development and maintenance of relationships with the insurance companies may in part be based on professional relationships and the reputation of our management and marketing personnel. Consequently, the relationships with insurance companies may be adversely affected by events beyond our control, including departures of key personnel and alterations in professional relationships. Our success and growth depend in large part upon our ability to establish and maintain these strategic relationships, contractual or otherwise, with various insurance companies to provide their products and services, including those insurance products and financial services that may be developed in the future. The loss or termination of these strategic relationships could adversely affect our revenues and operating results. Furthermore, the loss or termination may also impair our ability to maintain and attract new insurance agencies and their agents to distribute the insurance products and services that we offer.

WE ARE DEPENDENT UPON INDEPENDENT INSURANCE AGENCIES AND THEIR AGENTS TO OFFER AND SELL OUR INSURANCE PRODUCTS AND FINANCIAL SERVICES.

We are principally dependent upon independent insurance agencies and their agents to offer and sell the insurance products and financial services that we offer and distribute. These insurance agencies and their agents may offer and distribute insurance products and financial services that are competitive with ours. These independent agencies and their agents may give higher priority and greater incentives (financial or otherwise) to other insurance products or financial services, reducing their efforts devoted to marketing and distribution of the insurance products and financial services that we offer. Also, our ability to attract and retain independent insurance agencies could be negatively affected by adverse publicity relating to our products and services or our operations.

Furthermore, of the approximately 5,000 independent agents with whom Insuraco have active distribution and marketing relationships, more than 80% of Insuraco s revenues are attributable to the product sales and financial services through approximately 1,000 independent insurance agents. These agents report through approximately 20 independent general agencies. Thus, we are dependent on a small number of independent insurance agencies for a very significant percentage of our total insurance products and financial services revenue.

Development and maintenance of the relationships with independent insurance agencies and their agents may in part be based on professional relationships and the reputation of our management and marketing personnel. Consequently, these relationships may be adversely affected by events beyond our control, including departures of key personnel and alterations in professional relationships. The loss of a significant number of the independent insurance agencies (and their agents), as well as the loss of a key agency or its

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agents, for any reason, could adversely affect our revenue and operating results, or could impair our ability to establish new relationships or continue strategic relationships with independent insurance agencies and their agents.

WE FACE INTENSE COMPETITION IN THE MARKET PLACE FOR OUR PRODUCTS AND SERVICES AS WELL AS COMPETITION FOR INSURANCE AGENCIES AND THEIR AGENTS FOR THE MARKETING OF THE PRODUCTS AND SERVICES OFFERED.

Instead of utilizing captive or wholly-owned insurance agencies for the offer and sale of its products and services, we utilize independent insurance agencies and their agents as the principal marketing and distribution channel. Competition for independent insurance agencies and their agents is intense. Also, competition from products and services similar to or directly in competition with the products and services that we offer is intense, including those products and services offered and sold through the same channels utilized for distribution of our insurance products and financial services. Under arrangements with the independent insurance agencies, the agencies and their agents may offer and sell a variety of insurance products and financial services, including those that compete with the insurance products and financial services that we offer.

Thus, our business operations compete in two channels of competition. First, we compete based upon the insurance products and financial services offered. This competition includes products and services of insurance companies that compete with the products and services of the insurance companies that we offered and sell. Second, we compete with all types of marketing and distribution companies throughout the U.S. for independent insurance agencies and their agents. Many of our competitors have substantially larger bases of insurance companies providing products and services, and longer-term established relationships with independent insurance agencies and agents for the sale and distribution of products and services, as well as greater financial and other resources.

There is no assurance that our competitors will not provide insurance products and financial services comparable or superior to those products and services that we offer at lower costs or prices, greater sales incentives (financial or otherwise) or adapt more quickly to evolving insurance industry trends or changing industry requirements. Increased competition may result in reduced margins on product sales and services, less than anticipated sales or reduced sales, and loss of market share, any of which could materially adversely affect our business and results of operations. There can be no assurance that we will be able to compete effectively against current and future competitors.

ON AUGUST 19, 2007, PETER W. NAUERT, OUR CHIEF EXECUTIVE OFFICER, ON WHOM WE WERE HIGHLY DEPENDENT, PASSED AWAY AND THE CONSEQUENCES OF THE LOSS OF HIS SERVICES ARE CURRENTLY INDETERMINABLE.

Restatement. We were highly dependent upon Peter W. Nauert, the Company's former Chief Executive Officer and Chairman. Mr. Nauert's management skills, reputation and contacts within the insurance industry were key elements of our business plans. Mr. Nauert passed away August 19, 2007 after a brief illness. The ultimate effect and consequences of the loss of Mr. Nauert's services are not currently determinable. The loss of Mr. Nauert's management skills, reputation and insurance industry contacts may adversely affect the growth and success we expect to obtain from our merger with ICM. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 5. Other Information for discussion on officer changes.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

a) None.

b) None.

c) On January 30, 2007, we completed our merger with Insurance Capital Management USA, Inc. (ICM). Under the terms of the merger, the shareholders of ICM received shares of our common stock based on the adjusted earnings before income taxes, depreciation and amortization (adjusted EBITDA) of the ICM and its subsidiary companies. On January 30, 2007, the ICM shareholders were issued 4,498,529 shares of our common stock. Further, the ICM shareholders will receive an additional 2,257,853 shares of our common stock since the acquired ICM companies achieved adjusted EBITDA of \$1,250,000 over four consecutive calendar quarters ending on December 31, 2006. The common stock shares were sold pursuant to the registration exemptions available pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rules 505 and 506 of Regulation D promulgated there under. The shareholders of ICM qualified as accredited investors within the meaning of Rule 501(a). No commissions or other remuneration was paid with respect to the issuance of the common stock to the ICM shareholder.

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The initial cost of the acquisition of \$11,143,000 consisted of \$10,540,000 of our common stock (6,756,382 shares) and \$603,000 of costs directly related to the acquisition. The initial cost of the acquisition of \$11,143,000 has been allocated to working capital of \$(2,679,000), fixed assets of \$35,000, goodwill of \$10,087,000 and intangible assets of \$3,700,000. The allocation of \$10,087,000 to goodwill is considered appropriate as ICM strategically complements the Company's current business by adding new distribution channels for our Care Entréetm and private-label healthcare savings programs. ICM also has proven experience in the development, marketing and distribution of insurance products and financial services and, through its contractual arrangements with various insurance companies, will be a continuing source of leading-edge insurance products. The acquired ICM companies currently operate as Insuraco USA LLC (Insuraco) and constitute our Insurance Marketing Division.

d) None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held a special meeting of our shareholders on January 30, 2007. At this meeting, we asked our shareholders to: approve our merger with ICM pursuant to the applicable Agreement and Plan of Merger,

approve a change to our Certificate of Incorporation to change our name to Access Plans USA, Inc., and

approve an amendment to our 2002 Non-Employee Stock Option Plan that added an additional 1,000,000 shares for issuance under the plan and extended the plan's expiration date to March 31, 2010.

Of the 13,512,763 shares of our common stock outstanding as of the record date for the meeting, 13,156,578 were represented and voted at the meeting. At the meeting, the Agreement and Plan of Merger, the amendment to our Certificate of Incorporation, and the amendment to our 2002 Non-Employee Stock Option Plan were each approved by the holders of a majority of our outstanding common stock shares.

The vote results were as follows:

| | For | Against | Abstain |
|--|------------|----------------|----------------|
| Agreement and Plan of Merger | 10,788,887 | 12,609 | 2,040 |
| Amendment to Certificate of Incorporation | 13,137,588 | 17,550 | 1,440 |
| Amendment to 2002 Non-Employee Stock Option Plan | 10,309,451 | 17,550 | 1,440 |

ITEM 5. OTHER INFORMATION

On August 20, 2007 the Company's Board of Directors elected board member J. French Hill as Chairman of the Board, and appointed Ian R. Stuart to serve as Interim President and Chief Executive Officer. Mr. Stuart has served as the Company's Chief Operating Officer since January 30, 2007 and previously served as Chief Operating Officer and Chief Financial Officer of ICM from October 2004 to our merger. Michael Owens, who was recently appointed the Company's Chief Marketing Officer, will continue to fulfill the marketing roles that Mr. Nauert previously held among the Company's subsidiaries. In addition, we named Michael Puestow, a veteran of the health insurance and PPO industry, as our Vice President of Product Development. If, despite these changes, we are unable to maintain the industry relationships that Mr. Nauert brought to us or if we are unable to secure new financing of our commission advance program or restructure current financing arrangements on terms that are favorable to us, a substantial negative impact on our financial results and operations could result. See Item 1A. Risk Factors for more information.

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ITEM 6. EXHIBITS

Exhibits will be provided upon request by the U.S. Securities and Exchange Commission.

Exhibit

| No. | Description |
|------------|--|
| 3.1 | Registrant's Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of Registrant's Form 10-K filed with the Commission on April 2, 2007. |
| 3.2 | Registrant's Amended and Restated Bylaws incorporated by reference to Exhibit 3.2 of Registrant's Form 10-K filed with the Commission on April 2, 2007. |
| 4.1 | Form of certificate of the common stock of Registrant is incorporated by reference to Exhibit 4.1 of Registrant's Form 10-K filed with the Commission on April 2, 2007. |
| 4.2 | Precis, Inc. 1999 Stock Option Plan (amended and restated), incorporated by reference to the Schedule 14A filed with the Commission on June 23, 2003. |
| 4.3 | Precis, Inc. 2002 IMR Stock Option Plan, incorporated by reference to the Schedule 14A filed with the Commission on June 26, 2002. |
| 4.4 | Precis, Inc. 2002 Non-Employee Stock Option Plan (amended and restated), incorporated by reference to the Schedule 14A filed with the Commission on December 29, 2006 |
| 31.1 | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Ian R. Stuart as Interim Chief Executive Officer. |
| 31.2 | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Robert L. Bintliff as Chief Financial Officer and Principal Accounting Officer. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of Ian R. Stuart as Interim Chief Executive Officer. |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of Robert L. Bintliff as Chief Financial Officer and Principal Accounting Officer. |

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACCESS PLANS USA, INC.
(Registrant)

By: /s/ IAN R. STUART
Ian R. Stuart
Interim Chief Executive Officer

Date: November 19, 2007

By: /s/ ROBERT L. BINTLIFF
Robert L. Bintliff
Chief Financial Officer and Principal Accounting
Officer

Date: November 19, 2007

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ACCESS PLANS USA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2007 AND DECEMBER 31, 2006

| Dollars in Thousands | As of March 31, 2007 (Unaudited) (Restated) | As of December 31, 2006 * |
|---|--|--|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,749 | \$ 3,232 |
| Unrestricted short-term investments | 200 | 200 |
| Restricted short-term investments | 1,100 | 1,420 |
| Accounts and notes receivable, net | 1,004 | 190 |
| Advanced agent commissions | 5,156 | |
| Income taxes receivable, net | 236 | 246 |
| Inventory | 14 | 20 |
| Prepaid expenses | 1,017 | 1,492 |
| | | |
| Total current assets | 12,476 | 6,800 |
| Fixed assets, net | 961 | 924 |
| Goodwill and other intangible assets, net (\$17,485,000 and \$7,466,000 in goodwill and \$3,565,000 and \$5,000 in other intangible assets, respectively) | 21,050 | 7,471 |
| Deferred tax asset | | 387 |
| Other assets | 108 | 662 |
| | | |
| Total assets | \$ 34,595 | \$ 16,244 |
| | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 737 | \$ 178 |
| Accrued commissions | 755 | 156 |
| Other accrued liabilities | 1,788 | 1,458 |
| Income taxes payable | 371 | 353 |
| Deferred commissions | 3,662 | |
| Deferred enrollment fees, net | 435 | 82 |
| Current portion of capital leases | 188 | 190 |
| Short-term debt | 1,960 | |
| Deferred tax liability | 387 | 387 |
| | | |
| Total current liabilities | 10,283 | 2,804 |
| Capital lease obligations, net of current portion | | 48 |
| Long-term deferred tax liability | 46 | |
| Long-term debt | 400 | |
| | | |
| Total liabilities | 10,729 | 2,852 |
| Commitments and contingencies | | |

Stockholders' equity:

| | | |
|---|-----------|-----------|
| Preferred stock, \$1.00 par value, 2,000,000 shares authorized, none issued | | |
| Common stock, \$.01 par value, 100,000,000 shares authorized; 18,491,292 and 14,012,763 issued, respectively, and 18,011,292 and 13,512,763 outstanding, respectively | 185 | 140 |
| Additional paid-in capital | 36,898 | 29,691 |
| Stock issuable pursuant to a business combination | 3,522 | |
| Accumulated deficit | (15,730) | (15,388) |
| Less: treasury stock (480,000 and 500,000 shares, respectively) | (1,009) | (1,051) |
| Total stockholders' equity | 23,866 | 13,392 |
| Total liabilities and stockholders' equity | \$ 34,595 | \$ 16,244 |

* Amounts are derived from the Company's audited financial statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACCESS PLANS USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

| Dollars in Thousands, except Earnings per Share | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2007 (Restated) | 2006 |
| Service revenues | \$ 8,200 | \$ 6,093 |
| Operating expenses: | | |
| Commissions | 3,163 | 1,147 |
| Cost of operations | 2,466 | 2,505 |
| Sales and marketing | 969 | 483 |
| General and administrative | 1,931 | 1,752 |
| Total operating expenses | 8,529 | 5,887 |
| Operating (loss) income | (329) | 206 |
| Other expense: | | |
| Interest income, net | 33 | 74 |
| (Loss) earnings before taxes | (296) | 280 |
| Provision for income taxes expense (benefit) | 29 | (4) |
| (Loss) earnings from continuing operations | (325) | 284 |
| Loss from discontinued operations, net of taxes | | (323) |
| Net loss | \$ (325) | \$ (39) |
| (Loss) earnings per share: | | |
| Basic Continuing operations | \$ (0.02) | \$ 0.02 |
| Discontinued operations | \$ (0.00) | \$ (0.02) |
| Diluted Continuing operations | \$ (0.02) | \$ 0.02 |
| Discontinued operations | \$ (0.00) | \$ (0.02) |
| Weighted average number of common shares outstanding: | | |
| Basic | 16,561,766 | 13,406,504 |
| Diluted | 16,561,766 | 13,406,504 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACCESS PLANS USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2007

| Dollars in Thousands | COMMON STOCK SHARES | ADDITIONAL PAID-IN STOCK AMOUNT | PAID-IN CAPITAL | ADDITIONAL STOCK ISSUABLE | TREASURY STOCK | ACCUM- ULATED DEFICIT (Restated) | TOTAL (Restated) |
|---|--------------------------------|--|----------------------------|--|---------------------------|---|-----------------------------|
| Balance, December 31, 2006 (audited) | 13,512,763 | \$ 140 | \$ 29,691 | \$ | \$ (1,051) | \$ (15,388) | \$ 13,392 |
| Issuance of stock in business combinations | 4,498,529 | 45 | 6,973 | | | | 7,018 |
| Stock issuable pursuant to a business combination | | | | 3,522 | | | 3,522 |
| Treasury stock adjustment | | | (25) | | 42 | (17) | |
| Stock option awards | | | 259 | | | | 259 |
| Net loss | | | | | | (325) | (325) |
| Balance, March 31, 2007 | 18,011,292 | \$ 185 | \$ 36,898 | \$ 3,522 | \$ (1,009) | \$ (15,730) | \$ 23,866 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACCESS PLANS USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

| Dollars in Thousands | For the Three Months Ended March 31, 2007 2006 (Restated) | |
|---|---|----------|
| Operating activities: | | |
| Net loss | \$ (325) | \$ (39) |
| Adjustments to reconcile net (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 250 | 209 |
| Provision for losses on accounts and notes receivable | (19) | 12 |
| Other non-cash item and loss on disposal of fixed assets | 32 | |
| Stock options expense | 259 | 27 |
| Changes in operating assets and liabilities (net of business acquired): | | |
| Accounts and notes receivable, net | 120 | 5 |
| Advanced agent commissions | (361) | |
| Income taxes receivable | 10 | (4) |
| Inventory | 6 | 75 |
| Prepaid expenses | 475 | 870 |
| Other assets | (12) | 37 |
| Accounts payable | 111 | (153) |
| Accrued liabilities | (196) | (552) |
| Deferred revenues | (10) | (5) |
| Income taxes payable | 18 | 133 |
| Net cash provided by operating activities | 358 | 615 |
| Investing activities: | | |
| Decrease in restricted short-term investments | 320 | |
| Purchase of fixed assets | (144) | (124) |
| Cash acquired (used) in business combination | 77 | (624) |
| Net cash provided by (used in) investing activities | 253 | (748) |
| Financing activities: | | |
| Payments of capital leases | (50) | (68) |
| Payments of short-term debt, net | (44) | |
| Net cash used in financing activities | (94) | (68) |
| Net (decrease) increase in cash and cash equivalents | 517 | (201) |
| Cash and cash equivalents at beginning of period | 3,232 | 6,261 |
| Cash and cash equivalents at end of period | \$ 3,749 | \$ 6,060 |
| Supplemental disclosure: | | |
| Interest paid | \$ 48 | \$ 11 |

Non-cash investing and financing activities:

| | | |
|--|----------|----------|
| Issuance of stock in business combination | \$ 7,018 | \$ 521 |
| Cash-in-trust refunded and claims paid, net of amounts collected | \$ | \$ (261) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**ACCESS PLANS USA, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 1 Interim Financial Information**

The accompanying condensed consolidated financial statements are unaudited, but include all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position at such dates and of the operations and cash flows for the periods then ended. The financial information is presented in a condensed format, and it does not include all of the footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Operating results for the three months ended March 31, 2007 and 2006 are not necessarily indicative of results that may be expected for the entire year. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and reported amounts of revenues and expenses during the reporting periods under consideration. Actual results could differ materially from such assumptions and estimates. The accompanying condensed consolidated financial statements and related footnotes should be read in conjunction with the Company's audited financial statements, included in its December 31, 2006 Form 10-K filed with the Securities and Exchange Commission. Certain prior period amounts have been reclassified to conform to the current period's presentation.

Restatement. During August 2007, subsequent to the filing of Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007, we discovered that there was a failure beginning in February this year to record a portion of our insurance commission expense related to one of our insurance products in the newly acquired insurance marketing division. The failure resulted from a change in the data gathering process, relied upon for purposes of calculating agent commissions for the particular insurance product. The errors were not detected on a timely basis due in part to transitions in responsibility immediately following our merger-acquisition of the insurance marketing division in January 2007. This resulted in an underpayment to the agents and an underreporting of commission expense. The accompanying consolidated financial statements are restated to correct the error in recording insurance commission expense.

In conjunction with the acquisition of ICM, the Company evaluated whether a portion of the purchase price should be allocated to identifiable intangible assets separate from goodwill based on Statement of Financial Accounting Standards No. 141 Business Combinations. Accordingly, we determined that intangible assets arose in the ICM acquisition from two kinds of customer relationships: 1) relationships with policyholders who had policies in force at the acquisition date that were sold by ICM agents prior to the acquisition date (Customer Contracts) and 2) relationships with independent agents who will write business with us because of the relationships they have with members of ICM management (Agent Relationships). We used an income approach for valuation of acquired in-force policies by calculating the net present value of the earnings stream of those policies, adjusted for a projected policy declination rate. We used a similar income approach for valuation of policies projected to be written in the future by those independent agents who will write business with us because of the relationships they have with members of ICM management by calculating the net present value of the earnings stream of those policies. The intangible asset amount allocated for Customer Contracts is \$1,800,000 and for Agent Relationships is \$1,900,000. These assets are being amortized on a straight-line basis over estimated lives of three years and eight years, respectively.

The following table sets forth the effect of the restatement made to correct the error in our reported first quarter 2007 commission expense, record the allocation of purchase price to finite life intangibles and related deferred income taxes, record amortization of the value assigned to finite life intangibles arising from the ICM acquisition, as described above, reclassify certain deferred revenues and record other minor adjustments.

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| Dollars in Thousands | Three Months Ended March 31, | |
|--|-------------------------------------|------------------------|
| | Previously Reported | Restated Amount |
| Balance Sheet: | | |
| Goodwill and other intangibles | \$ 20,750 | \$ 21,050 |
| Deferred tax asset | 387 | |
| Total assets | 34,682 | 34,595 |
| Accrued commissions | 623 | 755 |
| Other accrued liabilities | 1,761 | 1,788 |
| Deferred revenue, net | 4,118 | |
| Deferred commissions | | 3,662 |
| Deferred enrollment fees, net | | 435 |
| Current liabilities | 10,145 | 10,283 |
| Long-term deferred tax liability | | 46 |
| Total liabilities | 10,545 | 10,729 |
| Additional paid-in capital | 36,899 | 36,898 |
| Accumulated deficit | (15,460) | (15,730) |
| Total stockholders' equity | 24,137 | 23,866 |
| Total liabilities and stockholders' equity | 34,682 | 34,595 |
| Statement of Operations: | | |
| Commission expense | \$ 3,033 | \$ 3,163 |
| General and administrative | 1,791 | 1,931 |
| Total operating expenses | 8,259 | 8,529 |
| Operating loss | (59) | (329) |
| Net loss | (55) | (325) |
| Basic net loss per share | (0.00) | (0.02) |
| Diluted net loss per share | (0.00) | (0.02) |

Note 2 Summary of Significant Accounting Policies

Basis of Presentation. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Company's wholly-owned subsidiaries, Capella, Insuraco, and AAI. All significant inter-company accounts and transactions have been eliminated. Certain reclassifications have been made to prior period financial statements to conform to the current presentation of the financial statements.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain significant estimates are required in the evaluation of goodwill and intangible assets for impairment. Actual results could differ from those estimates and such differences could be material.

Fair Value of Financial Instruments. The recorded amounts of cash, short-term investments, accounts receivable, income taxes receivable, notes receivable, accounts payable, accrued liabilities, income taxes payable, capital lease obligations and short-term debt approximate fair value because of the short-term maturity of these items.

Recently Issued Accounting Standards. On September 15, 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value measurements in financial reporting. While the standard does not expand the use of fair value in any new circumstance, it has applicability to several current accounting standards that require or permit entities to measure assets and liabilities at fair value. This standard defines fair value, establishes a framework for measuring fair value in GAAP

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and expands disclosures about fair value measurements. Application of this standard is required beginning in 2008. Management is currently assessing what impact, if any, the application of this standard could have on the Company's financial statements.

Revenue Recognition. Revenue recognition varies based on source.

Consumer Plan Division Revenues. The Company recognizes its Care Entréetm program membership revenues, other than initial enrollment fees, on each monthly anniversary date. Membership revenues are reduced by the amount of estimated refunds. For members that are billed directly, the billed amount is collected almost entirely by electronic charge to the members' credit cards, automated clearinghouse or electronic check. The settlement of those charges occurs within a day or two. Under certain private label arrangements, the Company's private label partners bill their members for the membership fees and the Company's portion of the membership fees is periodically remitted to the Company. During the time from the billing of these private-label membership fees and the remittance to it, the Company records a receivable from the private label partners and records an estimated allowance for uncollectible amounts. The allowance of uncollectible receivables is based upon review of the aging of outstanding balances, the credit worthiness of the private label partner and its history of paying the agreed amounts owed.

Membership enrollment fees, net of direct costs, are deferred and amortized over the estimated membership period that averages eight to ten months. Independent marketing representative fees, net of direct costs, are deferred and amortized over the term of the applicable contract. Judgment is involved in the allocation of costs to determine the direct costs netted against those deferred revenues, as well as in estimating the membership period over which to amortize such net revenue. The Company maintains a statistical analysis of the costs and membership periods as a basis for adjusting these estimates from time to time.

Insurance Marketing Division Revenues. The revenue of our insurance marketing division is primarily from sales commissions paid to it by the insurance companies it represents; these sales commissions are generally a percentage of premium revenue. Commission income and policy fees, other than initial enrollment fees, and corresponding commission expense payable to agents, are generally recognized at their gross amount, as earned on a monthly basis, until such time as the underlying policyholder contract is terminated. Advanced commissions received are recorded as unearned insurance commissions. Initial enrollment fees are deferred and amortized over the estimated lives of the respective programs. The estimated weighted average life for the programs sold ranges from eighteen months to two years and is based upon the Company's historical policyholder contract termination experience.

Regional Healthcare Division Revenues. AAI's principal sources of revenues include administrative fees for third party claims administration, network provider fees for the preferred provider network and utilization and management fees. These fees are based on monthly or per member per month fee schedules under specified contractual agreements. Revenues from these services are recognized in the periods in which the services are performed and when collection is reasonably assured.

Commission Expense. Commissions on consumer plan revenues are accrued in the month in which a member has enrolled in the Care Entréetm program. Commissions on insurance policy premiums are generally recognized as incurred on a monthly basis until such time as the underlying policyholder contract is terminated. Commissions on consumer plan revenues are only paid to the Company's independent marketing representatives in the following month after the related membership fees have been received by the Company. Advances of commissions up to one year are paid to agents in the insurance marketing division based on certain insurance policy premium commissions. The Company does not pay advanced commissions on consumer plan membership sales.

Stock Option Expense and Option-Pricing Model. Recognized compensation expense for stock options granted to employees includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Binomial Lattice option-pricing model is used to estimate the option fair values. The option-pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility, the expected pre-vesting forfeiture rate and the risk-free interest rate. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending March 31, 2007 equal to the expected option term. Expected pre-vesting forfeitures were estimated based on actual historical pre-vesting

forfeitures over the most recent periods ending March 31, 2007 for the expected option term. The risk-free interest rate is based on the interest rate of zero-coupon United States Treasury securities over the expected option term.

Income Taxes. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The net deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

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On July 14, 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes guidance to address inconsistencies among entities with the measurement and recognition in accounting for income tax positions for financial statement purposes. Specifically, FIN 48 addresses the timing of the recognition of income tax benefits. FIN 48 requires the financial statement recognition of an income tax benefit when the company determines that it is more-likely-than-not that the tax position will be ultimately sustained. The company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. The company has analyzed all filing positions in federal and state tax jurisdictions where it is required to file income tax returns. Major tax jurisdictions of the company include the federal jurisdiction and the state of Texas. Tax years open to examination include 2003 through 2006 for the federal return. A federal audit for 2004 has been completed with no change to the company's tax liability. Texas tax returns are open to examination for years 2002 through 2005. The Texas returns for Capella for the years 2002-2005 are currently under examination. The company believes that its income tax positions and deductions will be sustained on audit. Accordingly, no reserves for uncertain income tax positions have been recorded in the financial statements pursuant to FIN. The company has elected to recognize penalties and interest related to tax liabilities as a component of income tax expense and income taxes payable. As of March 31, 2007, income taxes payable included \$90,000 of accrued interest expense and \$26,000 of accrued penalties related to state tax liabilities. The statement of operations for March 31, 2007 does not include any interest expense or penalties related to tax liabilities. The company plans to settle the state tax liabilities and pay any related interest and penalties during 2007.

Accounts Receivable. Accounts receivable generally represent commissions and fees due from insurance carriers and plan sponsors. Accounts receivable are reviewed on a monthly basis to determine if any receivables will be potentially uncollectible. An allowance is provided for any accounts receivable balance where recovery is considered to be doubtful. Bad debt is written off as incurred.

Advanced Agent Commissions. The Company's insurance marketing subsidiary advances agent commissions for certain insurance programs. Repayment of the advanced commissions is typically accomplished by withholding earned commissions from the agent until such time as the outstanding balance, plus accumulated interest, has been fully repaid. Advanced agent commissions are reviewed on a quarterly basis to determine if any advanced agent commissions will likely be uncollectible. An allowance is provided for any advanced agent commission balance where recovery is considered to be doubtful. Any bad debt is written off as incurred.

Fixed Assets. Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and principally on accelerated methods for tax purposes. Leasehold improvements are depreciated using the straight-line method over their estimated useful lives or the lease term, whichever is shorter. Ordinary maintenance and repairs are charged to expense as incurred. Expenditures that extend the physical or economic life of property and equipment are capitalized.

Acquisitions. On January 30, 2007, the Company completed its merger with Insurance Capital Management USA, Inc. (ICM). Under the terms of the merger, the shareholders of ICM received shares of Company common stock based on the adjusted earnings before income taxes, depreciation and amortization (adjusted EBITDA) of the ICM and its acquired companies. On January 30, 2007, the ICM shareholders were issued 4,498,529 of common stock shares of the Company. Further, the ICM shareholders will receive an additional 2,257,853 common stock shares of the Company since the acquired ICM companies achieved adjusted EBITDA of \$1,250,000 over four consecutive calendar quarters ending on December 31, 2006. The obligation to issue these stocks has been recorded in the Company's balance sheet as stocks issuable pursuant to a business combination of \$3,522,000.

Intangible Asset Valuation. In conjunction with the acquisition of ICM, the Company evaluated whether a portion of the purchase price should be allocated to identifiable intangible assets separate from goodwill based on Statement of Financial Accounting Standards No. 141 Business Combinations. Accordingly, we determined that intangible assets arose in the ICM acquisition from two kinds of customer relationships: 1) relationships with policyholders who had policies in force at the acquisition date that were sold by ICM agents prior to the acquisition date (Customer Contracts) and 2) relationships with independent agents who will write business with us because of the relationships

they have with members of ICM management (Agent Relationships). We used an income approach for valuation of acquired in-force policies by calculating the net present value of the earnings stream of those policies, adjusted for a projected policy declination rate. We used a similar income approach for valuation of policies projected to be written in the future by those independent agents who will write business with us because of the relationships they have with members of ICM management by calculating the net present value of the earnings stream of those policies. The intangible asset amount

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allocated for Customer Contracts is \$1,800,000 and for Agent Relationships is \$1,900,000. These assets are being amortized on a straight-line basis over estimated lives of three years and eight years, respectively.

Reclassifications. Certain prior period amounts have been reclassified to conform to the current period's presentation.

Note 3 Business Acquisition

On January 30, 2007, the Company completed its merger with Insurance Capital Management USA, Inc. (ICM). Under the terms of the merger, the shareholders of ICM received shares of Company common stock based on the adjusted earnings before income taxes, depreciation and amortization (adjusted EBITDA) of ICM and its subsidiary companies. On January 30, 2007, the ICM shareholders were issued 4,498,529 of common stock shares of the Company. Further, the ICM shareholders will receive an additional 2,257,853 common stock shares of the Company since the acquired ICM companies achieved adjusted EBITDA of \$1,250,000 over four consecutive calendar quarters ending on December 31, 2006. The obligation to issue these stocks has been recorded in the Company's balance sheet as stocks issuable pursuant to a business combination of \$3,522,000.

The initial cost of the acquisition of \$11,143,000 consists of \$10,540,000 of our common stock (6,756,382 shares) and \$603,000 of costs directly related to the acquisition. The initial cost of the acquisition was allocated as follows:

| Dollars in Thousands | As of January 31, 2007 (Unaudited) | |
|--|---|---------------|
| Cash | \$ | 77 |
| Accounts receivable | | 915 |
| Advanced agent commissions | | 3,443 |
| Other assets | | 37 |
| Fixed assets | | 35 |
| Goodwill | | 10,087 |
| Deferred tax asset | | 862 |
| Intangible assets, net | | 3,700 |
| Accounts payable and accrued liabilities | | (1,640) |
| Deferred revenue, net | | (2,674) |
| Short-term debt | | (2,404) |
| Deferred tax liability | | (1,295) |
| Total | \$ | 11,143 |
| | | |
| First issuance of common stock | | 7,018 |
| Second issuance of common stock | | 3,522 |
| Acquisition cost | | 603 |
| | \$ | 11,143 |

The allocation of \$10,087,000 to goodwill was considered appropriate as ICM strategically complements the Company's current business by adding new distribution channels for our Care Entréetm and private-label healthcare savings programs. ICM also has proven experience in the development, marketing and distribution of insurance products and financial services and, through its contractual arrangements with various insurance companies, will be a continuing source of leading-edge insurance products.

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The following financial condensed results of operations presents the Company's acquisition of ICM prepared on a pro-forma basis:

| Dollars in Thousands | For the Three Months Ended March 31, Unaudited | |
|---|---|-------------|
| | 2007 (Restated) | 2006 |
| Service revenues | \$ 9,866 | \$ 10,229 |
| Net (loss) earnings | \$ (411) | \$ (132) |
| (Loss) earnings per share: | | |
| Basic Continuing operations | \$ (0.02) | \$ 0.01 |
| Discontinued operations | \$ | \$ (0.02) |
| Diluted Continuing operations | \$ (0.02) | \$ 0.01 |
| Discontinued operations | \$ | \$ (0.02) |
| Weighted average number of common shares outstanding: | | |
| Basic | 18,011,292 | 17,905,033 |
| Diluted | 18,011,292 | 17,905,033 |

Note 4 Advanced Agent Commissions

Advanced agent commissions consist of:

| Dollars in Thousands | As of March 31, 2007 Unaudited |
|---|---|
| Programs funded by: | |
| Commercial bank | \$ 1,760 |
| Other debt | 600 |
| Advances received from insurance carriers | 2,963 |
| Sub-total | 5,323 |
| Provision for doubtful recoveries | (167) |
| Total advanced agent commissions | \$ 5,156 |

Note 5 Short-term and Long-term Debt

The Company's short-term and long-term debt consists of:

**As of March
31,
2007**

| Dollars in Thousands | Unaudited |
|---|------------------|
| Short-term debt: | |
| Commercial bank revolving lines of credit | \$ 858 |
| Commercial bank short-term notes | 902 |
| Loan from specialty lending corporation | 200 |
| Total short-term debt | \$ 1,960 |
| Long-term debt: | |
| Loan from specialty lending corporation | \$ 400 |
| Total long-term debt | \$ 400 |

The Company has obtained revolving line of credit facilities and short-term notes from a commercial bank. The proceeds are used to fund the advancing of agent commissions for certain programs. These debt obligations are collateralized by certain future commissions and fees. At March 31, 2007, the revolving line of credit facilities aggregated \$1,250,000. Accordingly, the Company is able to borrow an additional \$392,000 provided that such borrowings are restricted to the funding of advanced agent commissions. \$827,000 of the total commercial bank borrowings of \$1,760,000 mature July 15, 2007. The remaining balance of \$933,000 has scheduled maturity dates in 2008 and is expected to be fully paid prior to March 31, 2008. Interest is charged at prime plus 1.5%. We are the primary party on the loan agreement but Peter Nauert, our former Chairman, had executed a personal guarantee. Mr. Nauert passed away on August 19, 2007. As the result, amounts outstanding to the commercial bank became due immediately. We are currently working with the commercial bank and Mr. Nauert's estate to arrange alternative financing arrangements. There is no assurance that we will be able to arrange alternative financing or that we will have future borrowings available to us from the commercial bank or Mr. Nauert's estate on terms satisfactory to us or advantageous to our stockholders. As a result, we may face substantial difficulty in obtaining sufficient capital to finance our funding of advanced agent commissions.

As part of the ICM acquisition, the Company assumed a three-year loan that was obtained in November 2006, from a specialty lending corporation in the amount of \$600,000. The loan bears interest at prime plus 5.0%. We are the primary party on the loan agreement and Peter Nauert, our former Chairman, had executed a personal guarantee. As stated above, Mr. Nauert passed away on

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August 19, 2007. As the result, amounts outstanding to that lender became due immediately. We are currently working with the specialty lending corporation and Mr. Nauert's estate to arrange alternative financing arrangements. There is no assurance that we will be able to arrange alternative financing or that we will have future borrowings available to us from the specialty lending corporation or Mr. Nauert's estate on terms satisfactory to us or advantageous to our stockholders. As a result, we may face substantial difficulty in obtaining sufficient capital to finance our funding of advanced agent commissions.

\$200,000 of the outstanding balance has been classified as short-term debt and the balance of \$400,000 has been classified as long-term debt.

Note 6 Common Stock Options

First Quarter 2007 Stock Option Information. Total estimated unrecognized compensation cost from unvested stock options as of March 31, 2007 was approximately \$125,000, which is expected to be recognized over a weighted average period of approximately 1.71 years.

The following table summarizes stock options outstanding and changes during the quarterly period ended March 31, 2007:

| | Number of Shares | Outstanding Options | | | Aggregate |
|--------------------------------|------------------------|--|--------------------------------------|---|--------------|
| | | Weighted Average Exercise Price | Weighted Average Fair Value | Weighted Average Remaining Contractual Term (in years) | |
| Outstanding at January 1, 2007 | 1,427,354 | \$ 2.21 | \$ 1.39 | 2.9 | \$ 1,166,509 |
| Granted | 222,500 | 2.06 | 1.23 | 5.0 | 229,615 |
| Exercised | | | | | |
| Forfeited | (97,738) | 3.91 | 1.70 | | (210,683) |
| Outstanding at March 31, 2007 | 1,552,116 | 2.11 | 1.34 | 2.2 | \$ 1,185,441 |
| Vested (exercisable) | 972,866 | 2.25 | 1.50 | 2.5 | \$ 730,690 |
| Non-Vested | 579,250 | 1.88 | 1.09 | 3.9 | 454,751 |
| Outstanding at March 31, 2007 | 1,552,116 | 2.11 | 1.34 | 2.2 | \$ 1,185,441 |

No stock options were exercised in the period ended March 31, 2007. The Company did not realize any tax deductions related to the exercise of stock options during the quarter. The Company will record such deductions to deferred tax assets and/or additional paid in capital when realized. Shares available for grant under the 1999 Option Plan as of March 31, 2007 were 472,794. Under the 2002 Non-Employee Stock Option Plan 852,500 shares were available.

Stock options outstanding and currently exercisable at March 31, 2007 are as follows:

| Range of exercise prices | Options Outstanding | | | Options Exercisable | |
|-----------------------------|---------------------|---|--|---------------------|--|
| | Outstanding | Weighted Average Remaining Life (in years) | Weighted Average Exercise Price | Outstanding | Weighted Average Exercise Price |

| | | | | | |
|------------------|-----------|------|--------|---------|--------|
| \$1.05 to \$1.75 | 172,000 | 2.71 | \$1.22 | 127,000 | \$1.25 |
| \$1.76 to \$3.55 | 1,305,566 | 2.28 | 2.10 | 778,066 | 2.22 |
| \$3.56 to \$5.25 | 74,550 | 0.15 | 4.39 | 67,800 | 4.41 |
| | 1,552,116 | 2.22 | 2.11 | 972,866 | 2.25 |

Note 7 Related Party Transactions

Mr. Frank Apodaca, AAI's Chief Operating Officer, had an agreement with Ready One Industries, formerly National Center for Employment of the Disabled (NCED). NCED is the party from whom the Company acquired AAI in June 2004. This agreement between Mr. Apodaca and NCED predates the Company's acquisition of AAI and entitles him to 10% of the proceeds (stock or cash) from the sale of AAI. Pursuant to this agreement, as of December 31, 2006, Mr. Apodaca has received 214,548 of the Company's shares and is entitled to receive \$223,000 from NCED.

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The office space we lease for our AAI operation in El Paso was owned by NCED through January 2007. Total payments of \$24,000 were paid to NCED under this agreement in first quarter 2007. AAI also earned revenue from NCED of \$74,000 and \$231,000 in first quarter 2007 and 2006, respectively.

Note 8 Risk Concentration

Currently, over 95% of the Company's insurance marketing division revenue is derived from insurance products underwritten by five insurance carriers. The Company believes all of these insurance carriers to be financially sound, based in part upon A.M. Best ratings of B+ or better, and that all accounts due from these carriers will be collected in full. If the Company's relationship with one or more of these carriers was severed, the revenue impact would be nominal in the short term, but could be significant over the long term. However, management believes the Company has the ability to replace carriers with little or no difficulty.

Note 9 Commitments and Contingencies

Legal Proceedings. In the normal course of business, the Company may become involved in litigation or in settlement proceedings relating to claims arising out of the Company's operations. Except as described below, the Company is not a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition and results of operations.

Kirk, et al v Precis, Inc. and David May. On September 8, 2003, the case styled *Robert Kirk, Individually and D/B/A US Asian Advisors, LLC, Eugene M. Kennedy, P.A., Stewart & Associates, CPA's, P.A. and Kimberly Decamp, Plaintiffs vs. Precis, Inc. and David May, Defendants* was initiated in the District Court of Tarrant County, Texas, Case No. 236 201 468 03. The plaintiffs Robert Kirk (doing business as US Asian Advisors, LLC or U.S. Asian Capital Investors, LLC), Kimberly Decamp and Stewart & Associates, CPA's, P.A. held warrants exercisable for the purchase of 9,000, 48,000 and 4,000 shares, respectively, of the Company's common stock for \$9.00 per share on or before February 8, 2005. The plaintiffs Eugene M. Kennedy, P.A. and Kimberly Decamp held stock options that expired on June 30, 2003, and that were exercisable for 15,000 and 170,000 shares, respectively, of the Company's common stock for \$9.37 per share. David May served as the Company's Secretary and Vice President and General Counsel through January 5, 2004.

The plaintiffs alleged that they were not allowed to exercise their stock options and warrants in May 2003 due to actions and inactions of Mr. May and that these actions and inactions constituted fraud, misrepresentation, negligence and legal malpractice. All communications with Mr. May were through the plaintiffs' broker, Burt Martin Arnold Securities, Inc. Plaintiffs sought damages equal to the difference between the exercise price of the stock options or warrants and the market value of the Company's common stock on May 7, 2002 (presumably the closing sale price of \$15.75) or an aggregate sum of \$1,592,050, plus exemplary damages and costs.

On July 13, 2005, the court entered a judgment in the Company's favor, ordering that the plaintiffs take nothing by way of their lawsuit. The order set aside a previous jury verdict in favor of the plaintiffs. The trial court's judgment was affirmed by the Court of Appeals for the Second Judicial District of Texas. The plaintiffs may appeal the appellate court's decision to the Texas Supreme Court. While the Company cannot offer any assurance as to the outcome of the appeal, the Company believes that there exists no basis on which the judgment in the Company's favor will be overturned.

Zermeno v Precis The case styled *Manuela Zermeno, individually and on behalf of the general public; and Juan A. Zermeno, individually and on behalf of the general public v Precis, Inc., an Oklahoma corporation and Does 1 through 100, inclusive* was filed on August 14, 2003 in the Superior Court of the State of California for the County of Los Angeles.

A second case styled *California Foundation for Business Ethics, Inc., a California non-profit corporation, v Precis, Inc., and Does 1 through 100, inclusive* was filed on September 9, 2003, in the Superior Court of the State of California for the County of Los Angeles.

The two above cases were removed to the United States District Court for the Central District of California and consolidated by order of the court, on December 4, 2003.

The Zermeno plaintiffs are former members of the Care Entréetm discount healthcare program who allege that they (for themselves and for the general public) are entitled to injunctive, declaratory, and equitable relief. Plaintiffs' First Amended Complaint set forth three distinct claims under California law. Plaintiffs' first cause of action alleged that the

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Entréetm program violates Health and Safety Code §445 (Section 445) that governs medical referral services. Next, Plaintiffs alleged that they are entitled to damages under Civil Code §§1812.119 and 1812.123, which are part of the broader statutory scheme governing the operation of discount buying organizations, Civil Code 1812. 100 et. Seq. (Section 1812.100). Plaintiffs third cause of action sought relief under Business and Professions Code § 17200, California s Unfair Competition Law (Section 17200).

The Company fully settled all the claims brought by the California Foundation for Business Ethics, Inc. With the Zermeno plaintiffs, the Company settled the causes of action related to Civil Code §§ 1812.100. The claim under Section 445 and the related claim under Section 17200 remain pending and have been assigned to the Superior Court of California, Los Angeles County under case number BC 300788. A negative result in this case would have a material affect on the Company s financial condition and would limit the Company s ability (and that of other healthcare discount programs) to do business in California.

Management believes that the Company has complied with all applicable statues and regulations in the state of California. Although management believes the Plaintiffs claims are without merit, the Company cannot provide any assurance regarding the outcome or results of this litigation.

State of Texas v The Capella Group, Inc. et al. The State of Texas filed a lawsuit against our subsidiary, The Capella Group, Inc. d/b/a Care Entréetm and Equal Access Health, Inc. (including various names under which Equal Access Health, Inc. does business) on April 28, 2005. Equal Access Health is a third party marketer of our discount medical card programs, but is otherwise not affiliated with our subsidiaries or us. The lawsuit alleges that Care Entréetm, directly and through at least one other party that resells Care Entréetm s services to the public, violated certain provisions of the Texas Deceptive Trade Practices -Consumer Protection Act. The lawsuit seeks, among other things, injunctive relief, unspecified monetary penalties and restitution. We believe that the allegations are without merit and are vigorously defending this lawsuit. The lawsuit was filed in the 98th District Court of Travis County, Texas as case number GV501264. We have always insisted that our programs be sold in an honest and forthright manner and have worked to protect the interests of consumers in Texas and all other states. Unfavorable findings in this lawsuit could have a material adverse effect on our financial condition and results of operations. No assurance can be provided regarding the outcome or results of this litigation.

Investigation of National Center for Employment of the Disabled, Inc. and Access HealthSource, Inc. (AAI). In June 2004 the Company acquired AAI and its subsidiaries from National Center for Employment of the Disabled, Inc. (now known as Ready One Industries, NCED). Robert E. Jones, the C.E.O. of NCED, was elected to and served on the Company s Board of Directors until his March 2006 resignation. Frank Apodaca, the President and C.E.O. of AAI served as Chief Administrative Officer for NCED. He also served on the Board of Directors of NCED until his resignation in March 2006. Until July 2006, his employment agreement with the Company allowed him to spend up to 20% of his time on matters related to NCED s operations. NCED is one of the Company s greater than 10% shareholders as a result of shares it received from the Company s acquisition of AAI.

NCED provides services to the United States government under various contracts that were awarded to NCED under a federal program that encouraged the use of facilities whose work force is composed of 75% or more disabled workers. In 2006, investigations into NCED revealed that it may not have employed a sufficient number of disabled workers to meet the program s requirements. Although the Company believes that AAI was not involved in the contracting for NCED s federal contracts and was not involved in NCED s operations either before or after the Company s acquisition of AAI, the investigation of NCED may lead to allegations that either AAI or Mr. Apodaca was involved in inappropriate or illegal activities. The investigation of NCED may also lead to other investigations of AAI s contracting processes and operations. There are currently no legal actions related to this matter pending against AAI or Mr. Apodaca. Because of these investigations and any related allegations or charges and the associated unfavorable publicity, AAI may lose its local government clients. The loss of these clients and the resulting loss of revenue could have a material adverse effect on the Company s financial condition and result of operations.

States General Life Insurance Company. In February 2005, States General Life Insurance Company (SGLIC) was placed in permanent receivership by the Texas Insurance Commission (The State of Texas v States General Life Insurance Company, Cause No. GV-500484, in the 126th District Court of Travis County, Texas.) Pursuant to letters dated October 19, 2006, the Special Deputy Receiver (the SDR) of SGLIC asserted certain claims against ICM, its

subsidiaries, Peter W. Nauert, ICM's Chairman and Chief Executive Officer, and G. Scott Smith, a former Executive Officer of ICM, totaling \$2,839,000. The SDR is seeking recovery of certain SGLIC funds that it alleges were inappropriately transferred and paid to or for the benefit of ICM, its subsidiaries and Messrs. Nauert and Smith. These claims are based upon assertions of Texas law violations, including prohibitions against self-dealing, participation in breach of fiduciary duty and preferential and fraudulent transfers. Mr. Nauert was in control and Chairman of the Board of SGLIC when it was placed in receivership by the Texas Insurance Commission. The Company, its subsidiaries and Messrs. Nauert and Smith intend to exercise their full rights in defense of the SDR's asserted claims. The SDR filed its own action against

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SGLIC, pending in the 126th District Court of Travis County, Texas under cause No. GV-500484 and against Messrs. Nauert and Smith, ICM, certain subsidiaries of ICM and other parties, in the 126th District Court of Travis County, Texas under cause No. D-1-GN-06-4697. Access Plans has been named as a defendant in this action as a successor-in-interest to ICM.

In connection with our merger-acquisition of ICM and its subsidiaries, Mr. Nauert and the Peter W. Nauert Revocable Trust have agreed to fully indemnify ICM and us against any losses resulting from this matter.

Restricted Short-Term Investments. In order to arrange for the processing and collection of credit card and automated clearing house payments to it from its customers, the company has pledged cash and short-term investments in the aggregate amounts of \$1,100,000 and \$250,000 as of March, 2007 and 2006, respectively.

Employment Agreements. We have entered into employment agreements with only two of our executive officers. If both of them terminate without cause or through a change of ownership, the Company may be obligated to pay them approximately \$450,000 in the aggregate.

Note 10 Discontinued Operations

Discontinued operations are as follows:

Financial Services Care 125. In the first quarter of 2004, the Company initiated Care 125, a division of AAI, to provide health savings accounts (HSAs), Healthcare Reimbursement Arrangements (HRAs) and medical and dependent care Flexible Spending Accounts (FSAs). Care125 services would allow employers to offer additional benefits to their employees and give employees additional tools to manage their healthcare and dependent care expenses. Additionally, Care125 programs and the Company's medical savings programs could be sold together by agents and brokers with whom the Company has contracted to offer a more complete benefit package to employers. The Company discontinued this division in December 2006. This operation had net losses in the first quarter 2007 and 2006 of \$0 and \$72,000, respectively.

Vergance. In the third quarter of 2005, the Company began offering neutraceuticals through the Vergance marketing group of the Company's Consumer Healthcare Services division. Neutraceutical sales consisting of vitamins, minerals and other nutritional supplements, under the NatrIENCE brand commenced in late September 2005, but were immaterial through June 30, 2006. Effective June 30, 2006, the Company discontinued its operations and wrote off the assets of this division. This operation had net income in the first quarter 2007 and 2006 of \$0 and \$250,000, respectively.

Note 11 Segmented Information

The Company discloses segment information in accordance with SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information, that requires companies to report selected segment information on a quarterly basis and to report certain entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues. The Company's reportable segments are strategic divisions that offer different services and are managed separately as each division requires different resources and marketing strategies. The Company's Consumer Plan Division, the Company's largest segment, offers savings on healthcare services to persons who are un-insured, under-insured, or who have elected to purchase only high deductible or limited benefit medical insurance policies, by providing access to the same preferred provider organizations (PPOs) that are utilized by many insurance companies and employers who self-fund at least a portion of their employees' healthcare risk. These programs are sold primarily through a network marketing strategy. The Company's Insurance Marketing Division provides web-based technology, specialty products and marketing of individual health insurance products and related benefit plans, primarily through a broad network of independent agency channels. The Company's Regional Healthcare Division provides a wide range of healthcare claims administration services and other cost containment procedures that are frequently required by governments and other large employers who have chosen to self fund their healthcare benefits requirements. In prior years, the Company reported the financial results of the Company's wholly-owned subsidiary Care Financial of Texas, L.L.C. (Care Financial) in a separate segment, Financial Services. Financial Services included two divisions—Care Financial which offered high deductible and scheduled benefit insurance policies and Care 125 which offered life insurance and annuities, along with Healthcare Savings Accounts (HSAs), Healthcare Reimbursement Arrangements (HRAs) and medical and dependent care Flexible Spending Accounts (FSAs). Care 125 was discontinued in December 2006 and

Care Financial is included with Corporate and Other.

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The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 2 and in the Company's December 31, 2006 Form 10-K Annual Report. Intersegment sales are not material and all intersegment transfers are eliminated.

No one customer represents more than 10% of the Company's overall revenue. However, a material portion of the revenues of AAI is derived from its contractual relationships with a few key governmental entities. The Company operates in substantially all of the fifty states in the U.S. but not in any foreign countries.

The Company evaluates segment performance based on revenues and income before provision for income taxes. The Company does not allocate income taxes or unusual items to the segments. The table on this page and the following page summarizes segment information:

| Dollars in Thousands | Three Months Ended March 31, 2007 | | | | |
|-----------------------------------|-----------------------------------|--------------------------------|---------------------|---------------------|----------------------------------|
| | Consumer Plan | Insurance Marketing (Restated) | Regional Healthcare | Corporate and Other | Continuing Operations (Restated) |
| Revenue (1) | \$3,104 | \$ 3,343 | \$ 1,736 | \$ 17 | \$ 8,200 |
| Operating income (loss) (1) | 143 | (25) | 231 | (678) | (329) |
| Interest expense (income) (2) | | | | (33) | (33) |
| Depreciation and amortization | 75 | 140 | 28 | 7 | 250 |
| Taxes (benefit) (2) | | | | 29 | 29 |
| Assets acquired, net of disposals | 109 | | (36) | | 73 |
| Intangible assets (2) | | | | 21,050 | 21,050 |
| Assets held (2) | 5,004 | 19,752 | 8,273 | 1,566 | 34,595 |

| Dollars in Thousands | Three Months Ended March 31, 2006 | | | | |
|-----------------------------------|-----------------------------------|---------------------|---------------------|---------------------|-----------------------|
| | Consumer Plan | Insurance Marketing | Regional Healthcare | Corporate and Other | Continuing Operations |
| Revenue (1) | \$4,145 | \$ | \$ 1,916 | \$ 32 | \$ 6,093 |
| Operating income (loss) (1) | 265 | | 440 | (499) | 206 |
| Interest expense (income) (2) | | | | (74) | (74) |
| Depreciation and amortization | 149 | | 55 | 5 | 209 |
| Taxes (benefit) (2) | | | | (4) | (4) |
| Assets acquired, net of disposals | 102 | | 22 | | 124 |
| Intangible assets (2) | | | | 14,297 | 14,297 |
| Assets held (2) | 3,595 | | 11,486 | 13,801 | 28,882 |

(1) Certain prior period amounts have been reclassified to conform to the current period's presentation.

(2) Intangible assets and income tax expense (benefit) are not

allocated to the
assets and
operations of
the related
segment.