

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

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

**FORM 10-Q**

**(Mark One)**

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

**For the Three Months Ended September 30, 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**  
**For the Quarter Ended September 30, 2007**  
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| <u>Certification Pursuant to 18 U.S.C. Section 1350</u>                                   |    |

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Our financial statements which are prepared in accordance with Regulation S-X are set forth in this report beginning on page 26.

**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 the Disclosure Documents. 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.

We as Access Plans USA, Inc. develop and distribute 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 help provide solutions for the millions of Americans who can no longer afford or do not have access to traditional health insurance coverage.

On August 19, 2007 Peter W. Nauert, the Company's Chief Executive Officer and Chairman of the Board, passed away after a brief illness. Mr. Nauert's management skills, reputation and contacts within the insurance industry were key elements of our business plans. The ultimate effect and consequences of the loss of Mr. Nauert's services are not currently determinable. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 5. Other Information for further discussion.

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 under a number of brand names.

**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 Foresight TPA (Foresight) 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. Foresight is the assumed name of Access HealthSource, Inc.

**Summary Results of Operations**

For the third quarter, we reported revenue of \$10,254,000, an increase of \$4,955,000 or 93.5%, compared to \$5,299,000 during the comparable quarter in 2006. Third quarter 2007 revenue included \$5,536,000 attributable to the insurance marketing operations acquired in the merger with ICM on January 30, 2007, which more than offset revenue declines in the company's Consumer Plan and Regional Healthcare divisions.

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As of September 30, 2007, we performed our annual assessment of the carrying value of goodwill. Previously, we had performed this assessment as of our fiscal year end, December 31. However, we determined that it was preferable to perform the annual assessment as of September 30, as well as in subsequent years, to allow us to incorporate into that financial analysis, and give most

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timely effect to, the budgets and forecasts for the coming year that we develop during our fourth quarter budgeting process. Additionally, performing the assessment of goodwill for impairment as of September 30 will reduce the burden on us and our professional advisors during following our year-end, when we also prepare our audited financial statements and evaluate our internal controls over financial reporting pursuant to Sarbanes-Oxley Section 404. As the result of this assessment of the carrying value of goodwill, we recorded a non-cash charge of \$7,977,000 during the three months ended September 30, 2007, of which \$3,377,000 related to impairment of goodwill of our Consumer Plan Division and \$4,600,000 related to impairment of goodwill of our Insurance Marketing Division. These impairments are discussed in more detail below under **Critical Accounting Policies** and in the Notes to our Condensed Consolidated Financial Statements.

Additionally, the results from our third quarter were impacted by charges for stock compensation plans of \$52,000 and higher than normal litigation expenses in our Consumer Plan Division and Regional Healthcare Division of \$122,000 and \$213,000, respectively, as discussed below.

Our net loss for the third quarter of 2007 was \$7,763,000 or \$(.38) per fully diluted share, compared to a net loss of \$185,000 or \$(.01) per fully diluted share for the comparable quarter in 2006. Excluding the goodwill charge and other charges noted above, we would have had an operating loss of \$143,000, before taxes, for the third quarter of 2007. We generated \$192,000 of cash from operating activities during the third quarter of 2007.

For the first nine months of 2007, we reported revenues of \$28,655,000 compared to \$17,041,000 for the same period of 2006, a year-over-year increase of 68.2%. Revenue for the first nine months of 2007 included \$14,169,000 attributed to the insurance marketing operations which was included in operations after the acquisition of ICM on January 30, 2007. We reported a loss from continuing operations of \$14,033,000, or \$(.76) per fully diluted share, compared to income from continuing operations in first nine months of 2006 of \$519,000 or \$.04 per fully diluted share. Financial results for the first nine months of 2007 were impacted by the second and third quarter goodwill charges and the other charges and higher than normal litigation expenses. Excluding those charges and expenses, we would have generated pre-tax operating income of \$71,000 in the first nine months of 2007. We have generated year-to-date cash from operating activities of \$1,076,000.

On October 1, 2007, the Company completed its acquisition of Protective Marketing Enterprises, Inc. ( **PME** ). Under the terms of the acquisition, PME becomes a wholly owned subsidiary of the Company. PME offers, as a wholesaler, discount medical service products, provides back office support through its use of various operating systems, maintains a customer service facility, and develops products from both its proprietary and third party provider networks.

The consideration for the acquisition, paid in cash, consisted of \$1,075,000, plus contingent consideration of up to \$250,000 to be paid if certain membership targets from existing PME business are met. The purchase price is, however, subject to adjustment based upon the net value of certain of PME's tangible assets at closing (a formula determined by the terms of the Purchase Agreement and not in accordance with generally accepted accounting principles that amounted to a reduction in the purchase cost of \$52,000). Any adjustment to the purchase price is expected to be made by December 18, 2007. At closing, the Company also made a cash deposit to PME's parent, Protective Life Corporation ( **PLC** ), of \$125,000, representing one-half of the contingent consideration. The membership targets will be assessed at November 30, 2007. The contingent consideration will then be determined based on that assessment, by either paying up to an additional \$125,000 or by PLC returning all or a portion of the \$125,000 deposit. The operations of PME will be assimilated into our Consumer Plan Division.

**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 Foresight. 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 us 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 the differences could be material.

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

***Recently Issued Accounting Standards.*** In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements, which provides enhanced guidance for

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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.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value on specified election dates. This election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings.

Management is currently assessing the potential impact, if any, the application of these standards could have on our financial statements.

***Revenue Recognition.*** Revenue recognition varies based upon source.

***Consumer Plan Division Revenues.*** We recognize Consumer Plan 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, our private label partners bill their members for the membership fees and our portion of the membership fees is periodically remitted to us. During the time from the billing of these private-label membership fees and the remittance to it, we 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. We 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 due from the insurance companies we represent. These sales commissions are generally a percentage of the commissionable insurance premium and other related amounts charged and collected by the insurance companies. 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 unearned commission revenue. Initial enrollment fees are deferred and amortized over the estimated lives of the respective policies. The estimated weighted average life for the policies sold ranges from 18 to 24 months and is based upon our historical policyholder contract termination experience.

***Regional Healthcare Division (Foresight) Revenues.*** The principal sources of revenues of our Regional Healthcare Division, Foresight (formerly Access HealthSource, Inc.) 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*** Commission expense varies based upon source.

***Consumer Plan.*** Commissions on Consumer Plan Division revenues are accrued in the month in which a member has enrolled in the program. These commissions are only paid to our independent marketing representatives in the month following our receipt of the related membership fees have been received by us. In 2007, we began issuing



advances of commissions on certain Consumer Plan programs to increase sales representative recruitment.

*Insurance Marketing.* Commission expense is generally recognized as earned on a monthly basis until the underlying policyholder's contract is terminated. Advances of commissions up to one year are paid to agents in the Insurance Marketing Division based on certain insurance policy premium commissions. Collection of the commissions advanced may be accomplished by withholding amounts due to the agents for future commissions on the policy upon which the advance was made, commissions on other policies sold by the agent or, in certain cases, commissions due to agents managing the agent to whom advances were made. We periodically assess the collectibility of the amounts outstanding for commission advances and records an estimated allowance for

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uncollectible amounts. This allowance for uncollectible advances is based upon review of the aging of outstanding balances and estimates of future commissions expected to be due to the agents to whom advances are outstanding and the agents responsible for their management.

**Acquisition Costs.** Certain policy acquisition costs, including such as lead expenses are capitalized and amortized over the estimated lives of the respective policies. The estimated weighted-average life for the policies sold ranges from 18 to 24 months and is based upon our historical policyholder contract termination experience.

**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 previously granted, but not yet vested, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and (b) compensation cost for all share-based payments currently granted based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R), Share-Based Payment. 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 period ended September 30, 2007 equal to the expected option term. Expected pre-vesting forfeitures were estimated based on actual historical pre-vesting forfeitures over the most recent period ended September 30, 2007 for the expected option term. The risk-free interest rate was based on the interest rate of zero-coupon United States Treasury securities over the expected option term.

**Intangible Asset Valuation.** Our intangible assets as of September 30, 2007, consisted of \$5,487,000 of goodwill and other intangible assets of \$3,147,000, all primarily attributable to our January 2007 ICM acquisition. Goodwill represents the excess of acquisition costs over the fair value of net assets acquired. Goodwill is not amortized. The other intangible assets represent the estimated value, at the date of their acquisition, of policies in force ( Customer Contracts ) and certain agent relationships ( Agent Relationships ), net of amortization to date of \$553,000. The intangible asset amount initially allocated to Customer Contracts was \$1,800,000 and the amount allocated to Agent Relationships was \$1,900,000. These assets are being amortized on a straight-line basis over three years and eight years, respectively.

As of the end of 2007 third quarter, we performed our annual assessment of the carrying value of goodwill, as mentioned above. Previously, we had performed this assessment as of the end of our fiscal year (December 31). However, we determined that it was preferable to perform the annual assessment as of September 30 of this and subsequent years, to allow us to incorporate into that analysis, and give most timely effect to, the budgets and forecasts for the coming year that we develop during our fourth quarter budgeting process. Additionally, performing the assessment of goodwill for impairment as of September 30 of each year will reduce the burden on us and our professional advisors during the period immediately following our fiscal year-end, when we prepare our audited year-end financial statements and evaluation of our internal controls over financial reporting pursuant to Sarbanes-Oxley Section 404.

**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. During the three months ended September 30, 2007, we evaluated the probability of recognizing the benefit of deferred tax assets through the reduction of taxes otherwise payable in the future. We determined that a valuation allowance to fully offset deferred tax assets remained appropriate as of September 30, 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.** Our Insurance Marketing segment 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 doubtful. Any bad debt is written off when determined non-collectible.

**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, we completed our merger with ICM. Under the terms of the merger, the shareholders of ICM received our common stock shares 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. Furthermore, on May 31, 2007, the ICM shareholders were issued an additional 2,257,853 common stock shares as a result of the acquired ICM companies achieving adjusted EBITDA (earnings before income taxes, depreciation and amortization) of \$1,250,000 over the four consecutive calendar quarters ended on December 31, 2006.

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On October 1, 2007, we completed our acquisition of Protective Marketing Enterprises, Inc. (PME). Under the terms of the acquisition, PME became a wholly owned subsidiary of the Company. PME offers, as a wholesaler, discount medical service products, provides back office support through its use of various operating systems, maintains a customer service facility, and develops products from both its proprietary and third party provider networks. The operations of PME will be assimilated into our Consumer Plan Division. See the subsequent events discussion in Item 5. Other Information section and in Notes to the Condensed Consolidated Financial Statements.

**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<br>September 30, |             |                  |                   | For the Nine Months Ended September<br>30, |             |                  |                   |
|-------------------------------|---|-------------|------------------|-------------------|--|-------------|------------------|-------------------|
|                               |   |             | Dollar<br>Change | Percent<br>Change |  |             | Dollar<br>Change | Percent<br>Change |
| <b>Dollars in Thousands</b>   | <b>2007</b>                                 | <b>2006</b> |                  |                   | <b>2007</b>                                | <b>2006</b> |                  |                   |
| Revenues                      | \$ 3,120                                    | \$ 3,457    | \$ (337)         | (9.7%)            | \$ 9,445                                   | \$ 11,283   | \$ (1,838)       | (16.3%)           |
| Operating expenses:           |   |             |                  |                   |  |             |                  |                   |
| Commissions                   | 810   | 848         | (38)             | (4.5%)            | 2,334                                      | 2,757       | (423)            | (15.3%)           |
| Cost of operations            | 1,363                                       | 1,361       | 2                | 0.1%              | 3,973                                      | 4,214       | (241)            | (5.7%)            |
| Sales and marketing           | 216   | 262         | (46)             | (17.6%)           | 698  | 1,013       | (315)            | (31.1%)           |
| General and<br>administrative | 549   | 1,022       | (473)            | (46.3%)           | 2,796                                      | 3,235       | (439)            | (13.6%)           |
| Goodwill Impairment           | 3,377                                       |             | 3,377            |                   | 3,377                                      |             | 3,377            |                   |
| Total operating<br>expenses   | 6,315                                       | 3,493       | 2,822            | 80.8%             | 13,178                                     | 11,219      | 1,959            | 17.5%             |
| Operating income              | \$ (3,195)                                  | \$ (36)     | \$ (3,159)       | 8,775.0%          | \$ (3,733)                                 | \$ 64       | \$ (3,797)       | (5,932.8%)        |
| Percent of revenue:           |   |             |                  |                   |  |             |                  |                   |
| Revenues                      | 100%  | 100%        |                  |                   | 100%                                       | 100%        |                  |                   |
| Operating expenses:           |   |             |                  |                   |  |             |                  |                   |
| Commissions                   | 26.0%                                       | 24.5%       |                  |                   | 24.7%                                      | 24.4%       |                  |                   |
| Cost of operations            | 43.7%                                       | 39.4%       |                  |                   | 42.1%                                      | 37.3%       |                  |                   |
| Sales and marketing           | 6.9%  | 7.6%        |                  |                   | 7.4%                                       | 9.0%        |                  |                   |
| General and<br>administrative | 17.6%                                       | 29.6%       |                  |                   | 29.6%                                      | 28.7%       |                  |                   |
| Goodwill impairment           | 108.2%                                      | 0.0%        |                  |                   | 35.8%                                      | 0.0%        |                  |                   |
| Total operating<br>expenses   | 202.4%                                      | 101.1%      |                  |                   | 139.6%                                     | 99.4%       |                  |                   |
| Operating income              | (102.4%)                                    | (1.1%)      |                  |                   | (39.6%)                                    | 0.6%        |                  |                   |

*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. However, by that point many of our independent marketing representatives had switched to selling other products and services. 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 eleven fiscal quarters. The decline is somewhat offset by the addition of the supplementary insurance program (AmeriValue Plan) member counts, with third quarter revenue of \$326,000 and nine months year-to-date revenue of \$646,000, as a result of the acquisition of ICM in January 2007:

|      | 2005     |          |          |          | 2006     |          |          |          | 2007     |          | 3r   |
|------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------|
|      | 1st Qtr  | 2nd Qtr  | 3rd Qtr  | 4th Qtr  | 1st Qtr  | 2nd Qtr  | 3rd Qtr  | 4th Qtr  | 1st Qtr  | 2nd Qtr  | 3r   |
| er   |          |          |          |          |          |          |          |          |          |          |      |
| Qtr  | 51,895   | 46,514   | 41,958   | 37,952   | 37,281   | 35,823   | 34,020   | 31,826   | 30,649   | 28,965   | 27   |
| t    |          |          |          |          |          |          |          |          |          |          |      |
| e    | (8.88%)  | (10.37%) | (9.79%)  | (9.54%)  | (1.77%)  | (3.91%)  | (5.03%)  | (6.45%)  | (3.70%)  | (5.49%)  | (    |
| e    |          |          |          |          |          |          |          |          |          |          |      |
| e    |          |          |          |          |          |          |          |          |          |          |      |
| r,   |          |          |          |          |          |          |          |          |          |          |      |
| ales |          |          |          |          |          |          |          |          |          |          |      |
| ing  | \$ 25.70 | \$ 26.24 | \$ 26.16 | \$ 24.03 | \$ 23.86 | \$ 22.54 | \$ 22.40 | \$ 22.32 | \$ 24.51 | \$ 23.74 | \$ 2 |

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Commencing in the first quarter and continuing through the third quarter of 2007, the Consumer Plan Division concentrated resources on three functions designed to increase sales later in the year as follows:

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;

identification and targeting of new distribution channels, including tele-sales call centers and a new independent agent distribution program; and

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.

These efforts resulted in significantly higher costs that were charged to general and administrative expenses as discussed below, and have yet to produce significant growth in revenue. Consequently, our expectations for future revenues and earnings in this segment are lower than previously thought. This has resulted in the impairment charge for goodwill discussed below.

*Commissions.* The decrease in commissions from the three months ended September 30, 2006 to the three months ended September 30, 2007 and for the nine months ended September 30, 2006 to the nine months ended September 30, 2007 were due to the decreased membership revenue discussed previously, offset by the addition of the AmeriValue Plan commissions of \$119,000 and 224,000 for the three months ended and nine months ended, respectively. The increase in commissions as a percentage of revenues is primarily due to higher commission rates on the new call center and independent agent programs.

*Cost of Operations.* The increase in cost of operations from the three months ended September 30, 2006 to the three months ended September 30, 2007 was due primarily to reduction in variable costs of \$182,000 related to decreased membership revenues as discussed previously and decrease in customer service costs of \$78,000 related to outsourcing customer service functions that was implemented in December 2006, offset by addition of the AmeriValue Plan of \$190,000 as discussed previously and increase in system enhancement cost for new product initiatives of \$65,000.

The decrease in cost of operations from the nine months ending September 30, 2006 to the nine months ending September 30, 2007 was due to reduction in variable costs of \$618,000 related to decreased membership revenue as discussed previously and decrease in customer service costs of \$299,000 related to outsourcing customer service as discussed previously, offset by the addition of the AmeriValue Plan of \$397,000 as discussed previously and an increase in short-term system enhancement costs for new applications to support new product initiatives of \$259,000. The increase in cost of operations as a percent of revenue was primarily due the increase in systems costs and the addition of the AmeriValue Plan.

*Sales and Marketing Expenses.* The decrease in sales and marketing expenses from the three months ended September 30, 2006 to the three months ended September 30, 2007 was due primarily to decrease in consulting and other marketing costs primarily due to third quarter of 2006 initiatives that were discontinued in 2007. The decrease in sales and marketing expenses from the nine months ended September 30, 2006 to the nine months ended September 30, 2007 was primarily due to these same higher consulting costs for various sales and marketing activities during 2006.

*General and Administrative Expenses.* . The decrease in general and administrative expenses from the three months ended September 30, 2006 to the three months ended September 30, 2007 was due primarily to decreases in staffing, occupancy and other related costs of \$492,000 as the result of the outsourcing, office relocation and other management initiatives, offset by an increase in legal costs of \$57,000 related to the Zermino lawsuit discussed in Notes to Condensed Consolidated Financial Statements of this report. The decrease in general and administrative expenses as a percent of revenue is due to the reasons discussed previously.

The decrease in general and administrative expenses from the nine months ended September 30, 2006 to the nine months ended September 30, 2007 was primarily due to outsourcing and office relocation and other management initiatives implemented in the fourth quarter of 2006 of \$1,300,000, offset by costs related to new product development and marketing initiatives that have not generated earnings of \$522,000 and legal and legal settlement

costs of 328,000 that were incurred in the second quarter of 2007. The decrease in general and administrative expenses as a percent of revenue was due to the reasons discussed previously.

*Intangible Asset Valuation.* As previously discussed, at the end of the third quarter of 2007 we performed our annual assessment of the carrying value of goodwill. As the result of this assessment we recorded a non-cash charge of \$3,377,000 related to impairment of goodwill in our Consumer Plan Division reporting unit. This impairment charge resulted primarily from the failure of certain new product and marketing initiatives to achieve expected results.

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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 September 30, |      |               | For the Nine Months Ended September 30, |            |      |               |                |
|----------------------------|--|------|---------------|---|------------|------|---------------|----------------|
|                            | 2007                                     | 2006 | Dollar Change | Percent Change                          | 2007       | 2006 | Dollar Change | Percent Change |
| Revenues                   | \$ 5,536                                 | \$   | \$ 5,536      |   | \$ 14,169  | \$   | \$ 14,169     |                |
| Operating expenses:        |  |      |               |   |            |      |               |                |
| Commissions                | 3,975                                    |      | 3,975         |   | 10,041     |      | 10,041        |                |
| Cost of operations         | 130                                      |      | 130           |   | 368        |      | 368           |                |
| Sales and marketing        | 767                                      |      | 767           |   | 2,331      |      | 2,331         |                |
| General and administrative | 487                                      |      | 487           |   | 1,356      |      | 1,356         |                |
| Goodwill impairment        | 4,600                                    |      | 4,600         |   | 4,600      |      | 4,600         |                |
| Total operating expenses   | 9,959                                    |      | 9,959         |   | 18,696     |      | 18,696        |                |
| Operating income           | \$ (4,423)                               | \$   | \$ (4,423)    |   | \$ (4,527) | \$   | \$ (4,527)    |                |
| Percent of revenue:        |  |      |               |   |            |      |               |                |
| Revenues                   | 100.0%                                   |      |               |   | 100.0%     |      |               |                |
| Operating expenses:        |  |      |               |   |            |      |               |                |
| Commissions                | 71.8%                                    |      |               |   | 70.9%      |      |               |                |
| Cost of operations         | 2.3%                                     |      |               |   | 2.6%       |      |               |                |
| Sales and marketing        | 13.9%                                    |      |               |   | 16.5%      |      |               |                |
| General and administrative | 8.8%                                     |      |               |   | 9.6%       |      |               |                |
| Goodwill impairment        | 83.1%                                    |      |               |   | 32.5%      |      |               |                |
| Total operating expenses   | 179.9%                                   |      |               |   | 132.1%     |      |               |                |
| Operating income           | (79.9%)                                  |      |               |   | (32.1%)    |      |               |                |

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 ICM. However, ICM's 2006 results prior to acquisition are discussed below for comparative purposes.

**Service Revenues.** Revenues for the three months ended September 30, 2007 of \$5,536,000, an increase of 29% over the prior year pre-acquisition third quarter revenue of \$4,300,000, resulted primarily due to growth in major medical insurance sales through the AHCP agency channel. Year-to-date revenues of \$14,169,000 are also approximately 28% higher than the corresponding prior year pre-acquisition period for the same reasons previously discussed.

**Commissions and Cost of Operations.** Commissions and cost of operations, as a percentage of revenues approximate 74% for both the third quarter and year to date.



*General and Administrative Expenses.* General and administrative expenses from the nine months ended September 30, 2007 include an asset impairment charge of \$174,000 attributable to an unsuccessful tele-sales marketing initiative. Without this charge, combined sales, marketing and general and administrative costs would have aggregated \$1,182,000, level with the pro-rated corresponding amount for the nine month period ended September 30, 2007.

*Intangible Asset Valuation.* As previously discussed, at the end of the third quarter of 2007 we performed our annual assessment of the carrying value of goodwill. As the result of this assessment of the carrying value of goodwill, we recorded a non-cash charge of \$4,600,000 related to impairment of goodwill in our Insurance Marketing Division reporting unit. This impairment charge resulted primarily from significant declines in sales of Medicare supplemental policies.

*Operating Income.* Operating loss for the three months ended September 30, 2007 of \$4,423,000 includes the impairment charge of \$4,600,000 previously discussed. Without the impairment charge, operating income for the third quarter 2007 would have been \$177,000.

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

| Dollars in Thousands          | For the Three Months Ended<br>September 30, |          |                  |                   | For the Nine Months Ended September<br>30, |          |                  |                   |
|-------------------------------|---|----------|------------------|-------------------|--|----------|------------------|-------------------|
|                               | 2007  | 2006     | Dollar<br>Change | Percent<br>Change | 2007                                       | 2006     | Dollar<br>Change | Percent<br>Change |
| Revenues                      | \$ 1,594                                    | \$ 1,827 | \$ (233)         | (12.8%)           | \$ 5,011                                   | \$ 5,686 | \$ (675)         | (11.9%)           |
| Operating expenses:           |   |          |                  |                   |  |          |                  |                   |
| Cost of operations            | 1,130                                       | 1,306    | (176)            | (13.5%)           | 3,376                                      | 3,689    | (313)            | (8.5%)            |
| Sales and marketing           | 119   | 207      | (88)             | (42.5%)           | 396  | 526      | (130)            | (24.7%)           |
| General and<br>administrative | 415   | 157      | 258              | 164.3%            | 1,099                                      | 463      | 636              | 137.4%            |
| Goodwill impairment           |   |          |                  |                   | 4,092                                      |          | 4,092            |                   |
| Total operating<br>expenses   | 1,664                                       | 1,670    | (6)              | (0.4%)            | 8,963                                      | 4,678    | 4,285            | 91.6%             |
| Operating income              | \$ (70)                                     | \$ 157   | \$ (227)         | (144.6%)          | \$ (3,952)                                 | \$ 1,008 | \$ (4,960)       | (492.1%)          |
| Percent of revenue:           |   |          |                  |                   |  |          |                  |                   |
| Revenues                      | 100.0%                                      | 100.0%   |                  |                   | 100.0%                                     | 100.0%   |                  |                   |
| Operating expenses:           |   |          |                  |                   |  |          |                  |                   |
| Cost of operations            | 70.9%                                       | 71.5%    |                  |                   | 67.4%                                      | 64.9%    |                  |                   |
| Sales and marketing           | 7.5%  | 11.3%    |                  |                   | 7.9%                                       | 9.3%     |                  |                   |
| General and<br>administrative | 26.0%                                       | 8.6%     |                  |                   | 21.9%                                      | 8.1%     |                  |                   |
| Goodwill impairment           | %   | %        |                  |                   | 81.7%                                      | %        |                  |                   |
| Total operating<br>expenses   | 104.4%                                      | 91.4%    |                  |                   | 178.9%                                     | 82.3%    |                  |                   |
| Operating income              | (4.4%)                                      | 8.6%     |                  |                   | (78.9%)                                    | 17.7%    |                  |                   |

**Service Revenues.** The primary element of our Regional Healthcare Division is our wholly-owned subsidiary, Foresight, through which we offer full third-party administration services. Through Foresight, we provide a wide range of 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. Foresight helps us offer a more complete suite of healthcare service products. Also through Foresight, 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.

During June and July of 2007, we received notice that our contracts with two of our major customers would not be renewed. Together, these contracts account for approximately \$3,300,000 or 50% of Foresight's total annual revenue. The loss of revenue from those contracts is expected to adversely impact our results of operations beginning 2008, when the non-renewed contracts expire. The loss of these contracts along with other events contributed to the re-evaluation of the carrying value of Foresight's goodwill as discussed below.

Regional Healthcare Services' revenues from the three months and nine months ended September 30, 2006 to the three months and nine months ended September 30, 2007 decreased primarily due to the decline in the number of lives covered in the plans of one of our major customers.

*Cost of Operations.* The decreases in cost of operations from the three and nine months ended September 30, 2006 to the three and nine months ended September 30, 2007 were due primarily to decreased revenues discussed previously. The increases in cost of operations as a percent of revenue were because fixed costs did not decline proportionately with the revenue decline discussed above.

*Sales and Marketing Expenses.* The decreases in sales and marketing expenses from the three months and nine months ended September 30, 2006 to the three months and nine months ended September 30, 2007 were primarily due to decreases in sales and public relations activities. Foresight 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 increases in general and administrative expenses from the three months and nine months ended September 30, 2006 to the three months and nine months ended September 30, 2007 are due primarily to substantially greater legal fees and settlements in 2007 related to the investigation of Foresight as discussed below in the Notes to Condensed Consolidated Financials Statements.

*Goodwill Impairment.* During the second quarter, and in July 2007, we announced several adverse events related to the loss of two major customers and possible loss or non-renewal of another major customer beyond contract expirations in 2007. Further, we reported on the status of an investigation that we believe involves allegations of executive officer corruption relating to contract procurement by Foresight and other companies from certain local governmental entities. Failure to obtain these contract renewals and

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other events are expected to result in a substantial decline in revenues. That decline in revenue represents a significant adverse change in the business climate that will adversely affect the value of Foresight. Accordingly, as of June 30, 2007, we re-evaluated the carrying value of goodwill related to Foresight and determined that an impairment charge for the recorded amount of \$4,092,000 was appropriate.

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

| Dollars in Thousands          | For the Three Months Ended<br>September 30, |          |                  |                   | For the Nine Months Ended September<br>30, |            |                  |                   |
|-------------------------------|---|----------|------------------|-------------------|--|------------|------------------|-------------------|
|                               | 2007  | 2006     | Dollar<br>Change | Percent<br>Change | 2007                                       | 2006       | Dollar<br>Change | Percent<br>Change |
| Revenues                      | \$ 4  | \$ 15    | \$ (11)          | (73.3%)           | \$ 31                                      | \$ 72      | \$ (41)          | (56.9%)           |
| Operating expenses:           |   |          |                  |                   |  |            |                  |                   |
| Commissions                   | 3   |          | 3                |                   | 10   |            | 10               |                   |
| Cost of Operations            | 11  |          | 11               | 100.0%            | 15   |            | 15               | 100.0%            |
| Sales and Marketing           |   | 3        | (3)              | (100.0%)          |  | 30         | (30)             | (100.0%)          |
| General and<br>administrative | 537   | 421      | 116              | 27.6%             | 1,826                                      | 1,338      | 488              | 36.5%             |
| Goodwill Impairment           |   |          |                  | 100.0%            |  |            |                  | 100.0%            |
| Total operating<br>expenses   | 551   | 424      | 127              | 30.0%             | 1,851                                      | 1,368      | 483              | 35.3%             |
| Operating loss                | \$ (547)                                    | \$ (409) | \$ (138)         | 33.7%             | \$ (1,820)                                 | \$ (1,296) | \$ (524)         | 40.4%             |

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 we have de-emphasized this product line.

**General and Administrative Expenses.** The increase in general and administrative expenses from the three months ended September 30, 2006 to the three months ended September 30, 2007 was primarily due to increase in management personnel costs related to integration of ICM.

The increase in general and administrative expenses from the nine months ended September 30, 2006 to the nine months ended September 30, 2007 was primarily due to stock options awarded to officers and directors of \$260,000 during the first quarter 2007 and the increases in management personnel costs related to integration of ICM.

**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 September 30, 2007 and December 31, 2006, we had non-current deferred tax assets of \$128,000 and \$387,000, respectively, and current deferred tax liabilities of \$128,000 and \$387,000, respectively. 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 2027. The deferred tax liability is primarily related to prepaid assets deducted for tax purposes

in the year of payment. At September 30, 2007 and December 31, 2006, we had valuation allowances of \$308,000 and \$862,000, respectively, to fully offset net deferred tax assets on these dates.

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. 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. The Texas franchise tax audits for Capella for the years 2002-2005 have been concluded with no material change to our tax provision. We have elected to recognize

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penalties and interest related to tax liabilities as a component of income tax expense and income taxes payable. As of September 30, 2007, income taxes payable included \$118,000 of accrued interest expense and \$26,000 of accrued penalties related to state 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 three months ended September 30, 2007 was \$192,000 and net cash used for the three months ended September 30, 2006 was \$293,000. The increase in net cash provided by operating activities of \$485,000 was due primarily to a federal tax refund of \$994,000 received in the third quarter of 2006 offset by a state franchise tax refund of \$372,000 in the third quarter of 2007.

Net cash provided by operating activities for the nine months ended September 30, 2007 and the nine months ended September 30, 2006 was \$1,076,000 and \$1,579,000, respectively. The decrease in net cash provided by operating activities of \$503,000 was due primarily to a receipt of a state franchise tax refund of \$133,000 in first quarter of 2006 and the federal and state tax refunds discussed previously.

**Investing Activities.** Net cash used by investing activities for the three months ended September 30, and for the three months ended September 30, 2006 was \$315,000 and \$76,000, respectively. The increase in net cash used in investing activities of \$239,000 was due primarily to the increase in advanced agent commissions in the third quarter of 2007.

Net cash provided by investing activities for the nine months ended September 30, 2007 was \$80,000 and net cash used for the nine months ended September 30, 2006 was \$2,208,000. The increase in net cash from investing activities of \$2,288,000 was due primarily to cash used in the first quarter of 2006 for a business combination (contingent consideration) related to our acquisition of Foresight of \$521,000 and cash provided by the decrease in the requirement to maintain restricted short-term investments \$1,170,000.

**Financing Activities.** Net cash used in financing activities for the three months ended September 30, 2007 and the three months ended September 30, 2006 was \$227,000 and \$54,000, respectively. The increase in cash used in financing activities was due primarily to payments on debt offset by increases in deferred commissions.

Net cash used in financing activities for the nine months ended September 30, 2007 and the nine months ended September 30, 2006 was \$882,000 and \$190,000, respectively. The increase in net cash used in financing activities of \$692,000 was primarily due to reduction of outstanding debt by \$591,000.

On September 30, 2007, June 30, 2007 and December 31, 2006 we had working capital of \$1,249,000, \$1,544,000, and \$3,996,000, respectively. The decrease in working capital from June 30, 2007 of \$137,000 was due primarily to an increase in accrued liabilities related to legal fees and settlement costs in the Consumer Plan and Regional Healthcare segments as discussed previously. The decrease in working capital from December 31, 2006 to September 30, 2007 of \$2,497,000 is due primarily to the assumption of liabilities related to the January 2007 ICM acquisition and legal fees previously discussed.

We have obtained line of credit facilities and short-term notes from a commercial banking institution, specialty lending corporation and a promissory note from related party (Peter Nauert Estate). The commercial bank outstanding balance at September 30, 2007 of \$810,000 comprises credit facilities in which 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. 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 a result, amounts outstanding to the commercial bank became due immediately.

As part of the ICM acquisition, we also assumed a three-year loan that was obtained in November 2006, from a specialty lending corporation in the amount of \$600,000 of which \$503,000 remains outstanding at September 30, 2007. All of the outstanding balance has been classified as short-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.

On September 28, 2007, we entered into a loan arrangement with the Peter W. Nauert Revocable Trust U/A/D 8-71978 (the "Nauert Trust"). Under this arrangement, the Nauert Trust lent us \$500,000 as evidenced by the Revolving Promissory Note (the "Note"). The Note matures September 28, 2008 and all principal and interest will be due and payable. The outstanding principal balance of the Note accrues interest at a rate of 0.5% below the Prime Rate charged by a designated local bank (9.0% at September 30, 2007). Based upon the current interest rate, the Note requires 12 monthly principal and interest payments of \$43,321. The proceeds from this loan were used to partly finance the PME acquisition discussed below.

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We continue to work with the commercial bank, 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 commercial bank, 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.

Except as discussed below, we do not have any capital commitments. 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, on October 1, 2007 we used \$1,075,000 of our cash and cash equivalents to acquire PME. Further, we may utilize our other capital resources for additional strategic acquisitions should the 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 and depletion of our cash and cash equivalents. 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 commitments 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 growth of 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 Interim 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 Interim 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 Interim 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 Interim Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective at September 30, 2007. The Chief Executive Officer and Chief Financial Officer concluded that our

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disclosure controls and procedures were not effective due to one material weakness 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 noted below, no other change in our disclosure controls and procedures and internal control over financial reporting occurred during the third quarter of 2007 that would materially affect or was reasonably likely to materially affect our disclosure controls and procedures or internal control over financial reporting. The discovery, in August 2007, of the failures in February through June to completely and accurately record a portion of our commission expense related to one of our insurance products, as described below, indicates that the remediation of the previously identified material weakness that we believed had been accomplished was not completely effective. Efforts to remediate that material weakness are still underway. Therefore, the Interim Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were not effective at September 30, 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 commission revenues and related commission expenses for the Insurance Marketing Division acquired during the quarter that were not sufficient to provide for the timely recording of revenue transactions. We attempted to remediate that weakness during the second quarter through the implementation of interim manual control procedures pending the replacement of our automated processes. However, the discovery during August 2007 of the failure to record a portion of our commission expense related to one of our products and the related restatement of our financial statements 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 change in the data gathering process resulting in a failure to record a portion of our commission expense for one of our 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 commissions for the particular product. The errors were not detected on a timely basis due in part to transitions in responsibility immediately following our acquisition of the Insurance Marketing Division in January 2007. This resulted in an underpayment and an underreporting of commission expense.

Since the discovery of the commission underpayment we have taken steps to consolidate the disparate Insurance Marketing Division commission processing functions into a single unit and to implement additional controls for the verification of commission calculations. However, as of the date of this report, we have not 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**

Except as provided below, there have been no material developments in legal proceedings reported by us in our Annual Report on Form 10-K and on our Quarterly Reports on Form 10-Q/A for the first and second quarters of 2007. There were no new material legal proceedings that arose during the quarter ended September 30, 2007.

***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, et al 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 alleged that they were not allowed to exercise certain stock options and warrants in May 2003 due to actions and inactions of Mr. May and that these actions and inactions constitute fraud, misrepresentation, negligence and legal malpractice. Plaintiffs sought damages equal to the difference between the exercise price of the stock options or warrants and the market value of our 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 our 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 and, in July 2007, the Texas Supreme Court declined to review the case and the plaintiffs did not apply for a writ of certiorari to the Supreme Court

of the United States. Therefore, by mandate of the Court of Appeals for the Second District of Texas, the matter was terminated in our favor on September 10, 2007.

We are a party to various other claims and legal proceedings arising out of the normal course of its business. Although there can be no assurance, in the opinion of management, the ultimate outcome of these other claims and lawsuits should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity

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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 NINE MONTHS OF 2007 AND DURING 2006, 2005 AND 2004 WE INCURRED LOSSES FROM OPERATIONS AND THESE LOSSES MAY CONTINUE.***

During the nine months ended September 30, 2007 and the years ended December 31, 2006, 2005 and 2004 we incurred losses from continuing operations of \$13,540,000, \$6,814,000, \$13,229,000 and \$1,657,000, respectively and net losses of \$13,540,000, \$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 \$12,069,000, \$6,866,000 including tax considerations of \$426,000, \$12,900,000 and \$2,000,000 in 2007, 2006, 2005 and 2004, respectively. In 2007, we recorded goodwill impairment charges of \$4,092,000 for Foresight due to the loss of significant contracts, \$3,377,000 for Capella due to

the failure of certain new product and marketing initiatives to achieve expected results, and \$4,600,000 for the Insurance Marketing Division due to significant declines in sales of Medicare supplemental policies. In 2006, we recorded goodwill impairment charges of \$4,066,000 including tax considerations of \$426,000 for Foresight 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. The operating loss before goodwill impairment charges in 2005 was primarily attributable to the continuing costs associated with our medical savings program. There is no assurance that losses from our medical savings program will not continue or that our other operations will become or continue to be profitable in 2007 or thereafter.

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***WE ARE DEPENDENT UPON THE INSURANCE CARRIERS WHOSE POLICIES WE SELL FOR TIMELY, COMPLETE AND ACCURATE COMMISSION INFORMATION AND THE FAILURE OF THOSE INSURANCE CARRIERS TO PROVIDE TIMELY, COMPLETE AND ACCURATE INFORMATION TO US COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR ABILITY TO PAY COMMISSIONS AND PRESENT FINANCIAL RESULTS.***

Our processing and recording of commission revenues earned and commission expenses payable to agents are key determinants of material revenues and expenses reported in our financial statements. Such processing and recording of commission revenue and expense, together with the accurate and timely disbursement of commission payments to certain agents, is dependent upon our timely receipt of complete and accurate information about such commissions from the insurance carriers whose policies we sell. Our failure to receive such commission information in a timely, complete and accurate fashion could adversely impact our ability to pay commissions in a timely and accurate manner or to state revenues or expenses in our financial statements in a materially correct manner.

***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 Entrée 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 Entrée 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 Entrée program. Also, our ability to attract and retain marketing representatives could be negatively affected by adverse publicity relating to our Care Entrée 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 Entrée 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,

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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.

***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 AND RELATED PRIVATE PARTY LITIGATION MAY ADVERSELY AFFECT OUR FINANCIAL POSITION AND LIMIT OUR OPERATIONS.***

In recent years, several states have enacted laws and regulations that govern discount medical program organizations (DMPOs). The laws vary in scope, ranging from registration to a comprehensive licensing process with oversight over all aspects of the program, including the manner by which discount medical programs are sold, the price at which they are sold, the relationship of the DMPO licenses or registrations for both subsidiaries in our Consumer Plan Division. We hold these licenses in every jurisdiction where such a license or registration is held and where the respective subsidiary conducts business. Because these laws and regulations are relatively new, we do not know the full extent of how they will affect our business or whether or not we will be able to maintain all necessary licenses. 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.

We market memberships in associations that have been formed to provide various consumer benefits to their members. These associations may include in their benefit packages insurance products that are issued under group or blanket policies covering the association's members. Most states allow these memberships to be sold under certain circumstances without a licensed insurance agent making each sale. If a state were to determine that our sales of these memberships do not comply with their regulations, our ability continue selling such memberships would be affected



and we might be subject to fines and penalties and may have to issue refunds or provide restitution to the associations and their members.

The business practices and compensation arrangements of the insurance intermediary industry, including our practices and arrangements, are subject to uncertainty due to investigations by various government authorities and related private litigation. The legislatures of various states may adopt new laws addressing contingent commission arrangements, including laws prohibiting such arrangements, and addressing disclosures of such arrangements to insureds. Various state departments of insurance may also adopt new regulations addressing these matters. While it is not possible to predict the outcome of the government inquiries and

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investigations into the insurance industry's commission payment practices or the response by the market and government regulators, any material decrease in our profit-sharing contingent commissions is likely to have an adverse effect on our results from operations.

***WE MAINTAIN DATA THAT IS PRIVATE TO OUR MEMBERS AND CUSTOMERS. OUR FAILURE TO PROTECT THAT DATA COULD ADVERSELY AFFECT OUR FINANCIAL POSITION AND OPERATIONS BY DAMAGING OUR REPUTATION, HARMING OUR BUSINESS AND CAUSING US TO EXPEND CAPITAL AND OTHER RESOURCES TO PROTECT AGAINST FUTURE SECURITY BREACHES.***

Certain of our services are based upon the collection, distribution, and protection of sensitive private data. Unauthorized users might access that data, and human error or technological failures might cause the wrongful dissemination of that data. If we experience a security breach, the integrity of certain of our services may be affected and such a breach could violate certain of our marketing partner agreements, which could give our marketing partners the right to terminate such agreements with us. We have incurred, and may incur in the future, significant costs to protect against the threat of a security breach. We may also incur significant costs to solve problems that may be caused by future breaches or to prevent such breaches. Any breach or perceived breach could subject us to legal claims from our marketing partners or customers and/or regulatory or law enforcement entities under laws that govern the protection of non-public personal information. Moreover, any public perception that we have engaged in the unauthorized release of, or have failed to adequately protect, private information could adversely affect our ability to attract and retain members and customers. In addition, unauthorized third parties might alter information in our databases, which would adversely affect both our ability to market our services and the credibility of our information.

***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.***

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

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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.

***THE ADVERTISING AND PROMOTIONAL ACTIVITIES OF OUR INDEPENDENT MARKETING REPRESENTATIVES AND PRIVATE-LABEL CUSTOMERS ARE SUBJECT TO AND MAY VIOLATE FEDERAL AND STATE REGULATION CAUSING US TO BE SUBJECT TO THE IMPOSITION OF CIVIL PENALTIES, FINES, INJUNCTIONS AND LOSS OF STATE LICENSES.***

The Federal Trade Commission ( FTC ) and most states regulate advertising, product claims, and other consumer matters, including advertising of our healthcare savings products. All advertising, promotional and solicitation materials used by our independent marketing representatives and private label customers must be approved by us prior to use. We are currently under investigation by the Texas Attorney General as a result of the activities of one of our private label customers, with whom we have terminated our relationship. While we have not been the target of FTC enforcement action for the advertising of, or product claims related to, our healthcare savings products, there can be no assurance that the FTC will not question our advertising or other operations in the future. In addition, there can be no assurance that a state, in addition to Texas, will not interpret our product claims presumptively valid under federal law as illegal under that state s regulations, or that future FTC regulations or decisions will not restrict the permissible scope of the claimed savings. We are subject to the risk of claims by our independent marketing representatives and private label customers and members of our Care Entree programs and those under private label arrangements may file actions on their own behalf, as a class or otherwise, and may file complaints with the FTC or state or local consumer affairs offices. These agencies may take action on their own initiative against us for alleged advertising or product claim violations. These actions may include consent decrees and the refund of amounts paid by the complaining members, refunds to an entire class of independent marketing representatives, private label customers or members, or other damages, as well as changes in our method of doing business. A complaint because of a practice of one independent marketing representative or private label customer, whether or not that practice was authorized by us, could result in an order affecting some or all of our independent marketing representatives and private label customers in the particular state, and an order in one state could influence courts or government agencies in other states considering similar matters. Proceedings resulting from these complaints may result in significant defense costs, settlement payments or judgments and could have a material adverse effect on our operations.

***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 OUR RELIANCE ON OUR MANAGEMENT INFORMATION SYSTEM MAY OCCUR AND COULD ADVERSELY AFFECT OUR CLIENT RELATIONSHIPS.***

We manage information related to our Consumer Plan Division membership primarily on 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.

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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, FORESIGHT 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, Foresight, and ICM, we recorded goodwill that had a net aggregate asset value of \$5,487,000 at September 30, 2007. This carrying value has been reduced through impairment charges of \$12,069,000 in 2007, \$6,866,000 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, FORESIGHT, 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.***

Foresight 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 the second quarter, and in July 2007, we announced several adverse events related to the loss of two major customers and possible loss or non-renewal of another major customer beyond contract expirations in 2007. As of June 30, 2007, we re-evaluated the carrying value of goodwill related to Foresight and determined that an impairment charge of \$4,092,000 that reduced the carrying value of the goodwill to zero for the loss of these contracts was appropriate. There is no assurance that Foresight will obtain renewal or extension on its remaining contracts. The loss of any of these remaining 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 ICM S AND PME S BUSINESSES AND OPERATIONS WITH OUR BUSINESS AND OPERATIONS.***

Although we believe that ICM 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 ICM s operations with ours. We will not achieve the anticipated benefits of the merger-acquisition unless we successfully integrate the ICM s operations. There can be no assurance that this will occur. Similarly, we believe that PME s marketing and distribution of dental and vision network access and non-insurance medical discount programs will complement and fit well with our Consumer Plan Division. We will not achieve the anticipated benefits of that acquisition unless we successfully integrate the PME operations. There can be no assurance that this will occur.

***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

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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 ICM had strategic relationships prior to our acquisition, more than 95% of ICM's 2006 and 2005 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 ICM have active distribution and marketing relationships, more than 80% of ICM'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 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

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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.***

We were highly dependent upon Peter W. Nauert, the Company's 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.

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

- a) None.
- b) None.
- c) None.
- d) None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

**Loan Arrangement.** On September 28, 2007, we entered into a loan arrangement with the Peter W. Nauert Revocable Trust U/A/D 8-71978 (the "Nauert Trust"). Under this arrangement, the Nauert Trust lent us \$500,000 as evidenced by the Revolving Promissory Note (the "Note"). The Note matures September 28, 2008 and all principal and interest will be due and payable. The outstanding principal balance of the Note accrues interest at a rate of 0.5% below the Prime Rate charged by a designated local bank (9.0%) at September 30, 2007). Based upon the current interest rate, the Note requires 12 monthly principal and interest payments of \$43,321. The proceeds from this loan were used to pay down existing financing arrangements with an unrelated third-party lender.

The Nauert Trust holds approximately 27% of our issued and outstanding common stock, and Michael K. Owens, our Chief Marketing Officer, is the Trustee of the Nauert Trust. The loan arrangement was entered into with the consent of our Board of Directors. The Board's Corporate Governance and Nominating Committee determined that the conflict of interest arising from Mr. Owens' roles with the Nauert Trust and us and the conflict of interest, if any, of our Interim President and Chief Executive Officer, Ian Stuart, with respect to his relationship in the original financing arrangements, had been properly disclosed and reviewed and did not preclude us from entering into the loan with the Nauert Trust.

**Subsequent Event.** On October 1, 2007 the Company completed its acquisition of Protective Marketing Enterprises, Inc. ("PME"). Under the terms of the acquisition, PME became a wholly owned subsidiary of the Company. PME offers, as a wholesaler, discount medical service products, provides back office support through its use of various operating systems, maintains a customer service facility, and develops products from both its proprietary and third party provider networks.



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The consideration for the acquisition, paid in cash, consisted of \$1,075,000, plus contingent consideration of up to \$250,000 to be paid if certain membership targets from existing PME business are met. The purchase price is, however, subject to adjustment based upon the net value of certain of PME's tangible assets at closing (a formula determined by the terms of the Purchase Agreement and not in accordance with generally accepted accounting principles). Any adjustment to the purchase price is expected to be made by December 18, 2007. At closing, the Company also made a cash deposit to PME's parent, Protective Life Corporation (PLC), of \$125,000, representing one-half of the contingent consideration. The membership targets will be assessed at November 30, 2007. The contingent consideration will then be determined based on that assessment, by either paying up to an additional \$125,000 or by PLC returning all or a portion of the \$125,000 deposit.

**ITEM 6. EXHIBITS**

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

**Exhibit**

| <b>No.</b> | <b>Description</b>   |
|------------|--|
| 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)

Date: November 19, 2007

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

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**ACCESS PLANS USA, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2007 AND DECEMBER 31, 2006**

| <b>Dollars in Thousands</b>                               | <b>As of<br/>September 30,<br/>2007<br/>(unaudited)</b> | <b>As of<br/>December 31,<br/>2006<br/>*</b> |
|---|---|--|
| <b>ASSETS</b>   |   |  |
| Current assets:   |   |  |
| Cash and cash equivalents                                 | \$ 3,506  | \$ 3,232                                     |
| Unrestricted short-term investments                       | 11  | 200  |
| Restricted short-term investments                         | 1,100   | 1,420  |
| Total cash, cash equivalents and short-term investments   | 4,617   | 4,852  |
| Accounts and notes receivable, net                        | 1,343   | 190  |
| Advanced agent commissions                                | 4,797   |  |
| Income taxes receivable, net                              | 70  | 246  |
| Inventory & Prepaid expenses                              | 322   | 1,512  |
| Total current assets                                      | 11,149  | 6,800  |
| Fixed assets, net   | 649   | 924  |
| Goodwill and other intangible assets, net                 | 8,634   | 7,471  |
| Deferred tax asset  | 128   | 387  |
| Other assets  | 98  | 662  |
| Total assets  | \$ 20,658   | \$ 16,244                                    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                |   |  |
| Current liabilities:                                      |   |  |
| Accounts payable  | \$ 728  | \$ 178                                       |
| Other accrued liabilities                                 | 3,038   | 1,614  |
| Income taxes payable                                      | 458   | 353  |
| Unearned commissions                                      | 3,386   | 82   |
| Deferred enrollment fees, net of acquisition costs        | 254   |  |
| Current portion of capital leases                         | 94  | 190  |
| Short-term debt (includes \$500,000 due to related party) | 1,813   |  |
| Deferred tax liability                                    | 128   | 387  |
| Total current liabilities                                 | 9,899   | 2,804  |
| Capital lease obligations, net of current portion         |   | 48   |
| Deferred tax liability                                    |   |  |
| Total liabilities   | 9,899   | 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; 20,749,145 and 14,012,763 issued, respectively, and 20,269,145 and 13,512,763 outstanding, respectively

Additional paid-in capital

Accumulated deficit

Less: treasury stock (480,000 and 500,000 shares, respectively)

Total stockholders' equity

Total liabilities and stockholders' equity

|           |           |
|-----------|-----------|
| 207       | 140       |
| 40,506    | 29,691    |
| (28,945)  | (15,388)  |
| (1,009)   | (1,051)   |
| 10,759    | 13,392    |
| \$ 20,658 | \$ 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 AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

| Dollars in Thousands, except Earnings per Share          | For the Three Months<br>Ended<br>September 30, |            | For the Nine Months<br>Ended<br>September 30, |            |
|--|--|------------|---|------------|
|  | 2007   | 2006       | 2007  | 2006       |
| Service revenues   | \$ 10,254                                      | \$ 5,299   | \$ 28,655                                     | \$ 17,041  |
| Operating expenses:                                      |  |            |   |            |
| Commissions  | 4,788  | 838        | 12,384  | 2,739      |
| Cost of operations                                       | 2,634  | 2,667      | 7,732   | 7,903      |
| Sales and marketing                                      | 1,102  | 482        | 3,425   | 1,587      |
| General and administrative                               | 1,988  | 1,600      | 7,078   | 5,037      |
| Goodwill impairment                                      | 7,977  |            | 12,069  |            |
| Total operating expenses                                 | 18,489   | 5,587      | 42,688  | 17,266     |
| Operating (loss) income                                  | (8,235)  | (288)      | (14,033)                                      | (225)      |
| Other expense:   |  |            |   |            |
| Interest income, net                                     | 14   | 95         | 86  | 259        |
| (Loss) earnings before taxes                             | (8,221)  | (193)      | (13,947)                                      | 34         |
| Provision for income taxes expense (benefit)             | (458)  | (20)       | (407)   | (485)      |
| (Loss) earnings from continuing operations               | (7,763)  | (173)      | (13,540)                                      | 519        |
| Loss from discontinued operations, net of taxes          |  | (12)       |   | (922)      |
| Net loss   | \$ (7,763)                                     | \$ (185)   | \$ (13,540)                                   | \$ (403)   |
| (Loss) earnings per share:                               |  |            |   |            |
| Basic  |  |            |   |            |
| Continuing operations                                    | \$ (0.38)                                      | \$ (0.01)  | \$ (0.73)                                     | \$ 0.04    |
| Discontinued operations                                  | \$   | \$ —       | \$  | \$ (0.07)  |
| Diluted  |  |            |   |            |
| Continuing operations                                    | \$ (0.38)                                      | \$ (0.01)  | \$ (0.73)                                     | \$ 0.04    |
| Discontinued operations                                  | \$   | \$         | \$  | \$ (0.07)  |
| Weighted average number of common shares<br>outstanding: |  |            |   |            |
| Basic  | 20,269,145                                     | 13,512,763 | 18,550,701                                    | 13,477,733 |
| Diluted  | 20,269,145                                     | 13,512,763 | 18,550,701                                    | 13,477,733 |

**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 NINE MONTHS ENDED SEPTEMBER 30, 2007**

| <b>Dollars in Thousands</b>                | <b>COMMON STOCK</b> |               | <b>ADDITIONAL<br/>PAID-IN CAPITAL</b> |                                | <b>ACCUMULATED<br/>DEFICIT</b> | <b>TREASURY<br/>STOCK</b> | <b>TOTAL</b> |
|--|---------------------|---------------|---------------------------------------|--------------------------------|--------------------------------|---------------------------|--------------|
|  | <b>SHARES</b>       | <b>AMOUNT</b> | <b>PAID-IN<br/>CAPITAL</b>            | <b>ACCUMULATED<br/>DEFICIT</b> | <b>TREASURY<br/>STOCK</b>      | <b>TOTAL</b>              |              |
| Balance, December 31, 2006                 | 13,512,763          | \$ 140        | \$ 29,691                             | \$ (15,388)                    | \$ (1,051)                     |                           | \$ 13,392    |
| Issuance of stock in business combinations | 6,756,382           | 67            | 10,473                                |                                |                                |                           | 10,540       |
| Treasury stock adjustment                  |                     |               | (25)                                  | (17)                           | 42                             |                           |              |
| Stock option awards                        |                     |               | 367                                   |                                |                                |                           | 367          |
| Net loss                                   |                     |               |                                       | (13,540)                       |                                |                           | (13,540)     |
| Balance, September 30, 2007                | 20,269,145          | \$ 207        | \$ 40,506                             | \$ (28,945)                    | \$ (1,009)                     |                           | \$ 10,759    |

**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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

| <b>Dollars in Thousands</b>   | <b>2007</b> | <b>2006</b> |
|---|-------------|-------------|
| Operating activities:   |             |             |
| Net loss  | \$ (13,540) | \$ (403)    |
| Adjustments to reconcile net loss to net cash provided by operating activities: |             |             |
| Depreciation and amortization   | 799         | 583         |
| Provision for losses on accounts and notes receivable                           | 226         | 55          |
| Loss on disposal and impairment of fixed assets                                 | 335         | 189         |
| Stock options expense   | 367         | 100         |
| Goodwill impairment   | 12,069      |             |
| Changes in operating assets and liabilities (net of business acquired):         |             |             |
| Accounts and notes receivable, net  | (226)       | 43          |
| Income taxes receivable   | (257)       | 689         |
| Inventory   | 6           | 278         |
| Prepaid expenses  | 1,184       | 908         |
| Other assets  | (7)         | (18)        |
| Accounts payable  | 34          | (261)       |
| Accrued liabilities   | 233         | (488)       |
| Deferred fees   | (251)       | 29          |
| Income taxes payable  | 104         | (125)       |
| Net cash provided by operating activities                                       | 1,076       | 1,579       |
| Investing activities:   |             |             |
| Increase in unrestricted short-term investments                                 | 189         |             |
| Decrease (Increase) in restricted short-term investments                        | 320         | (1,170)     |
| Increase in advanced agent commissions  | (240)       |             |
| Purchase of fixed assets  | (266)       | (414)       |
| Cash acquired (used) in business combination, net                               | 77          | (624)       |
| Net cash used in investing activities   | 80          | (2,208)     |
| Financing activities:   |             |             |
| Additional payments for business combination                                    | 68          |             |
| Payments of capital leases  | (143)       | (190)       |
| Decrease in debt, net   | (591)       |             |
| Decrease in advance commissions from carriers                                   | (216)       |             |
| Net cash used in financing activities   | (882)       | (190)       |
| Net increase in cash and cash equivalents                                       | 274         | (819)       |
| Cash and cash equivalents at beginning of period                                | 3,232       | 6,261       |
| Cash and cash equivalents at end of period                                      | \$ 3,506    | \$ 5,442    |

|  |           |            |
|--|-----------|------------|
| Supplemental disclosure:   |           |            |
| Income taxes recovered, net of taxes paid                        | \$ 246    | \$ 994     |
| Interest paid  | \$ 71     | \$ 25      |
| Non-cash investing and financing activities:                     |           |            |
| Stock issuance for consideration on business combination         | \$ 10,540 | \$ 521     |
| Cash-in-trust refunded and claims paid, net of amounts collected | \$        | \$ (1,995) |

**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 and nine months ended September 30, 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.

**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 Foresight. 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.** In September 2006, the Financial Accounting Standards 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.

In February 2007, the ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value on specified election dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings.

Management is currently assessing what impact, if any, the application of these standards could have on the Company's financial statements.

**Revenue Recognition.** Revenue recognition varies based on source.

**Consumer Plan Division Revenues.** The Company recognizes its Consumer Plan 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

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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 owed by the insurance companies it represents; these sales commissions are generally a percentage of premiums collected. 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.** The principal sources of revenues of the Company's Regional Healthcare Division 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 Entrée 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 month following after the Company's receipt of the related membership fees. Advances of commissions up to one year are paid to agents in the insurance marketing division based on certain insurance policy premium commissions.

**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 previously granted, but not yet vested, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock Based-Compensation, and (b) compensation cost for all share-based payments currently granted based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R), Share-Based Payment. 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 period ended September 30, 2007 equal to the expected option term. Expected pre-vesting forfeitures were estimated based on actual historical pre-vesting forfeitures over the most recent period ended September 30, 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. During the three months and nine months ended September 30, 2007, we evaluated the probability of recognizing the benefit of deferred tax assets through the reduction of taxes otherwise payable in the



future. We determined that a valuation allowance to fully offset net deferred tax assets is appropriate as of September 30, 2007.

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. We adopted the provisions of FIN 48 Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. We have analyzed all

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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. The Texas audit for Capella for the years 2002-2005 have been concluded with no material change to our tax provision. 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 September 30, 2007, income taxes payable included \$118,000 of accrued interest expense and \$26,000 of accrued penalties related to state tax liabilities. We plan 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 for 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.

**Intangible Asset Valuation.** Our intangible assets as of September 30, 2007, consisted of \$5,487,000 of goodwill and other intangible assets of \$3,147,000, all primarily attributable to our January 2007 ICM acquisition. Goodwill represents the excess of acquisition costs over the fair value of net assets acquired. Goodwill is not amortized. The other intangible assets represent the estimated value, at the date of their acquisition, of policies in force ( Customer Contracts ) and certain agent relationships ( Agent Relationships ), net of amortization to date of \$553,000. The intangible asset amount initially allocated to Customer Contracts was \$1,800,000 and the amount allocated to Agent Relationships was \$1,900,000. These assets are being amortized on a straight-line basis over three years and eight years, respectively.

As of the end of 2007 third quarter, we performed our annual assessment of the carrying value of goodwill, as mentioned above. Previously, we had performed this assessment as of the end of our fiscal year (December 31). However, we determined that it was preferable to perform the annual assessment as of September 30 of this and subsequent years, to allow us to incorporate into that analysis, and give most timely effect to, the budgets and forecasts for the coming year that we develop during our fourth quarter budgeting process. Additionally, performing the assessment of goodwill for impairment as of September 30 of each year will reduce the burden on us and our professional advisors during the period immediately following our fiscal year-end, when we prepare our audited year-end financial statements and evaluation of our internal controls over financial reporting pursuant to Sarbanes-Oxley Section 404.

In 2007, we recorded goodwill impairment charges of \$4,092,000 for Foresight due to the loss of significant contracts, \$3,377,000 for Capella due to the failure of certain new product and marketing initiatives to achieve expected results, and \$4,600,000 for the Insurance Marketing Division due to significant declines in sales of Medicare supplemental policies. In 2006, Foresight recorded a \$4,066,000 impairment to goodwill including tax considerations that resulted from current and projected reductions in earnings primarily due to a decline in the number of lives covered under plans that it administered. In 2005, Capella recorded a charge of \$12,900,000 due to continuing decline in members and revenues to a lower level than previously predicted and pending litigation and regulatory activity that was announced in the second quarter of that year. In 2004, goodwill was also reduced by \$2,000,000 to reflect

impairment related to our acquisition in 2000 of Foresight. Significant judgments and estimates were required in connection with the impairment test to determine the estimated future cash flows and fair value of the reporting unit.

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 SFAS 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. As discussed previously, 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. These assets are being amortized on a straight-line basis over three years and eight years, respectively. The Customer Contracts are being amortized at \$50,000 per month, and the Agent Relationships are being amortized at \$20,000 per month.

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

**Table of Contents****Note 3 Business 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 of common stock shares of the Company. Further, on May 31, 2007, the ICM shareholders were issued an additional 2,257,853 shares of Company common stock based upon the acquired ICM companies having achieved adjusted EBITDA of \$1,250,000 over the four calendar quarters ending on December 31, 2006.

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:

| <b>Dollars in Thousands</b>              | <b>(Unaudited)</b> |
|--|--------------------|
| Cash                                     | \$ 77              |
| Accounts receivable                      | 915                |
| Advanced agent commissions               | 3,443              |
| Other assets                             | 37                 |
| Fixed assets                             | 35                 |
| Goodwill                                 | 10,087             |
| Deferred tax asset                       | 862                |
| Other intangibles, net                   | 3,700              |
| Accounts payable and accrued liabilities | (1,640)            |
| Deferred revenue, net                    | (2,674)            |
| Short-term debt                          | (2,004)            |
| Long-term debt                           | (400)              |
| Long-term deferred tax liability         | (1,295)            |
| <b>Total</b>                             | <b>\$ 11,143</b>   |
| <br>                                     |                    |
| First issuance of common stock           | 7,018              |
| Second issuance of common stock          | 3,522              |
| Acquisition costs                        | 603                |
|  | <b>\$ 11,143</b>   |

The initial allocation of \$10,087,000 to goodwill was considered appropriate as ICM strategically complements the Company's current business by providing a significant source of new revenue from the distribution of insurance products and adding new distribution channels for our Care Entrée 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.

At the end of the third quarter of 2007, the Company performed its annual assessment of the carrying value of goodwill. As the result of this assessment of the carrying value of goodwill, a non-cash charge of \$4,600,000 related to impairment of goodwill was recorded in the Insurance Marketing Division reporting unit. This impairment charge resulted primarily from significant declines in sales of Medicare supplemental policies.

The following proforma condensed results of operations have been prepared as if our acquisition of ICM occurred on January 1, 2006:

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| Dollars in Thousands                                  | For the Three Months Ended |            | For the Nine Months Ended |            |
|---|----------------------------|------------|---------------------------|------------|
|   | September 30,              |            | September 30,             |            |
|   | 2007                       | 2006       | 2007                      | 2006       |
| Service revenues                                      | \$ 10,254                  | \$ 9,880   | \$ 30,321                 | \$ 30,090  |
| (Loss) earnings from continuing operations            | \$ 7,763                   | \$ (134)   | \$ (13,626)               | \$ 303     |
| Loss from discontinued operations                     | \$                         | \$ (12)    | \$                        | \$ (922)   |
| Net (loss) earnings                                   | \$ (7,763)                 | \$ (146)   | \$ (13,626)               | \$ (619)   |
| (Loss) earnings per share:                            |                            |            |                           |            |
| Basic   |                            |            |                           |            |
| Continuing operations                                 | \$ (0.38)                  | \$ (0.01)  | \$ (0.67)                 | \$ 0.01    |
| Discontinued operations                               | \$                         | \$         | \$                        | \$ (0.05)  |
| Diluted   |                            |            |                           |            |
| Continuing operations                                 | \$ (0.38)                  | \$ (0.01)  | \$ (0.67)                 | \$ 0.01    |
| Discontinued operations                               | \$                         | \$         | \$                        | \$ (0.05)  |
| Weighted average number of common shares outstanding: |                            |            |                           |            |
| Basic   | 20,242,944                 | 20,269,145 | 20,242,944                | 20,234,115 |
| Diluted   | 20,242,944                 | 20,269,145 | 20,242,944                | 20,234,115 |

On October 1, 2007, we completed our acquisition of Protective Marketing Enterprises, Inc. (PME). Under the terms of the acquisition, PME became a wholly owned subsidiary of the Company. PME offers, as a wholesaler, discount medical service products, provides back office support through its use of various operating systems, maintains a customer service facility, and develops products from both its proprietary and third party provider networks. See Note 10 Subsequent Event for further discussion.

**Note 4 Goodwill**

Recorded goodwill must be reviewed and analyzed to determine its fair value and possible impairment. This review and analysis is conducted at least annually, and may be conducted more frequently if an event occurs or circumstances change that would, more likely than not, reduce the fair value of a reporting unit below its carrying amount. The aggregate fair market value of the reporting unit's assets, including recorded goodwill, in excess of the fair value of the reporting unit's liabilities, may not exceed the fair value of the reporting unit's equity. The fair value of the reporting unit's equity is based upon valuation techniques that estimate the amount at which the reporting unit as a whole could be bought or sold in a current transaction between willing parties. The downward trending of our common stock price has a material effect on the fair value of our goodwill in future accounting periods.

As of September 30, 2007, the Company performed its annual assessment of the carrying value of goodwill. Previously, the Company had performed this assessment as December 31 of each year. As the result of this assessment

of the carrying value of goodwill, a non-cash charge of \$7,977,000, was recorded, of which \$3,377,000 related to goodwill impairment of the Company Consumer Plan Division and Insurance Marketing Division of \$3,377,000 and \$4,600,000 respectively. In June 2007, the goodwill impairment of \$4,092,000 was recorded for the Company's Regional Healthcare Division resulting from failure to obtain certain contract renewals. In 2006, the Regional Healthcare reporting unit recorded a \$4,066,000 impairment to goodwill including tax considerations that resulted from current and projected reductions in earnings primarily due to a decline in the number of lives covered under plans that it administered. Significant judgments and estimates were required in connection with the impairment tests to determine the estimated future cash flows and fair value of the reporting units.

**Note 5 Advanced Agent Commissions**

Advanced agent commissions consist of:

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|                                   | <b>As of September<br/>30,<br/>2007<br/>(Unaudited)</b> |
|-----------------------------------|---|
| <b>Dollars in Thousands</b>       |   |
| Advances funded by:               |   |
| Commercial bank                   | \$ 810  |
| Specialty lending corporation     | 503   |
| Insurance carriers                | 3,404   |
| Self-funded                       | 432   |
| Sub-total                         | 5,149   |
| Provision for doubtful recoveries | 352   |
| Total advanced agent commissions  | \$ 4,797  |

**Note 6 Short-term and Long-term Debt**

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

|  | <b>As of September<br/>30,<br/>2007<br/>(Unaudited)</b> |
|--|---|
| <b>Dollars in Thousands</b>                              |   |
| Short-term debt:   |   |
| Commercial bank revolving lines of credit                | \$ 810  |
| Loan from specialty lending corporation                  | 503   |
| Promissory note from related party (Peter Nauert Estate) | 500   |
| Total short-term debt                                    | \$ 1,813  |

The Company has obtained line of credit facilities and short-term notes from a commercial banking institution, specialty lending corporation and a promissory note from a related party (Peter Nauert Estate). The commercial bank outstanding balance at September 30, 2007 of \$810,000 comprises credit facilities in which 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. Interest is charged at prime plus 1.5%. The Company is the primary party on the loan agreement but Peter Nauert, the 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.

As part of the ICM acquisition, the Company also assumed a three-year loan that was obtained in November 2006, from a specialty lending corporation in the amount of \$600,000 of which \$503,000 remains outstanding at September 30, 2007. All of the outstanding balance has been classified as short-term debt. The loan bears interest at prime plus 5.0%. The Company is the primary party on the loan agreement and Peter Nauert, the 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.

On September 28, 2007, the Company entered into a loan arrangement with the Peter W. Nauert Revocable Trust U/A/D 8-71978 (the Nauert Trust). Under this arrangement, the Nauert Trust lent the Company \$500,000 as evidenced by the Revolving Promissory Note (the Note). The Note matures September 28, 2008 and all principal and interest will be due and payable. The outstanding principal balance of the Note accrues interest at a rate of 0.5% below the Prime Rate charged by a designated local bank (9.0% at September 30, 2007). Based upon the current interest rate, the Note requires 12 monthly principal and interest payments of \$43,321.

The Company continues to work with the commercial bank, the specialty lending corporation and Mr. Nauert's estate to arrange alternative financing arrangements. There is no assurance that the Company will be able to arrange alternative financing or that it will have future borrowings available from the commercial bank, the specialty lending corporation or Mr. Nauert's estate on terms satisfactory or advantageous to the stockholders. As a result, the Company may face substantial difficulty in obtaining sufficient capital to finance our funding of advanced agent commissions.



**Table of Contents****Note 7 Common Stock Options**

Total estimated unrecognized compensation cost from unvested stock options as of September 30, 2007 was approximately \$168,000, which is expected to be recognized over a weighted average period of approximately 1.5 years.

The following table summarizes stock options outstanding and changes during the period:

|                                   |                             | <b>Outstanding Options</b>                         |  |   |  |  |
|-----------------------------------|-----------------------------|--|--|---|--|--|
|                                   | <b>Number<br/>of Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Fair<br/>Value</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(in years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |  |
| Outstanding at January 1, 2007    | 1,427,354                   | \$ 2.21  | \$ 1.39  | 2.9   | \$ 228,790                               |  |
| Granted                           | 222,500                     | 2.26   | 1.23   | 5.0   |  |  |
| Exercised                         |                             |  |  |   |  |  |
| Forfeited                         | (241,288)                   | 3.21   | 2.09   |   |  |  |
| Outstanding at September 30, 2007 | 1,408,566                   | 2.05   | 1.24   | 2.7   | \$ 45,020                                |  |
| Vested (exercisable)              | 922,066                     | 2.15   | 1.33   | 2.2   | \$ 34,270                                |  |
| Non-Vested                        | 486,500                     | 1.85   | 1.07   | 3.6   | 10,750                                   |  |
| Outstanding at September 30, 2007 | 1,408,566                   | \$ 2.05  | \$ 1.24  | 2.7   | \$ 45,020                                |  |

No stock options were exercised during the nine months ended September 30, 2007. The Company did not realize any tax deductions related to the exercise of stock options during this period. The Company will record such deductions to deferred tax assets and/or additional paid in capital when realized. As of September 30, 2007 shares available for grant under the 1999 Option Plan and 2002 Non-Employee Stock Option Plan were 492,794 and 927,500, respectively.

Stock options outstanding and currently exercisable at September 30, 2007 are as follows:

|                                 | <b>Options Outstanding</b> |   |  | <b>Options Exercisable</b> |  |
|---------------------------------|----------------------------|---|--|----------------------------|--|
|                                 | <b>Outstanding</b>         | <b>Weighted<br/>Average<br/>Remaining<br/>Life<br/>(in<br/>years)</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Outstanding</b>         | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
| <b>Range of exercise prices</b> |                            |   |  |                            |  |
| \$1.05 to \$1.75                | 162,000                    | 3.0   | \$ 1.20  | 137,000                    | \$ 1.23  |
| \$1.76 to \$3.55                | 1,225,566                  | 2.7   | 2.10   | 766,816                    | 2.23   |
| \$3.56 to \$5.25                | 17,000                     | 1.3   | 4.36   | 14,250                     | 4.46   |
| \$5.26 and above                | 4,000                      | 0.3   | 9.50   | 4,000                      | 9.50   |
|                                 | 1,408,566                  | 2.7   | 2.05   | 922,066                    | 2.15   |

**Note 8 Related Party Transactions**

Mr. Frank Apodaca, Foresight's former Chief Operating Officer, had an agreement with Ready One Industries, formerly National Center for Employment of the Disabled ( NCED ). NCED was the party from whom the Company acquired Foresight in June 2004. This agreement between Mr. Apodaca and NCED predates the Company's acquisition of Foresight and entitles him to 10% of the proceeds (stock or cash) from the sale of Foresight. 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.

The office space we lease for our Foresight operation in El Paso was owned by NCED through January 2007. Total payments of \$24,000 were paid to NCED under this agreement through January 2007. In the first quarter of 2007, the property was sold to a non-related party and the lease was assigned to that new landlord. Foresight also earned revenue from NCED of \$137,000 and \$439,000 in nine months ended September 30, 2007 and 2006, respectively.

The Company has an arrangement with Insurance Producers Group of America, Inc. ( IPG ). IPG was a subsidiary of ICM before it merged with ICM in January of this year, but was distributed to certain ICM shareholders prior to its merger. IPG markets insurance products through career agents that it has appointed. The Company's arrangement with IPG allows IPG to use a portion of its office space and also allows certain of the Company's officers and employees to provide services to IPG. IPG pays the Company, on an arm's length basis, for the use of the space and the use of its employees. The monthly amount paid to the Company varies but is less than \$5,000 per month. IPG is managed by individuals not related to the Company, but Ian Stuart, the Company's Interim President and CEO, owns approximately 12% of the issued and outstanding shares of IPG and occasionally provides management

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services to IPG. In addition, the Peter Nauert Revocable Trust, which owns 27% of the Company's issued and outstanding common stock, owns approximately 47% of the issued and outstanding shares of IPG.

**Note 9 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 10 Subsequent Event**

On October 1, 2007, the Company completed its acquisition of Protective Marketing Enterprises, Inc. (PME). Under the terms of the acquisition, PME becomes a wholly owned subsidiary of the Company. PME offers, as a wholesaler, discount medical service products, provides back office support through its use of various operating systems, maintains a customer service facility, and develops products from both its proprietary and third party provider networks.

The consideration for the acquisition, paid in cash, consisted of \$1,075,000, plus contingent consideration of up to \$250,000 to be paid if certain membership targets from existing PME business are met. The purchase price is, however, subject to adjustment based upon the net value of certain of PME's tangible assets at closing (a formula determined by the terms of the Purchase Agreement and not in accordance with generally accepted accounting principles that amounted to a reduction in the purchase cost of \$52,000). Any adjustment to the purchase price is expected to be made by December 18, 2007. At closing, the Company also made a cash deposit to PME's parent, Protective Life Corporation (PLC), of \$125,000, representing one-half of the contingent consideration. The membership targets will be assessed at November 30, 2007. The contingent consideration will then be determined based on that assessment, by either paying up to an additional \$125,000 or by PLC returning all or a portion of the \$125,000 deposit. The initial cost of the acquisition was preliminarily allocated as follows:

| <b>Dollars in Thousands</b>              | <b>(Unaudited)</b> |
|--|--------------------|
| Cash                                     | \$ 288             |
| Advanced agent commissions               | 20                 |
| Other assets                             | 352                |
| Fixed assets                             | 30                 |
| Goodwill and other intangible assets     | 1,202              |
| Accounts payable and accrued liabilities | (412)              |
| Deferred revenue, net                    | (180)              |
| <b>Total</b>                             | <b>\$ 1,300</b>    |
| <br>                                     |                    |
| Purchase cost                            | 1,148              |
| Acquisition costs                        | 152                |
|  | <b>\$ 1,300</b>    |

The Company is in the process of evaluating whether a portion of the goodwill should be allocated to identifiable intangible assets with finite lives.

**Note 11 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 our 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 our 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, *et al* 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 alleged that they were not allowed to exercise certain stock options and warrants in May 2003 due to actions and inactions of Mr. May and that these actions and inactions constitute fraud, misrepresentation, negligence and legal malpractice. Plaintiffs sought damages equal to the difference between the exercise price of the stock options or warrants and the market value of our 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 our 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

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affirmed by the Court of Appeals for the Second Judicial District of Texas and, in July 2007, the Texas Supreme Court declined to review the case. The plaintiffs did not request a *writ of certiorari* to the U.S. Supreme Court. Therefore, by mandate of the Court of Appeals for the Second District of Texas, the matter was terminated in our favor on September 10, 2007.

*Zermeno v Preci, Inc.* 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 Preci, 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.

The Zermeno plaintiffs are former members of the Care Entrée 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 operation of the Company's Care Entrée 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 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 statutes 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 Entrée 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 Entrée, directly and through at least one other party that formerly resold the services of Care Entrée's 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. 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. ( Foresight )* In June 2004, we acquired Foresight 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 our Board of Directors until his March 2006 resignation. Frank Apodaca served as the President and C.E.O. of Foresight from our acquisition until August 3, 2007, on which date he was placed on administrative leave and notified that his employment with us would end on September 3, 2007. Mr. Apodaca also served as Chief Administrative Officer and a member of the Board of Directors of NCED. Mr. Apodaca also served as our President from June 10, 2004 to January 30, 2007. Until July 2006, his employment agreement with us allowed him to spend up to 20% of his time on matters related to NCED's operations. NCED is one of our greater than 10% shareholders as a result of shares it received from our acquisition of Foresight.

There is an ongoing federal investigation of Mr. Apodaca and Foresight, and there has been publicity in the El Paso, Texas area about the investigation. The investigation involves several elected public officials and over 20 companies that do business with local government entities in the El Paso area. Although no indictments have occurred, the Company believes that the investigation involves, among other things, allegations of corruption relating

to contract procurement by Mr. Apodaca and Foresight and other companies from these local governmental entities. We can offer no assurance as to the outcome of the investigation. In addition to the negative financial effect from the loss of business, the Company has suffered and may continue to suffer as a result of the investigation and the adverse publicity surrounding the investigation. The Company's financial condition and the results of its operations will be materially affected should the investigation result in formal allegations of wrongdoing by Foresight. The Company may become obligated to pay fines or restitution and its ability to operate Foresight under licenses may be restricted or terminated. In addition, the publicity and financial effect resulting from the investigation may affect our other divisions' ability to attract business, secure financing and reputation.

*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

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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 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 the Company's acquisition of ICM and its subsidiaries, Mr. Nauert and the Peter W. Nauert Revocable Trust have agreed to fully indemnify ICM and the Company against any losses resulting from this matter. Although we can provide no assurance, we believe that the ultimate outcome of these claims and lawsuits will not have a material adverse effect on our consolidated financial condition, results of operation, or liquidity.

***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 September 30, 2007 and 2006, respectively.

**Note 12 Discontinued Operations**

Discontinued operations are as follows:

***Financial Services Care 125.*** In the first quarter of 2004, the Company initiated Care 125, to provide health savings accounts (HSAs), Healthcare Reimbursement Arrangements (HRAs) and medical and dependent care Flexible Spending Accounts (FSAs). Care 125 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, Care 125 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.

***Vergance.*** In the third quarter of 2005, the Company began offering nutraceuticals through the Vergance marketing group of the Company's Consumer Healthcare Services division. Nutraceutical sales consisting of vitamins, minerals and other nutritional supplements, under the Natience brand commenced in late September 2005. Effective June 30, 2006, the Company discontinued its operations and wrote off the assets of this division. This operation had net loss of \$789,000 in the six months ended June 30, 2006.

**Note 13 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 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.

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.



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No one customer represents more than 10% of the Company's overall revenue. However, a material portion of the revenues of Foresight is derived from its contractual relationships with a few key governmental entities. The Company operates in substantially all of the 50 states and the District of Columbia 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:

| <b>Dollars in Thousands</b>       | <b>Three months ended September 30, 2007</b> |                            |                            |                            |                              |
|-----------------------------------|--|----------------------------|----------------------------|----------------------------|------------------------------|
|                                   | <b>Consumer Plan</b>                         | <b>Insurance Marketing</b> | <b>Regional Healthcare</b> | <b>Corporate and Other</b> | <b>Continuing Operations</b> |
| Revenue (1)                       | \$ 3,120                                     | \$ 5,536                   | \$ 1,594                   | \$ 4                       | \$ 10,254                    |
| Operating income (loss) (1)       | (3,195)                                      | (4,423)                    | (70)                       | (547)                      | (8,235)                      |
| Interest expense (income) (2)     | (17)   | 29                         | (25)                       | (1)                        | (14)                         |
| Depreciation and amortization     | 37   | 214                        | 25                         | 1                          | 277                          |
| Goodwill impairment               | 3,377  | 4,600                      |                            |                            | 7,977                        |
| Taxes (benefit) (2)               | 13   | 10                         | 12                         | 3                          | 38                           |
| Assets acquired, net of disposals | 38   |                            |                            |                            | 38                           |
| Intangible assets (2)             |  | 9,454                      |                            | 5                          | 9,459                        |
| Assets held (2)                   | 1,628  | 15,224                     | 910                        | 2,896                      | 20,658                       |

| <b>Dollars in Thousands</b>       | <b>Three months ended September 30, 2006</b> |                            |                            |                            |                              |
|-----------------------------------|--|----------------------------|----------------------------|----------------------------|------------------------------|
|                                   | <b>Consumer Plan</b>                         | <b>Insurance Marketing</b> | <b>Regional Healthcare</b> | <b>Corporate and Other</b> | <b>Continuing Operations</b> |
| Revenue (1)                       | \$ 3,457                                     | \$                         | \$ 1,827                   | \$ 15                      | \$ 5,299                     |
| Operating income (loss) (1)       | (36)   |                            | 157                        | (409)                      | (288)                        |
| Interest expense (income) (2)     | 62   |                            | 33                         |                            | 95                           |
| Depreciation and amortization     | 111  |                            | 29                         | 5                          | 145                          |
| Goodwill impairment               |  |                            |                            |                            |                              |
| Taxes (benefit) (2)               | 5  |                            | 8                          | (33)                       | (20)                         |
| Assets acquired, net of disposals | (136)  |                            | 55                         | 1                          | (80)                         |
| Intangible assets (2)             | 822  |                            |                            | 5,360                      | 6,182                        |
| Assets held (2)                   | 2,299  |                            | 7                          | 1,260                      | 3,566                        |

| <b>Dollars in Thousands</b>       | <b>Nine months ended September 30, 2007</b> |                            |                            |                            |                              |
|-----------------------------------|---|----------------------------|----------------------------|----------------------------|------------------------------|
|                                   | <b>Consumer Plan</b>                        | <b>Insurance Marketing</b> | <b>Regional Healthcare</b> | <b>Corporate and Other</b> | <b>Continuing Operations</b> |
| Revenue (1)                       | \$ 9,445                                    | \$ 14,169                  | \$ 5,011                   | \$ 31                      | \$ 28,655                    |
| Operating income (loss) (1)       | (3,733)                                     | (4,527)                    | (3,952)                    | (1,820)                    | (14,033)                     |
| Interest expense (income) (2)     | (70)  | 74                         | (88)                       | (2)                        | (86)                         |
| Depreciation and amortization     | 137   | 579                        | 78                         | 5                          | 799                          |
| Goodwill impairment               | 3,377                                       | 4,600                      | 4,092                      |                            | 12,069                       |
| Taxes (benefit) (2)               | 12  | 24                         | 36                         | 17                         | 89                           |
| Assets acquired, net of disposals | 171   |                            | 16                         | (225)                      | (38)                         |

|                       |       |        |     |       |        |
|-----------------------|-------|--------|-----|-------|--------|
| Intangible assets (2) |       | 9,454  |     | 5     | 9,459  |
| Assets held (2)       | 1,628 | 15,224 | 910 | 2,896 | 20,658 |

**Nine months ended September 30, 2006**

| <b>Dollars in Thousands</b>       | <b>Corporate and Continuing</b> |                            |                            |              |                   |
|-----------------------------------|---------------------------------|----------------------------|----------------------------|--------------|-------------------|
|                                   | <b>Consumer Plan</b>            | <b>Insurance Marketing</b> | <b>Regional Healthcare</b> | <b>Other</b> | <b>Operations</b> |
| Revenue (1)                       | \$11,283                        | \$                         | \$5,686                    | \$ 72        | \$17,041          |
| Operating income (loss) (1)       | 64                              |                            | 1,008                      | (1,297)      | (225)             |
| Interest expense (income) (2)     | 184                             |                            | 75                         |              | 259               |
| Depreciation and amortization     | 282                             |                            | 46                         | 10           | 338               |
| Goodwill impairment               |                                 |                            |                            |              |                   |
| Taxes (benefit) (2)               | (5)                             |                            | 33                         | (513)        | (485)             |
| Assets acquired, net of disposals | (228)                           |                            | 266                        | 40           | 39                |
| Intangible assets (2)             | 822                             |                            |                            | 5,360        | 6,182             |
| Assets held (2)                   | 2,299                           |                            | 7                          | 1,260        | 3,566             |

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

(2) Income tax expense (benefit) is not allocated to the assets and operations of the related segment.