

COMPREHENSIVE HEALTHCARE SOLUTIONS INC  
Form 10QSB  
October 23, 2006

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

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**FORM 10-QSB**

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

**For the quarterly period ended August 31, 2006**

OR

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

Commission file number 0-26715

**COMPREHENSIVE HEALTHCARE SOLUTIONS, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**58-0962699**  
(I.R.S. Employer Identification No.)

**45 Ludlow Street, Suite 602**  
**Yonkers, New York 10705**  
(Address of principal executive offices) (Zip Code)

**(914) 375-7591**  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

The Registrant is a shell company. Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of October 20, 2006, we had 17,077,109 shares of common stock outstanding, \$0.10 par value.

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COMPREHENSIVE HEALTHCARE SOLUTIONS, INC.  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

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**Item 1. Financial Statements**

**Comprehensive Healthcare Solutions, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

**August 31, 2006**
**ASSETS**
**Current assets:**

Cash and cash equivalents	\$	7,076
Accounts receivable, net		33,853
Other current assets		25,000

Total current assets		65,929
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Property and equipment, net		25,433
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Total Assets	\$	91,362
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**LIABILITIES AND STOCKHOLDERS' EQUITY**
**Current liabilities:**

Accounts payable and accrued expenses	\$	328,829
Loan payable		40,000
Due to related party		118,321
Convertible debentures, short term		307,292
Derivative liabilities		362,846

Total current liabilities		1,157,288
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Convertible debentures and notes, long term		129,490
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Total Liabilities		1,286,778
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**Stockholders' equity:**

Preferred stock, no par value; 5,000 shares authorized and no shares issued and outstanding -		
Common stock, \$.10 par value: 20,000,000 shares, 15,418,184 shares issued		1,706,818
Additional paid-in capital		2,167,127
Accumulated deficit		(5,069,361)
Total stockholders' deficit		(1,195,416)

Total Liabilities and Stockholders' Equity	\$	91,362
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The accompanying notes are an integral part of these condensed consolidated financial statements.



**Comprehensive Healthcare Solutions, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
**For the Three and Six Months Ended August 31, 2006 and 2005**  
**(Unaudited)**

	<b>Three Months Ended August 31, 2006</b>	<b>Three Months Ended August 31, 2005</b>	<b>Six Months Ended August 31, 2006</b>	<b>Six Months Ended August 31, 2005</b>
Net sales	\$ 194,355	\$ 156,360	\$ 336,207	\$ 293,787
Cost of sales	132,810	134,840	253,511	250,162
Gross profit	61,545	21,520	82,696	43,625
Selling, general and administrative expenses	129,287	126,524	204,599	276,941
Professional fees	97,033	162,582	136,358	254,182
Loss from operations	(164,775)	(267,586)	(258,261)	(487,498)
Other income (expenses):				
Gain on derivative liabilities	358,777	-	940,795	-
Interest expense, net	(85,185)	(1,882)	(167,948)	(4,649)
Total other income (expense)	273,592	(1,882)	772,847	(4,649)
Income (loss) before income taxes	108,817	(269,468)	514,586	(492,147)
Income taxes	-	-	-	-
Net income (loss)	\$ 108,817	\$ (269,468)	\$ 514,586	\$ (492,147)
Income (loss) per share - basic and diluted	\$ 0.01	\$ (0.02)	\$ 0.03	\$ (0.04)
Weighted average shares outstanding - basic and diluted	16,747,439	13,303,959	16,054,754	13,303,959

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



**Comprehensive Healthcare Solutions, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Six Months Ended August 31,**  
**(Unaudited)**

	2006		2005
<b>Cash Flows from Operating Activities:</b>			
Net loss	\$ 514,586	\$	(492,147)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for bad debt	-		(20,000)
Depreciation and amortization	9,377		26,229
Gain on derivative liabilities	(912,705)		-
Interest expense, amortization of debt discount	117,599		-
Expense for shares and warrants issued for services rendered	121,888		108,004
Changes in current assets and liabilities:			
Accounts receivable	(10,378)		27,182
Accounts payable and accrued expenses	23,057		(46,594)
Net cash used in operating activities	(136,576)		(397,326)
<b>Cash Flows from Investing Activities:</b>			
Purchases of equipment	-		(1,550)
Net cash used in investing activities	-		(1,550)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from issuance of debentures and notes	75,000		285,000
Proceeds from loans	-		263,000
Proceeds from loans from related party	22,495		-
Net cash provided by financing activities	97,495		548,000
Net (decrease) increase in cash and cash equivalents	(39,081)		149,124
Cash and cash equivalents, beginning of the period			
	46,157		17,133
Cash and cash equivalents, end of the period	\$ 7,076	\$	166,257
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash paid during the period for:			
Interest	\$ 15	\$	4,649
Income taxes	\$ -	\$	-
<b>Non-cash Investing and Financing Activities:</b>			
Derivative liability recorded	\$ 940,795	\$	-
Common stock issued for services rendered	\$ 121,888	\$	-



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

**Comprehensive Healthcare Solutions, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**

NOTE 1 - ORGANIZATION

Comprehensive Healthcare Solutions, Inc. and its wholly owned subsidiaries, (the “Company”) is engaged in the business of selling and distributing hearing aids and providing the related audiological services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The accompanying interim unaudited condensed consolidated financial information has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of August 31, 2006 and the related operating results and cash flows for the interim period presented have been made. The results of operations of such interim period are not necessarily indicative of the results of the full fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s 10-KSB/A and Annual Report for the fiscal year ended February 28, 2006 and the other Quarterly Reports on Form 10-Q to be or have been filed by us in our fiscal year 2007, which runs from March 1, 2006 to February 28, 2007.

Use of Estimates

Use of estimates and assumptions by management is required in the preparation of financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates and assumptions.

Revenue Recognition

In accordance with Emerging Issues Task Force (“EITF”) 00-21, we have determined that certain of our contractual arrangements contain multiple deliverables which represent separate units of accounting, specifically, the initial hearing screening and the subsequent delivery of the hearing aid and any follow up services necessary. Revenue related to initial screening services is recognized upon delivery of the screening services as there is no further obligation to provide subsequent service, objective and reliable evidence of the fair value of these services exists and the delivery of these services have value to the customer on a stand-alone basis. Revenue is recognized on the delivery of hearing aids in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards (“SFAS”) No. 48: *Revenue Recognition When Right of Return Exists* when delivery of the product has occurred and follow up service is completed assuming that collectibility is reasonably assured. If collection is doubtful, no revenue is recognized until such receivables are collected. Generally, customers have a 45 day period in which to either return the product or request follow up service; we therefore recognize revenue for products delivered only upon expiration of the 45 day return period.

Earnings (Loss) Per Common Share

Basic earning (loss)-per-share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing income (loss) by the weighted-average number of common shares outstanding during the period, increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued,

by application of the treasury stock method, if not anti-dilutive. In both periods presented, the dilutive potential common shares were not included in the computation of diluted loss per share, because the inclusion of stock options, warrants or convertible debentures ("Warrants") would be anti-dilutive or because the exercise prices were greater than the average market prices of the common shares. At August 31, 2006, a total of 8,061,753 Warrants with exercise or conversion prices ranging from \$0.25 to \$1.20 per share were not included in the computation of diluted earnings per share since the exercise prices were greater than the average market prices of the common shares.

Comprehensive Healthcare Solutions, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements

Weighted average number of shares outstanding	Three Months Ended	
	August 31, 2006	August 31, 2005
Basic	16,747,439	13,303,959
Effect of dilutive securities: Warrants	-	-
Diluted	16,747,439	13,303,959

For additional disclosures regarding the employee stock options, see the Form 10-KSB/A dated February 28, 2006.

Accounting for Convertible debentures, Warrants and Derivative Instruments

Statement of Financial Accounting Standard (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, requires all derivatives to be recorded on the balance sheet at fair value. These derivatives, including embedded derivatives in our structured borrowings, are separately valued and accounted for on the accompanying balance sheet. Fair values for exchange-traded securities and derivatives are based on quoted market prices. Where market prices are not readily available, fair values are determined using market based pricing models incorporating readily observable market data and requiring judgment and estimates.

We use the Black Scholes Pricing Model to determine fair values of our derivatives.. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates, exchange rates and option volatilities. Selection of these inputs involves management’s judgment and may impact net income.

In particular, we use volatility rates for a time period similar to the length of the underlying convertible instrument based upon the daily closing stock price of the Company's common stock. We did not use any stock prices prior to February 2002 when the Company emerged from bankruptcy. We determined that share prices prior to this period do not reflect the ongoing business valuation of our current operations. We use a risk-free interest rate, which is the U. S. Treasury bill rate, for a security with a maturity that approximates the estimated expected life of our derivative or security. We use the closing market price of the Company's common stock on the date of issuance of a derivative or at the end of a quarter to determine fair value of a derivative at the end of the period. The volatility factor used in Black Scholes has a significant effect on the resulting valuation of our derivative liabilities. The volatility for the calculation of the embedded and freestanding derivatives as of August 31, 2006 ranged from 180% to 203%, this volatility rate will likely change in the future. The Company's stock price will also change in the future. To the extent that our stock price increases or decreases, derivative liabilities will also increase or decrease, absent any change in volatility rates.

In September 2000, the Emerging Issues Task Force issued EITF 00-19, “Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company’s Own Stock,” (“EITF 00-19”) which requires freestanding contracts that are settled in a company’s own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value on a company’s balance sheet, with any changes in fair value recorded in the company’s results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required from period to period. In accordance with EITF 00-19, all of our warrants to purchase common stock and embedded conversion options are accounted for as liabilities at fair value and the unrealized changes in the values of these derivatives are shown in our consolidated statement of operations as “Gain (loss) on derivative liabilities.”

We have penalty provisions in the registration agreements on our debentures and warrants that require us to make certain payments in the event of our failure to maintain, for certain prescribed periods, an effective registration statement for the common stock securities underlying the debentures and the associated warrants and failure to maintain the listing of our common stock for quotation on certain public securities markets. The EITF 05-04, which has not been adopted, considers alternative treatments including whether or not the registration right itself is a

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Comprehensive Healthcare Solutions, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements

separate derivative liability, or if it is a derivative considered as a combined unit with the conversion feature of a convertible instrument. If the unit is considered separate, the EITF discusses possible alternative treatments including the possibility that the combined unit is a derivative liability only if the maximum liquidated damages exceed the difference between the fair value of registered and unregistered shares. In September 2005, the FASB staff reported that the EITF postponed further deliberations on Issue No. 05-04 The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to Issue No. 00-19 (“EITF 05-04”) pending the FASB reaching a conclusion as to whether a registration rights agreement meets the definition of a derivative instrument.

We consider the liquidated damages provision in our various security instruments to be combined with our registration rights and conversion derivatives, and accordingly, we do not account for the provision as a separate liability. We currently record any registration delay payments as expenses in the period when they are incurred. If the FASB were to adopt an alternative view, we could be required to account for the registration delay payments as a separate derivative. Accordingly, we would need to record the fair value of the estimated payments, although no authoritative methodology currently exists for evaluating such computation.

New Accounting Standards

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standard (SFAS) No. 155, “Accounting for Certain Hybrid Instruments,” which is an amendment of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125.” SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole instrument on a fair value basis. This Statement also establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of fiscal 2008. We are currently evaluating the impact the Statement may have on our results of operations or financial condition.

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that the adoption of FIN 48 will have an impact on the Company’s financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This new standard provides guidance for using fair value to measure assets and liabilities. The FASB believes the standard also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (permit) assets or liabilities to be measured at fair value but not does expand the use of fair value in any new circumstances. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect that the adoption of SFAS 157 will have an impact on the Company’s financial position and results of operations.



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

Certain statements contained in this filing are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to financial results and plans for future business development activities, and are thus prospective. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, economic conditions, competition and other uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

### **The Company**

Directly, and indirectly through our subsidiaries, Accutone Inc. and Interstate Hearing Aid Service Inc., we are in the business of audiological services. We changed the focus of our marketing at both our subsidiaries to include, not only the individual, self-pay patients, but health care entities and organizations which could serve as patient referral sources for us. The hearing aid industry is competitively changing at a rapid pace. As a result, we decided to identify additional business opportunities for growth in various portions of the medical industry. Based on marketing research, we redirected our focus towards the 44 million plus uninsured and underinsured people throughout the United States.

To attempt to position ourselves to take advantage of this market, on March 1, 2004 pursuant to a Stock Purchase Agreement, we acquired one hundred percent (100%) of the issued and outstanding shares of common stock of Comprehensive Network Solutions, Inc. (CNS) based in Austin, Texas from the CNS shareholders in consideration for the issuance of a total of 250,000 restricted shares of our common stock to the CNS shareholders. Pursuant to the Agreement, CNS became our wholly owned subsidiary. Following this acquisition, we changed our name to Comprehensive Healthcare Solutions, Inc. to better reflect the fact that we operate in several medical venues. This acquisition positioned us to take advantage of the opportunity to provide access to discounted health care provider networks and services.

Currently, our net revenue includes transaction fees generated from our prescription discount cards as well as the sales of dental vision cards and Gold Cards. However, the majority of our net revenue was generated by fees earned by the provision of audiological testing in our offices as well as those provided on site in Nursing Homes, Assisted Living Facilities, Senior Care Facilities and Adult Day Care Centers as well as the sales and distribution of hearing aids generated in each of these venues. A majority of our audiology revenue was derived from reimbursements from Medicare, Medicaid and third party payers. Generally, reimbursement from these parties can take as long as 60 to 120 days. With the implementation of the billing of Medicare payers on-line we have improved our collection cycle, reducing reimbursement turnaround times from approximately 90 days to approximately 60 days. Each of the above factors including the continued non-profitability of these operations has caused management to consider a possible divestiture of these two business sectors and to potential pursue other business arrangements.

The acquisition of CNS allowed us to utilize the resources of both companies to enter the health benefit market with consumer choice products for individuals, employers, associations, unions and political subdivisions. Our current business plan focuses on marketing health care benefits that enable prospective clients to choose appropriate providers and financial arrangements that best meet their individual needs. CNS was primarily in the business of marketing chiro-care discount cards which management did not believe would be a broad enough benefit. However, since CNS did not achieve the anticipated revenue or profitability we anticipated, in the end of calendar year 2005 we divested our interest in this entity in order to lower our expenses.

During the last twelve months we continued to expand our product line with additional benefits and alternative benefit funding options. Although these new expanded products have been and are still being offered to individuals and small employers; and customized private label versions of the products through our broker and consultant relationships to



municipalities, charitable organizations, associations, unions, political subdivisions and large employers we have not been successful in generating significant operating revenues from this line of business.

### **Medical Discount Card Product and Marketing**

We currently focus on specialty health benefits products, including, but not limited to three levels of provider networks. We have been working on expanding our product with additional benefits and alternative benefit funding options. As a result of the shift in focus of our business, we changed our name to Comprehensive Healthcare Solutions, Inc. to better reflect our marketing of "The Solution Card". Both Comprehensive Healthcare Solutions and The Solution Card were trademarked by us for further protection for our new business operations. These expanded products are currently being offered to municipalities, charitable organizations, employers, fraternal organizations, union benefit funds, business associations, insurance companies, and insurance agencies. The offerings are alternative cost and quality benefit solutions to prospects and clients who are uninsured or underinsured, and in most instances are offered on a nationwide basis.

Management believed the core of our back office and fulfillment needs would be met with the finalization of a joint marketing agreement with Alliance HealthCard, Inc. (symbol: ALHC.OB) on December 18, 2004 and has been renewed for a period of three years with automatic renewal for an indefinite number of three year terms unless either party notifies the other in writing of its election not to renew 120 days prior to the end of the period then currently in effect. Alliance HealthCard, Inc. creates, markets and distributes membership discount savings programs to predominantly underserved markets, where individuals have either limited or no health benefits. These programs allow members to obtain discounts in 16 areas of health care services including physician visits, hospital stays, pharmacy, dental, vision, patient advocacy and alternative medicine among others. We offer third-party organizations self-branded or private-label healthcare discount savings programs through our existing provider network agreements and systems. Founded in 1998 by health care and finance experts, Alliance HealthCard, Inc. now provides access to a network of over 600,000 healthcare professionals for the over 800,000 individuals covered by the Alliance HealthCard, Inc. which is based in Norcross, Georgia.

In February 2005, Comprehensive Alliance Group, Inc., as a result of the marketing arrangement between our company and Alliance, finalized an agreement with Financial Independence Company Insurance Services (FICIS) of Woodland Hills, California. FICIS is one of the ten largest employee benefit brokerage firms in the State of California and has a nationwide representation. The agreement was a result of the marketing efforts of our company and Cendant. The agreement is for the distribution of health discount cards by FICIS to various Cendant franchisees, their employees and associates. These discount cards offered to the Cendant Group and other FICIS clients a choice of affordable and convenient health care options nationwide.

Although some immaterial revenue has been generated from this relationship during the three months ended August 31, 2006, we have not realized the full extent of the originally anticipated revenue stream as a result of delays in printing and distribution of the cards by FICIS. An appropriate plan of marketing and distribution was reformulated and the cards were subsequently printed in December 2005. Although the revised plan called for the direct mailing of over 500,000 prescription discount cards to three of the Cendant Real Estate Franchisees: Coldwell Banker, Century 21 and ERA by the end of January 2006 we were not successful in meeting this time period. Each card was private labeled with the logo of each franchise as a "Choice RX" prescription discount card. We believed that we would begin to realize expanded revenue from these cards by the end of the current fiscal year, but the results to date have been disappointing. We believe that although the cards were distributed to the various offices, they were never properly distributed to various personnel in each office which resulted in no significant increase in revenues.

### **Prescription Discount Cards**

We derive revenue from the distribution and utilization of our prescription discount card as well as those private labeled for various municipalities and organizations. We receive a transaction fee every time a prescription discount card is used by a cardholder to fill an eligible prescription. Our fee is generated on approximately 80% to 85% of the

prescription drugs purchased with the card. We believe, based on the demographics on the areas where we are focusing our marketing and distribution efforts, that between 8% and 15% of the total population of the cards distributed will be utilized on a regular monthly basis by the cardholder and their families. These are estimates derived by our management and there are no guarantees that we will meet these expectations. These demographics include municipalities and charitable foundations with high percentages of uninsured and underinsured populations. These groups are prime candidates to utilize the prescription discount cards and therefore benefit by obtaining discounts averaging 22% to 28% of the purchase price of the prescription drugs purchased with the cards.

Although we do not sell insured plans, the discounts realized by members through our programs typically range from 10% to 75% off providers' usual and customary fees. In general, the overall average discounted fee is between 22% and 28%. Our programs require members to pay the provider at the time of service, thereby eliminating the need for any insurance claims filing. These discounts, which are similar to managed care discounts, typically save the individual more than the cost of the program itself.

## **Membership Service Programs**

As part of our marketing program, we are offering memberships to municipalities, charitable foundations, large employers, unions, union benefits funds, associations and insurance companies. Cardholders will be offered discounts for products and services ranging from 10% to 75% depending on the area of coverage and the specific procedures, with an average discounted fee of between 22% and 28%.

## **Current Customer Base**

In April 2005, we signed our first agreement with a municipal government, Luzerne County, Pennsylvania. In May 2005, we delivered over 300,000 Luzerne County private labeled discount prescription cards to Luzerne County's Commissioners Offices for distribution to its residents. The agreement calls for Luzerne County to share in a portion of the revenue generated by the utilization of the discount prescription cards by its residents.

On July 13, 2005, the commissioners of Lehigh County, Pennsylvania approved commissioner's bill #2005-68 approving a professional services agreement with the Company to provide prescription discount cards to the approximate 310,000 residents of the county. The county and the company worked together to have as many of the prescription discount cards distributed subsequent to the delivery date of August 15, 2005.

On September 15, 2005, we signed a contract with Carbon County, Pennsylvania, to deliver approximately 75,000 private labeled Carbon County prescription discount cards to the county's residents. We fulfilled the contract through the delivery of the county's private labeled prescription discount cards on October 13, 2005. The initial distribution of the cards began October 13, 2005 at a senior citizen fair within the county which was attended by approximately 2,500 senior citizens and resulted in the distribution of in excess of 2,000 cards on that day.

On September 29, 2005, we executed a contract with Schuylkill County, Pennsylvania to deliver 165,000 Schuylkill County private labeled prescription discount cards to the county by the beginning of November. The county commissioners indicated to us at that time that a distribution of the discount cards would begin to take place in November 2005 throughout the county to its municipal offices, county aging and adult services offices, human resource offices, religious organizations, and other venues.

We have previously disclosed that we have made presentations regarding our prescription discount cards to various other municipalities in Pennsylvania and New York. Although these counties had requested and received contracts as well as information on the cards and we have been in contact with these counties we will not have finalized contracts with these counties until we review the results of utilization in the above named counties. Most counties continue to express interest in proceeding. We discontinued negotiations with these counties during the early part of the third quarter of 2006 although we believed that we could be successful in signing contracts with some of the counties and municipalities in Pennsylvania and New York. We continued analyzing the revenue streams to ascertain whether we would generate revenues and profits and provide us with any appropriate return on our investment. At this time we do not believe that the revenues are sufficient to continue to expend capital in this market.

Effective December 15, 2005, we entered into a settlement agreement with David and Pamala Streilein in which we agreed to divest our interest in Comprehensive Network Solutions, Inc. ("CNS"). Pursuant to the settlement agreement, we agreed to return our shares of CNS to the Streileins in consideration for the cancellation of the Streileins' employment agreements with us as well as to forgive all salary past due and any future salary due under their employment agreements. CNS failed to provide the projected sales or revenue that we had anticipated upon execution of the agreement to acquire this entity. Although this acquisition allowed us entry into the discount card marketplace, the expense of operating CNS and paying the employment agreements no longer justified the originally projected benefit to us. Although there are prospects for CNS to reach significant revenue and profitability as a result of the State of Texas passing House Bill #7, which reformed workers' compensation in Texas. After a review of potential

revenue and the continually escalating expenses, management determined that it could not adequately fund these operations.

We believe it is in our best interests to utilize all available funds to expand and implement the current prescriptions and discount card programs being marketed by us.

In June 2005 we entered into an agreement with the Outlook Group, Inc. based in Forest Hills, NY. This contract was implemented in June of 2006. At the time the original contract was signed management anticipated that organizations represented by Outlook would be excellent venues for the distribution of our prescription discount cards. We have subsequently agreed with each of these organizations that will be marketing our various medical discount cards to their association members and their members' employees. Some of these organizations include: Empire State Restaurant and Tavern Association, Long Island Gas Retailers Association, Health People, and Suffolk County Restaurant and Tavern Association.

We signed and implemented a contract with Bronx Manhattan Realtors Association which is marketing our cards in the same manner as outlined above. No card is issued until we receive our annual fee for that particular medical care discount card.

On July 1, 2006 we signed a contract with Insurance Resources Group, LLC ("IRG"). IRG markets defined benefit health insurance plans. IRG will be purchasing our gold card which includes discounts on prescription drugs, dental care, vision care, eye ware, hearing care, alternative and preventative health, chiropractic, diabetic care, 24 hour ask a nurse hotline, physical therapy and health club memberships. Our enhanced Gold Card will be included in the majority of the Defined Benefit Health Insurance Plan that is sold by IRG.

### **Critical Accounting Policies and Estimates**

We have identified significant accounting policies that, as a result of the judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operations involved could result in material changes to its financial condition or results of operations under different conditions or using different assumptions. We believe our most significant accounting policies are related to the following areas: estimation of fair value of long-lived assets, revenue recognition and valuation of derivative liabilities. Details regarding our use of these policies and the related estimates are described fully in our 2006 Form 10-KSB. During the current period, there have been no material changes to our significant accounting policies that impacted our financial condition or results of operations.

### **Recently Issued Accounting Pronouncements**

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standard (SFAS) No. 155, "Accounting for Certain Hybrid Instruments," which is an amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125." SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole instrument on a fair value basis. This Statement also establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of fiscal 2008. We are currently evaluating the impact the Statement may have on our results of operations or financial condition.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The

Company does not expect that the adoption of FIN 48 will have an impact on the Company's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This new standard provides guidance for using fair value to measure assets and liabilities. The FASB believes the standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (permit) assets or liabilities to be measured at fair value but not does expand the use of fair value in any new circumstances. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect that the adoption of SFAS 157 will have an impact on the Company's financial position and results of operations.

### **THREE MONTHS ENDED AUGUST 31, 2006 COMPARED TO THREE MONTHS ENDED AUGUST 31, 2005**

#### **Revenue**

Revenue for the three months ended August 31, 2006 and 2005 was \$194,355 and \$156,360, respectively, an increase of \$37,995 or 24%. This increase was primarily due to increased revenue from discount card sales partially offset by a decrease in audiological services. This decrease in audiological sales is due to the discontinuation of service to nursing homes.

#### **Cost of sales**

Cost of sales was \$132,810 and \$134,840 for in the three months ended August 31, 2006 and 2005, respectively, a decrease of \$2,030 or 1.5%. Cost of sales includes cost of products sold, direct labor and commissions. The cost of sales for audiological services decreased from \$113,702 to \$103,891, while cost of sales associated with discount card sales increased from \$21,138 to \$28,920. The overall margin increased from 14% to 32% for the three months ended August 31, 2006 compared to the same period in the prior year. The increase was mainly due to increased margins on discount card sales. During the three months ended August 31, 2005 negative margin was recorded on discount card sales.

As a percent of revenue the cost of products decreased from 86% to 68% in the three months ended August 31, 2005 and 2006, respectively, while direct labor and commission as a percent of revenue decreased from 42% to 22% in the three months ended August 31, 2005 and 2006, respectively. Cost of products sold as a percent of revenue increased 2% in the current quarter as compared to the same period in the prior year.

#### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses ("SG&A expenses") were \$129,287 and \$126,524 for the three months ended August 31, 2006 and 2005, respectively, an increase of \$2,763, or 2%. As a percentage of revenue, SG&A expenses decreased from 81% to 67%.

#### **Professional Fees**

Professional fees were \$97,033 and \$162,582 for the three months ended August 31, 2006 and 2005, respectively, a decrease of \$65,549 or 40% due to reduced expense for consultants raising financing, legal and accounting fees. As a percentage of revenue, professional fees decreased from 104% to 50%.

#### **Other income (expense)**



Other income (expense) includes a gain of \$358,777 on derivative liabilities from the outstanding warrants and convertible debentures, due to the decrease in the Company's share price during the second of fiscal 2007. Interest expense increased from \$1,882 to \$85,185 as new financing was put in place after May 31, 2005, and \$74,000 of the expense in 2006 is amortization of loan discount.

## **SIX MONTHS ENDED AUGUST 31, 2006 COMPARED TO SIX MONTHS ENDED AUGUST 31, 2005**

### **Revenue**

Revenue for the six months ended August 31, 2006 and 2005 was \$336,207 and \$293,787, respectively, an increase of \$42,420 or 14%. This increase was primarily due to increased revenue from discount card sales offset by a decrease in audiological services. This decrease in audiological sales is due to the discontinuation of service to nursing homes.

### **Cost of sales**

Cost of sales was \$253,511 and \$250,162 for in the six months ended August 31, 2006 and 2005, respectively, an increase of \$3,349 or 1.3%. Cost of sales includes cost of products sold, direct labor and commissions. The cost of sales for audiological services decreased from \$219,103 to \$212,994, while cost of sales associated with discount card sales increased from \$31,058 to \$40,517. The overall margin increased from 15% to 25% for the six months ended August 31, 2006 compared to the same period in the prior year. The increase was mainly due to increased margins on discount card sales. During the six months ended August 31, 2005 negative margin was recorded on discount card sales.

As a percent of revenue the cost of products decreased from 85% to 75% in the six months ended August 31, 2005 and 2006, respectively, while direct labor and commission as a percent of revenue decreased from 47% to 29% in the six months ended August 31, 2005 and 2006, respectively. Cost of products sold as a percent of revenue increased 8% in the current period as compared to the same period in the prior year.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses ("SG&A expenses") were \$204,599 and \$276,941 for the six months ended August 31, 2006 and 2005, respectively, a decrease of \$72,342, or 26%. Approximately \$65,000 of the decrease was a result of the disposal of the CNS operation, which was sold in the end of calendar year 2005. As a percentage of revenue, SG&A expenses decreased from 94% to 61%.

### **Professional Fees**

Professional fees were \$136,358 and \$254,182 for the six months ended August 31, 2006 and 2005, respectively, a decrease of \$117,824 or 46% due to reduced expense for consultants raising financing, legal and accounting fees. As a percentage of revenue, professional fees decreased from 87% to 41%.

### **Other income (expense)**

Other income (expense) includes a gain of \$940,795 on derivative liabilities from the outstanding warrants and convertible debentures, due to the decrease in the Company's share price during the six months ended August 31, 2006. Interest expense increased from \$4,649 to \$167,948 as new financing was put in place after May 31, 2005, and \$118,000 of the expense in 2006 is amortization of loan discount.

### **Liquidity and Capital Resources**

We incurred significant operating losses in recent years which resulted in severe cash flow problems that negatively impacted our ability to conduct our business as structured and ultimately caused us to become and remain insolvent. We believe that our audiology business should generate sufficient working capital to finance its current operations at existing levels of revenue. However, we do not believe that current cash generated by the audiology business is sufficient to expand its scope of business activities. In addition, current liabilities exceed our current assets, and as

such, there is no assurance that we will be able to continue to conduct business without further financing. There exists also the possibility that some of the warrant holders may decide to exercise their warrants which would generate a substantial amount of additional financing.

We estimate that in order for us to achieve our marketing goals successfully for our Solution Card and its other related products we will require between \$750,000 and \$1,500,000 of additional capital. Management will need to seek external sources of financing in order to support any such expansion plans as the anticipated cash flows from the sale of our cards will not be sufficient to support any expansion plans. If we fail to do so, our growth will continue to be curtailed and we will concentrate on increasing the volume and profitability of our existing outlets, using any surplus cash flow from operations to expand our business as quickly as such resources will support.

We believe we will be able to raise a minimum of \$500,000 through the sales of our securities and we will be able to establish credit lines that will further enhance our ability to finance the expansion of our business. There can be no assurance that we will be able to obtain outside financing on a debt or equity basis on favorable terms, if at all. In the event that there is a failure in any of the finance-related contingencies described above, the funds available to us may not be sufficient to cover the costs of our operations, capital expenditures and anticipated growth during the next twelve months.

We believe that our success will be largely dependent upon our ability to raise capital and then use such funds to:

- expand our marketing presence to other municipalities, charitable organizations, unions, fraternal organizations, religious organizations and other large employer groups;
- cover the costs of production and distribution of the additional 5,000,000-750,000,000 cards we anticipate will be sold and or distributed in the next 12-18 months;
- hire additional marketing, administrative and service personnel; and
- increase awareness of our medical discount cards at various trade shows.

On June 1 and August 1, 2005, we issued convertible debentures in the amounts of \$200,000 and \$50,000, respectively. The debentures have a term of five years and are convertible 20% per year to common stock of our company. The conversion rates are \$0.50, \$0.75, \$0.75, \$1.00 and \$1.00, for the respective tranches that are convertible each year. Interest due may be paid in cash or in shares at the option of the debenture holder. The debt instruments are currently in default as we have not made the required interest payments. The lender cannot accelerate the due date on the debt.

On August 19, 2005, we entered into a consulting and financing agreement with Comprehensive Associates, LLC, a private investment group, pursuant to which we received \$217,000 net of legal expenses and other related fees, in consideration for the issuance of two separate convertible debentures of \$35,000 and \$200,000, which are convertible at \$.25 per share. In addition, we entered into an agreement to issue warrants which could raise an additional \$2,665,000, if and when, the warrants are exercised. Under the consulting agreement, the investors received warrants to purchase 5 million shares at \$0.25 per share. On September 29, 2005, Comprehensive Associates, LLC loaned us \$28,000 to be utilized for the printing of cards. Our agreement calls for revenue sharing on all of the cards printed as a result of the utilization of these funds, as well as a nominal rate of interest on the loan. We did not make the required payments of interest, which were due after 90 days. In addition, we do not have sufficient authorized shares to meet the potential conversion obligation and we did not file a required registration statement, therefore, we are in default of the loan. As a result of the default, the loan is due and payable, although the lender has not issued a demand for payment of the debt.

On September 20, 2005, we entered into a term sheet with Westor Capital Croup, Inc. On November 28, 2005, Westor raised a total of \$145,000; shortly thereafter the agreement with Westor Capital was terminated. Pursuant to the term sheet with Westor, we were required to file an SB-2 registration statement by January 15, 2006, which was not completed. We therefore are in breach of this agreement. In addition, pursuant to our original funding agreement and subsequent redemption agreement with Comprehensive Associates, LLC we were also required to file a registration statement, and therefore we are also in breach of this agreement. The loan is, due to the default, due and payable. The

lender has not issued a demand for payment of the debt.

As of August 31, 2006, our liquidity and capital resources included cash and cash equivalents of \$7,076 compared to \$46,157 at the beginning of the fiscal year. The \$39,081 decrease in total cash and cash equivalents from February 28, 2006 to August 31, 2006, was mainly due cash used by operating activities offset by proceeds received from the issuance of convertible debentures and loans from a related party.

Cash used in operating activities totaled \$136,576 in fiscal 2007 due to continued losses. The cash used in operations for the same period in the prior year was \$397,326. The reduction in 2007 was mainly due to diminished losses.

Net cash provided by financing activities in fiscal 2007 totaled \$97,495, mainly from issuance of debentures of \$75,000.

We have total liabilities of \$1.3 million and assets of \$66,000. Without new financing, we will be forced to liquidate our businesses. Management is currently working diligently on raising new financing.

The following table provides a summary of the amounts due for our long-term contractual obligations by fiscal year:

	Total	2007	2008 to 2009	2010 to 2011	2012 and beyond
Convertible debentures	\$ 250,000	\$ -	\$ -	\$ 250,000	\$ -
Debt discount	(120,510)	-	-	(120,510)	-
<b>Total</b>	<b>\$ 129,490</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 129,490</b>	<b>\$ -</b>

### Related Party Transactions

In May, 2006, the Company issued 52,586 shares to John Treglia, the Company's CEO, in compensation for services. During the six month period ended August 31, 2006, Mr. Treglia lent the Company an additional \$22,495 for working capital and the total outstanding debt is \$118,321 at August 31, 2006. The loan does not accrue interest and has no fixed repayment date. During this quarter, the Company issued 1,000,000 shares to John Treglia and 300,000 shares to Dr. Frank Castanaro, valued at \$60,000 and \$18,000, respectively, for current and prior services rendered to the Company.

### Subsequent Events

On or about September 7, 2006, the Company received written consents in lieu of a meeting of Stockholders from holders of 9,028,518 shares representing approximately 56% of the 16,055,470 shares of the total issued and outstanding shares of voting stock of the Company approving the Amended Articles of Incorporation of the Company, pursuant to which the maximum number of shares of stock that the Company shall be authorized to have outstanding at any time shall be increased to (i) two hundred fifty million (150,000,000) shares of common stock at par value of \$0.01. We have received a comment letter from the SEC and this amendment will not be effective until the SEC has approved the responses to the comments.

### **Item 3. Controls and Procedures**

#### Evaluation of disclosure controls and procedures

Our Chief Executive Officer and Chief Financial Officer (collectively the “Certifying Officer”) maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed, is accumulated and communicated to management timely. The Certifying Officer has concluded that the disclosure controls and procedures are not effective at the “reasonable assurance” level. Under the supervision and with the participation of management, as of the end of the period covered by this report, the Certifying Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act of 1934). Furthermore, the Certifying Officer concluded that our disclosure controls and procedures in place were not designed to ensure that information required to be disclosed by us, including our consolidated subsidiaries, in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported on a timely basis in accordance with applicable Commission rules and regulations; and (ii) accumulated and communicated to our management, including our Certifying Officer and other persons that perform similar functions, if any, to allow us to make timely decisions regarding required disclosure in our periodic filings.

#### Changes in internal controls

We have made changes to our internal controls or procedures subsequent to the second quarter of 2006. We have employed an independent outside consultant to assist us in identifying some deficiencies and material weaknesses and other factors that could materially affect these controls or procedures, and therefore, corrective action is being taken to mitigate these weaknesses in controls and procedures.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

There are no material legal proceedings pending against us.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable

### Item 3. Defaults upon Senior Securities.

On August 19, 2005, we entered into a consulting and financing agreement with Comprehensive Associates, LLC, a private investment group, pursuant to which we received \$217,000 net of legal expenses and other related fees, in consideration for the issuance of two separate convertible debentures of \$35,000 and \$200,000, which are convertible at \$.25 per share. We are currently in breach in several areas of these agreements and are in negotiations for a restructure for these agreements to rectify this situation, however, to date negotiations are not working favorably to us.

On September 20, 2005, we entered into a term sheet with Westor Capital Croup, Inc. On November 28, 2005, Westor raised a total of \$145,000; shortly thereafter the agreement with Westor Capital was terminated. Pursuant to the term sheet with Westor, we were required to file an SB-2 registration statement by January 15, 2006, which was not completed. We therefore are in breach of this agreement.

### Item 4. Submission of Matters to a Vote of Security Holders.

On or about September 7, 2006, the Company received written consents in lieu of a meeting of Stockholders from holders of 9,028,518 shares representing approximately 56% of the 16,055,470 shares of the total issued and outstanding shares of voting stock of the Company approving the Amended Articles of Incorporation of the Company, pursuant to which the maximum number of shares of stock that the Company shall be authorized to have outstanding at any time shall be increased to (i) one hundred fifty million (150,000,000) shares of common stock at par value of \$0.01.

### Item 5. Other Information.

Not applicable.

### Item 6. Exhibits

- 31.1 Section 302 Certification of Certifying Officer
- 32.1 Section 906 Certification of Certifying Officer



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**COMPREHENSIVE HEALTHCARE  
SOLUTIONS, INC.**

By: /s/ John H. Treglia

JOHN H. TREGLIA  
Chief Executive Officer and  
Chief Financial Officer

Dated: October 23, 2006