

Access Plans USA, Inc.
Form 10-Q
May 09, 2008

Table of Contents

**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 March 31, 2008

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

(Registrant'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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 9, 2008 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 March 31, 2008
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Item 2. Management's Discussion and Analysis

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures (and Item 4T. Controls and Procedures)

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 1A. Risk Factors

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

Item 3. Defaults upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits

SIGNATURES

Certification Pursuant to Rule 13a-14(a) and 15d-14(a)

Certification Pursuant to Rule 13a-14(a) and 15d-14(a)

Certification Pursuant to Section 906

Certification Pursuant to Section 906

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

Our financial statements which are prepared in accordance with Regulation S-X are set forth in this report beginning on page 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 2007 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, 2007 (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 at 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 need access to affordable healthcare.

Our operations are organized under three business divisions:

Consumer Plan Division. Our Consumer Plan Division develops and markets non-insurance healthcare discount programs and association memberships that include defined benefit insurance features. These programs are distributed through multiple distribution channels. The division operates through our wholly-owned subsidiaries, The Capella Group, Inc. (Capella) and Protective Marketing Enterprises, Inc. (PME). PME also owns and manages a proprietary customer healthcare advocacy department and proprietary networks of dental and vision providers that provide services at negotiated rates to members of our discount medical plans (program members) and to members of other plans that have contracted with us for access to our networks (network access members). Before 2007, this division was referred to as our Consumer Healthcare Savings segment.

Insurance Marketing Division. Our Insurance Marketing Division markets individual health insurance products and related benefit plans, including specialty insurance products, primarily through a broad network of independent agents. We support our distribution channels with web-based technology, incentive programs and back-office support. This division operates as Insuraco USA LLC (Insuraco).

Regional Healthcare Division. Our Regional Healthcare Division 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. It also owns and manages a proprietary network of medical providers. This division operates as Foresight TPA (Foresight) and was previously referred to as the Employer and Group Healthcare Services segment. Foresight TPA is the assumed name of Access HealthSource, Inc.

Summary Results of Operations

For the first quarter, we reported revenue of \$10,585,000, an increase of \$2,260,000 or 27%, compared to \$8,325,000 during the comparable quarter in 2007. First quarter 2008 revenue included \$5,809,000 attributable to the Insurance Marketing operations acquired in the merger with ICM on January 30, 2007, and \$3,416,000 for first quarter 2007, and \$1,160,000 attributable to the Consumer Plan operations acquired in the acquisition of PME on October 1, 2007. Our net loss for the first quarter of 2008 was \$1,043,000 or \$(.05) per fully diluted share, compared to a net loss of \$325,000 or \$(.02) per fully diluted share for the comparable quarter in 2007. We used \$793,000 of cash in our operating activities during the first quarter of 2008.

Critical Accounting Policies

Basis of Presentation. The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and include the accounts of our 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.

Table of Contents

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 our financial statements and accompanying notes. Certain significant estimates are required in the evaluation of goodwill and intangible assets for impairment as well as allowances for doubtful recoveries of advanced agent commissions and accounts and notes receivable. 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*, that provides enhanced guidance for using fair value measurements in financial reporting. While the standard does not expand the use of fair value in any new circumstance, it has applicability to several current accounting standards that require or permit entities to measure assets and liabilities at fair value. This standard defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This standard applies to the Company beginning in 2008. It has not had a material impact through March 31, 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*, that 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. Adoption of this standard has not had a material impact on the Company.

In December 2007, the FASB issued SFAS No. 141R (FAS 141R), *Business Combinations*, which revises FAS 141 and changes multiple aspects of the accounting for business combinations. Under the guidance in FAS 141R, the acquisition method must be used, which requires the acquirer to recognize most identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree at their full fair value on the acquisition date. Goodwill is to be recognized as the excess of the consideration transferred plus the fair value of the non-controlling interest over the fair values of the identifiable net assets acquired. Subsequent changes in the fair value of contingent consideration classified as a liability are to be recognized in earnings, while contingent consideration classified as equity is not to be re-measured. Costs such as transaction costs are to be excluded from acquisition accounting, generally leading to recognizing expense, and, additionally, restructuring costs that do not meet certain criteria at acquisition date are to be subsequently recognized as post-acquisition costs. FAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company anticipates that adoption of this pronouncement will not have a material impact on its financial position and results of operation.

Revenue Recognition. Revenue recognition varies based upon source.

Consumer Plan Division Revenues. We recognize Consumer Plan program membership revenues, other than initial enrollment fees, ratably over the membership month. 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 us of those amounts, we record a receivable from the private label partners and record an estimated allowance for uncollectible amounts. The allowance of uncollectible receivables is based upon review of the aging of outstanding balances, the creditworthiness 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 maintain 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

Table of Contents

earned on a monthly basis, until the underlying policyholder contract is terminated. Advanced commissions received are recorded as unearned commission revenue and are recognized in income as earned. 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 48 months, and is based upon our historical policyholder contract termination experience.

Our commission revenue generally represents a percentage of the insurance premium a policyholder pays to his or her insurance carrier and, to a lesser extent, additional incentive payments that insurance carriers pay us for achieving sales volume thresholds or other objectives. Commission rates vary by carrier and by the type of plan purchased by a policyholder. Commission rates also may vary based upon the amount of time that the policy has been active, with commission rates for individual and family policies typically being higher in the first 12 months of the policy. Individuals, families and small businesses purchasing health insurance through us typically pay their premiums on a monthly basis. Insurance carriers typically pay us our commissions monthly, after they receive the premium payment from the member. We continue to receive the commission payment from the relevant insurance carrier until the health insurance policy is cancelled or we otherwise do not remain the agent on the policy. As a result, the majority of our revenue is recurring in nature and grows in correlation with the growth we experience in our policies in force. Commission income and policy fees, other than initial enrollment fees, and corresponding commission expense payable to agents who sell policies on our behalf, are generally recognized at their gross amount, as earned on a monthly basis, until such time as the underlying policyholder contract is terminated.

In some cases, we may receive an advance payment of commissions from the carrier, representing our expected commission on future premiums not yet collected or earned. These advances are subject to repayment back to the carrier in the event that the policy lapses before the advanced commissions are collected and earned. These advanced commissions are reflected on our balance sheet as unearned commissions. Similarly, we or the carrier may advance commissions to brokers and agents who sell for us. These advances are subject to repayment back to us or to the carrier in the event that the policy lapses before the advanced commissions are collected and earned. These commissions advanced to agents are reflected on our balance sheet as advanced agent commissions. Collection of the commissions advanced may be accomplished by withholding amounts due to the agents, plus accumulated interest, from 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. 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. 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. Any bad debt is written off when determined uncollectible.

We recognize commission revenue when the commission is earned, based upon premiums collected and earned on the underlying policies in force. These revenues are based upon amounts reported to us by a carrier, which occurs through our receipt of a cash payment and a commission statement. Incentive payments from carriers are recognized when we receive notice from the carrier that they have been earned and are generally reported to us in a more irregular pattern than premium commissions. As a result, our revenue for a particular quarter could be higher or lower than expectations due to the timing of the reporting of commission override payments.

Revenue attributable to individual and family major medical policies and supplemental products for the three months ended March 31, 2008 represented approximately 81% of our total revenue in the Insurance Marketing Division. Additionally, revenue attributable to Medicare supplemental policies for the three months ended March 31, 2008 represented approximately 16% of our total revenues in the Insurance Marketing Division. In addition to the revenue we derive from commissions on the sale of health insurance products, we derive revenue from interest charged to agents on their outstanding advanced commissions and for the sale of leads to those agents.

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 by us. In 2007, we began issuing advances of commissions on certain Consumer Plan programs to increase sales representative recruitment. In 2008, we began paying accelerated commissions, comprising amounts paid in excess of the initial revenue collected at the time of sale, on certain programs. These commissions have been expensed as incurred, rather than being capitalized and amortized over the expected lives of the respective programs.

Table of Contents

Insurance Marketing. Commission expenses for the Insurance Marketing Division consist primarily of commissions payable to agents and are generally recognized at their gross amount, as earned on a monthly basis, until such time as the underlying policyholder contract is terminated. Advances of commissions up to ten months 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 record an estimated allowance for 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, generally lead expenses for sales of major medical policies, are capitalized and amortized over the estimated lives of the respective policies, provided that the amount capitalized does not exceed the amount of capitalized and deferred enrollment fees for the Insurance Marketing Division. 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.

Advanced Agent Commissions. Our Insurance Marketing Division advances agent commissions up to one year for certain insurance programs. Collection of the commissions advanced (plus accrued interest) is 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. Advanced agent commissions are reviewed periodically to determine if any advanced agent commissions will likely be uncollectible. An allowance is provided for the estimated advanced agent commission balance where recovery is considered doubtful. This allowance for uncollectible advances required judgment and 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. Advances are written off when determined to be non-collectible.

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. Accounts receivable are written off when they are determined to be uncollectible. Our accounts receivable are unsecured.

Acquisitions. On January 30, 2007, we completed our merger with ICM. Under the terms of the merger, the shareholders of ICM received 6,756,382 shares of our common stock. The assets and liabilities acquired were initially valued, in the aggregate net amount of \$10,540,000, based upon the market value of the common stock issued as the merger consideration in the acquisition. Judgment was required in the allocation of value to the acquired assets and liabilities, based upon their fair values, especially with regard to the allocation of \$10,087,000 to goodwill and \$3,700,000 to other intangible assets. These other intangible assets represent the estimated value, at the date of their acquisition, of policies in force (Customer Contracts) of \$1,800,000 and certain agent relationships (Agent Relationships) of \$1,900,000. The Customer Contracts and Agent Relationships are being amortized on a straight-line basis over three years and eight years, respectively. Goodwill is deemed to have an infinite life and is subject to an annual, or more frequent, analysis for possible impairment (discussed below).

On October 1, 2007, we completed our acquisition of PME. 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 networks of dental and vision providers contracted and third-party provider networks. The \$1,218,000 purchase price of PME was cash consideration paid to PME's parent, Protective Life Corporation. Judgment was required in the allocation of value to the acquired assets and liabilities, based upon their fair values, especially with regard to the allocation of \$1,073,000 to other intangible assets. The other intangible assets included memberships in force (Customer Contracts) having an estimated value of \$482,000 and dental and vision provider network contracts (Network Contracts) having an estimated value of \$591,000. These

Customer Contracts and Network Contracts are being amortized on a straight-line basis over four years and eight years, respectively.

Intangible Asset Valuation. Our intangible assets as of March 31, 2008, consisted of \$5,489,000 of goodwill and other intangible assets of \$3,707,000, primarily attributable to our January 2007 ICM acquisition and our October 2007 PME 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 and memberships in force (Customer Contracts), certain agent relationships and provider network contracts (Agent Relationships/Network Contracts), net of amortization. The intangible asset amount initially allocated to Customer Contracts was \$2,282,000 and the amount allocated to Agent Relationships/Network Contracts was \$2,491,000.

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

Table of Contents

(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 December 31, 2007 equal to the expected option term. Expected pre-vesting forfeitures were estimated based on actual historical pre-vesting forfeitures over the most recent period ended March 31, 2008 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.

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.

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. As of March 31, 2008, 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 was appropriate as of March 31, 2008.

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:

Dollars in Thousands	For the Three Months Ended March 31,			
	2008	2007	Dollar Change	Percent Change
Commission and service revenue	\$ 3,915	\$ 3,104	\$ 811	26.1%
Interest income	13	17	(4)	-23.5%
Total revenues	3,928	3,121	807	25.9%
Operating expenses:				
Commissions	1,452	702	750	106.8%
Cost of operations	1,805	1,234	571	46.3%
Sales and marketing	143	205	(62)	-30.2%
General and administrative	701	746	(45)	-6.0%
Depreciation and amortization	90	75	15	20.0%
Interest expense	7	5	2	40.0%
Total expenses	4,198	2,967	481	16.2%
Earnings (loss) before taxes	\$ (270)	\$ 154	\$ (424)	-275.3%

Percent of revenue:

Edgar Filing: Access Plans USA, Inc. - Form 10-Q

Total revenues	100.0%	100.0%
Operating expenses:		
Commissions	37.0%	22.5%
Cost of operations	46.0%	39.5%
Sales and marketing	3.6%	6.6%
General and administrative	17.8%	23.9%
Depreciation and amortization	2.3%	2.4%
Interest expense	0.2%	0.2%
Total expenses	106.9%	95.1%
Earnings (loss) before taxes	(6.9%)	4.9%

7

Table of Contents**Consumer Plan Selected Metrics**

Dollars in Thousands (except monthly average)	2008		3 rd Qtr	2007		Year
	1 st Qtr	4 th Qtr		2 nd Qtr	1 st Qtr	
Program Member:						
Members newly enrolled	19,281	4,954	6,771	7,483	25,541	44,749
Members at end of period	46,655	38,270	27,902	28,965	30,649	38,270
Network Access Members: ²						
Members at end of period	38,895	46,718				46,718
Service revenues	\$ 3,915	\$ 4,255	\$ 3,119	\$ 3,220	\$ 3,104	\$13,698
Commissions	1,452	1,272	810	822	702	3,606
Provider network benefits costs	694	729	734	660	549	2,672
Average monthly revenue per Program Member, net of commission and provider network benefit costs ³	\$ 15.07	\$ 17.77	\$ 18.46	\$ 19.44	\$ 19.77	\$ 19.09

(1) PME results are included in 4th quarter 2007 and 1st quarter 2008.

(2) Network access monthly member revenue (PMPM) is about \$1.00.

(3) Commissions are adjusted to normalize impact of accelerated commissions paid on a new program introduced during the quarter.

Service Revenues. Revenues increased by \$811,000 from the three months ended March 31, 2007 to the three months ended March 31, 2008 due to the inclusion in our first quarter 2008 results of revenues of recently acquired PME of \$1,160,000 offset by a decline in legacy Capella business revenue of \$349,000. The \$349,000 decline reflected a long-term trend of membership decline down to 24,213 members at March 31, 2008 compared to 30,649 at March 31, 2007.

Commissions. Commission expense increased by \$750,000 from the three months ended March 31, 2008 to the three months ended March 31, 2007 due to commissions paid on PME revenue, including \$327,000 of accelerated commissions which were paid to certain marketing resellers upon the initial sale of a membership and expensed as paid.

Cost of Operations. The increase in cost of operations of \$571,000 from the three months ended March 31, 2007 to the three months ended March 31, 2008 was due primarily to the operating costs of PME now reflected in the results of our operations and which were not recorded in our 2007 results.

General and Administrative Expenses. The decrease in general and administrative expenses from the three months ended March 31, 2007 to the three months ended March 31, 2008 was due to an \$83,000 reduction in personnel costs in Capella, a \$40,000 decrease in third party administrative charges, a \$25,000 reduction in property taxes associated with equipment, and a \$22,000 reduction in management consulting fees and offset by higher legal and settlement costs. For the three months ended March 31, 2008 we accrued \$300,000 in connection with a re-assessment of our exposure arising from pending litigation and claims. During the corresponding prior year period we incurred \$216,000 of such costs. The net increase in legal and settlement costs for the three months ended March 31, 2008 was more than offset by savings arising from various operational efficiencies, including personnel reductions and lower management consulting fees.

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

Table of Contents

Dollars in Thousands	For the Three Months Ended March 31,			
	2008	2007	Dollar Change	Percent Change
Commission revenue	\$ 5,641	\$ 3,332	\$ 2,309	69.3%
Interest income on agent advances	168	84	84	100.0%
Interest income				0.0%
Total revenues	5,809	3,416	2,393	70.1%
Operating expenses:				
Commission expense	4,168	2,511	1,657	66.0%
Cost of operations	148	94	54	57.4%
Sales and marketing	701	488	213	43.6%
General and administrative	292	178	114	64.0%
Depreciation and amortization	218	142	76	53.5%
Interest expense	24	43	(19)	-44.2%
Total expenses	5,551	3,456	438	12.7%
Earnings (loss) before taxes	\$ 258	\$ (40)	\$ 298	-745.0%
Percent of revenue:				
Total revenues	100.0%	100.0%		
Operating expenses:				
Commissions	71.8%	73.5%		
Cost of operations	2.5%	2.8%		
Sales and marketing	12.1%	14.3%		
General and administrative	5.0%	5.2%		
Depreciation and amortization	3.8%	4.2%		
Interest expense	0.4%	1.3%		
Total expenses	95.6%	101.3%		
Earnings (loss) before taxes	4.4%	(1.3%)		

Insurance Marketing Summary of Selected Metrics

	2008		2007		1st Qtr	
	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	(1)	Year (2)
Dollars in Thousands (except monthly average)						
Major Medical Submitted annualized premiums	\$21,001	\$17,094	\$15,993	\$14,143	\$16,923	\$64,153
Major Medical Issued annualized premiums	\$16,281	\$13,120	\$12,269	\$10,314	\$10,524	\$46,227
Medicare Issued Annualized premiums	\$ 271	\$ 1,036	\$ 914	\$ 666	\$ 1,127	\$ 3,743
New issued policies Major Medical	5,305	3,883	3,555	2,945	3,327	13,710
New issued policies Medicare	126	475	572	352	652	2,051

Edgar Filing: Access Plans USA, Inc. - Form 10-Q

Policies in-force at end of period:

Major Medical AHCP	17,455	16,440	15,317	14,353	13,665	16,440
Major Medical percent change	6.2%	7.3%	6.7%	5.0%	n/a	n/a
Medicare Supplement ACP	10,844	12,873	13,305	13,549	14,107	12,873
Medicare Supplement percent change	-15.8%	-3.2%	-1.8%	-4.0%	n/a	n/a
Commission revenues	\$ 5,641	\$ 5,456	\$ 5,520	\$ 5,275	\$ 3,332	\$19,583
Commission expense	\$ 4,168	\$ 4,113	\$ 4,091	\$ 3,697	\$ 2,511	\$14,412
Revenue, net of commission expense	\$ 1,473	\$ 1,343	\$ 1,429	\$ 1,578	\$ 821	\$ 5,171
Average monthly revenue per policy, net of commission expense	\$ 17.05	\$ 15.45	\$ 16.85	\$ 18.90	\$ 9.59	

(1) 2 months activity, except for premiums and policies issued

(2) 11 months ended December 31, 2007, except for premiums and policies issued

Operating results of the Insurance Marketing Division are included only for February 2007 and the following months because the ICM acquisition was completed on January 30, 2007. Accordingly, the first quarter results for 2007 only include two months of operations versus three months for 2008.

Commissions. Commission revenue per month increased from \$1,666,000 per month for the two months ended March 31, 2007 to \$1,880,000 per month for the three months ended March 31, 2008, an increase of 12.8%.

Table of Contents

Commission expense increased from \$1,256,000 per month for the two months ended March 31, 2007 to \$1,389,000 per month for the three months ended March 31, 2008. These increases arose from an increasing number of policies in force for major medical, (from 13,665 at March 31, 2007 to 17,455 at March 31, 2008) offset by a decline in policies in force for Medicare supplement insurance, as reflected in the table above.

Cost of Operations. Cost of operations remained consistent from \$47,000 per month for the two months ended March, 31, 2007 to \$49,000 per month for the three months ended March 31, 2008.

Sales and Marketing. Sales and marketing expenses remained stable from \$244,000 per month in the two months ended March 31, 2007 to \$234,000 per month for the three months ended March 31, 2008.

General and Administrative Expenses. General and administrative expenses were consistent from \$89,000 per month for the two months ended March 31, 2007 to \$97,000 per month for the three months ended March 31, 2008.

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

Dollars in Thousands	For the Three Months Ended March 31,			
	2008	2007	Dollar Change	Percent Change
Service revenue	\$ 846	\$ 1,736	\$ (890)	-51.3%
Interest income	2	35	(33)	-94.3%
Total revenues	848	1,771	(923)	-52.1%
Operating expenses:				
Commissions				0.0%
Cost of operations	857	1,140	(283)	-24.8%
Sales and marketing	81	128	(47)	-36.7%
General and administrative	290	209	81	38.8%
Depreciation and amortization	25	28	(3)	-10.7%
Interest expense				0.0%
Total expenses	1,253	1,505	(252)	-16.7%
Loss before taxes	\$ (405)	\$ 266	\$ (671)	-252.3%
Percent of revenue:				
Total revenues	100.0%	100.0%		
Operating expenses:				
Commissions	0.0%	0.0%		
Cost of operations	101.1%	64.4%		
Sales and marketing	9.6%	7.2%		
General and administrative	34.2%	11.8%		
Depreciation and amortization	2.9%	1.6%		
Interest expense	0.0%	0.0%		
Total expenses	147.8%	85.0%		
Earnings (loss) before taxes	(47.8%)	15.0%		

Regional Healthcare Summary of Selected Metrics

Dollars in Thousands (except monthly average)	2008			2007		Year
	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	
Covered employees	11,067	25,612	28,215	29,666	31,005	25,612
Percent Change	(56.8%)	(9.2%)	(4.9%)	(4.3%)	(1.1%)	(18.1%)
Service revenues	\$ 846	\$ 1,593	\$ 1,594	\$ 1,680	\$ 1,736	\$ 6,603
Average monthly revenue per member	\$ 15.38	\$ 19.73	\$ 18.36	\$ 18.46	\$ 18.66	\$ 21.48

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 employees' 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.

Table of Contents

Service Revenues. Due to the previously disclosed losses of two significant customer contracts, the Regional Healthcare Division has experienced a significant decline in revenue from \$1,771,000 for the three months ended March 31, 2007 to \$848,000 for the three months ended March 31, 2008, a decline of 52.1%. While efforts have been made to reduce costs in anticipation of the decline in revenue, these efforts have not been successful in completely offsetting declining revenue.

Cost of Operations. Cost of operations were reduced by 24.8% from \$1,140,000 for the three months ended March 31, 2007 to \$858,000 for the three months ended March 31, 2008.

Sales and Marketing Expenses. Sales and marketing expenses were reduced by 36.7% from \$128,000 for the three months ended March 31, 2007 to \$81,000 for the three months ended March 31, 2008 due to the loss of significant contracts discussed previously.

General and Administrative Expenses. General and administrative expenses increased by 38.8% to \$290,000 for the three months ended March 31, 2008 due to \$146,000 of legal expenses during that period incurred in connection with the federal investigation of the activities of the division's former CEO.

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

Dollars in Thousands	For the Three Months Ended March 31,			
	2008	2007	Dollar Change	Percent Change
Operating expenses:				
Commissions	\$ 1	\$ 6	\$ (5)	-83.3%
Cost of operations				0.0%
Sales and marketing				0.0%
General and administrative	604	668	(64)	-9.6%
Depreciation and amortization	2	2		0.0%
Interest income, net	(2)		(2)	100.0%
Total expenses	605	676	(66)	-9.8%
Loss before taxes	\$ (605)	\$ (676)	\$ 66	-9.8%

General and Administrative Expenses. The 9.8% decline in general and administrative expenses from the three months ended March 31, 2007 to the three months ended March 31, 2008 was primarily due to lower officer salaries.

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 March 31, 2008 we did not have any recorded deferred tax assets or liabilities. At December 31, 2007 we had current deferred tax assets of \$23,000 and non-current deferred tax liabilities of \$23,000. The current deferred tax asset was 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 the acquisition related amortizable intangible assets. At March 31, 2008 and December 31, 2007 we had valuation allowances of \$291,000 to fully offset net deferred tax assets on these dates.

Liquidity and Capital Resources

Operating Activities. Net cash used in operating activities for the three months ended March 31, 2008 was \$793,000 and net cash provided for the three months ended March 31, 2007 was \$659,000. The decrease in net cash provided by operating activities of \$1,452,000 was due primarily to greater net losses in the Regional Healthcare and Consumer Plan Divisions, as previously discussed, as well as prior year operations benefiting from the utilization of greater amounts of expenses that were prepaid at December 31, 2006 in conjunction with tax planning strategies.

Investing Activities. Net cash used by investing activities for the three months ended March 31, 2008 and 2007 was \$1,339,000 and \$108,000, respectively. The increase in net cash used in investing activities of \$1,231,000 was due primarily to \$730,000 of additional advancing of commissions to agents as well as pledging \$504,000 to secure bonds for regulatory licenses.

Table of Contents

Financing Activities. Net cash provided by financing activities for the three months ended March 31, 2008 was \$793,000 and net cash used in financing activities for the three months ended March 31, 2007 was \$34,000. The increase in cash provided by financing activities was due primarily to borrowings under a new credit facility with a specialty lender and increases in advances from carriers.

On March 31, 2008 and December 31, 2007 we had working capital of \$1,283,000 and \$1,076,000, respectively. The increase in working capital during the first quarter of 2008 of \$207,000 was due primarily to long-term borrowings under a new credit facility with a specialty lender, as discussed below.

We do not have any capital commitments as of March 31, 2008. We anticipate that our capital expenditures for 2008 may exceed the amount incurred during 2007 due to the need to relocate PME's operating facility and complete other steps to integrate PME into our operations. We require working capital to advance commissions to our agents prior to our receipt of the underlying commission from the insurance carrier. On March 24, 2008, our subsidiary AHCP entered into a Loan and Security Agreement (the "Loan Agreement") with CFG, LLC ("CFG"). We are co-borrowers under the Loan Agreement. Through the Loan Agreement, CFG loaned AHCP \$1,604,972. We used some of the proceeds from this loan to pay off existing debt that we had incurred to finance our agent commission advance program for our Insurance Marketing Division. Additional proceeds from the loan are available for our working capital needs, including the agent advance program. Outstanding balances under the loan are charged interest at a rate that is the greater of (x) five (5) percentage points above the prime rate as reported in the Wall Street Journal as of the first publication day of the month, and (y) 10%. As of March 31, 2008, the interest rate was 11.0% per annum. We are obligated to repay the loan in 36 monthly payments of \$52,000, although the monthly amount may change as the applicable interest rate changes. We may prepay the loan at any time without penalty. The debt is secured by the assets, including rights to commissions from insurance carriers, of AHCP. CFG may accelerate the amounts owed under the loan should we default in our obligations under the Loan Agreement.

Growth in our Insurance Marketing Division will necessitate additional financing to fund future advances. Additionally, if we incur losses from the operation of our Regional Healthcare Division, our cash and working capital may be reduced or consumed. We are attempting to modify our arrangements for clearing credit card charges so that less cash will be required to be pledged to our clearing service providers. However, there is no assurance that those efforts will be successful.

Because our capital requirements cannot be predicted with certainty, there is no assurance that we will not require any additional financing during the next twelve 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 investments.

ITEM 4. CONTROLS AND PROCEDURES (and ITEM 4T. 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

Table of Contents

evaluation, the Interim Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective at March 31, 2008. The Interim Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to the material weaknesses 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 first quarter of 2008 that would materially affect or was reasonably likely to materially affect our disclosure controls and procedures or internal control over financial reporting.

The following material weaknesses form the basis for our conclusion at March 31, 2008:

Insurance Marketing Division Commission Processing. Our processing and recording of commission revenues earned and commission expenses earned by and payable to agents are key determinants of material revenues and expenses reported in our financial statements. The processing and recording of commission revenue and expense, together with the accurate and timely disbursement of commission payments to agents, are dependent upon our timely receipt of complete and accurate commission information 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. While we have established multiple compensating manual processes designed to partially mitigate these weaknesses, we nevertheless have insufficient control procedures in place to fully assure that commission information received from those insurance carriers is complete, accurate or received in a timely manner. Additionally, some information is processed for us by outside third party service bureaus or administrators. Some of those third party service bureaus or administrators have not had their controls evaluated by independent registered accountants and they have not received SAS 70 reports on their controls. We have performed limited reviews of their controls and have determined that they have insufficient information technology general controls, as further discussed below. Our remediation of the material weakness in controls over the processing of commissions for our Insurance Marketing Division necessitates the development and implementation of a new information technology system that provides us with assurance as to the receipt, from insurance carriers, of commission information in a timely, complete and accurate fashion and replaces or replicates the processes currently performed by certain of the third-party service bureaus or administrators discussed above. We anticipate that these remediation efforts may not be completed until late in 2008.

Information Technology General Controls. During our assessment of internal controls over financial reporting, as they apply to or are affected by our information technology functions, we determined that we had numerous weaknesses in both our internal information technology controls and those at third-party service bureaus or administrators, including:

Lack of controls over the transfer of data to and from third party service bureaus or administrators, carriers and us,

Lack of a rigorous software development methodology,

Lack of documented change control,

Weak service level management,

Informal security processes,

Inconsistent help desk functions,

Inadequately documented data backups,

Inadequate infrastructure acquisition and maintenance, and

Poor operating controls.

As discussed above, our remediation of the material weakness in controls over information technology controls as they relate to the processing of commissions for our Insurance Marketing Division will necessitate the development and implementation of a new information technology system that provides us with assurance as to the receipt, from insurance carriers, of commission information in a timely, complete and accurate fashion and replaces or replicates the processes currently performed by certain of the third-party service bureaus or administrators discussed above. We anticipate that these remediation efforts may not be completed until late in 2008. Further, the remediation of the material weakness in controls over information technology controls as they relate to our Consumer Plan Division will require the migration of our processing for that business to the automated processing platforms acquired by us through our acquisition of PME in the fourth quarter of 2007. We believe that this migration may be completed by mid-2008.

Table of Contents

We anticipate the actions described above and resulting improvements in controls will strengthen our internal control over financial reporting and will, over time, address the related material weaknesses that we identified as of March 31, 2008. However, because many of the controls in our system of internal controls rely extensively on manual review and approval, the successful operation of these controls for, at least, the next several quarters may be required prior to management being able to conclude that the material weaknesses have been 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. There were no new material legal proceedings that arose during the quarter ended March 31, 2008.

With respect to the States General Life Insurance Matter described more fully in our Annual Report on Form 10-K, our Motion for Summary Judgment on various matters was granted on May 6, 2008. The order granting our motion dismissed the Special Deputy Receiver's causes of action related to recovery from affiliates, fraudulent transfers, avoidable preferences and under the Uniform Fraudulent Transfer Act. While the granting of our motion does not summarily dismiss the case, it does narrow the issues significantly and makes it less likely that the Special Deputy Receiver will be able to recover any amount from us.

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 or 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.

Table of Contents

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 QUARTERS OF 2008 AND 2007 WE INCURRED LOSSES FROM OPERATIONS AND THESE LOSSES MAY CONTINUE.

During the three months ended March 31, 2008 and 2007 we incurred losses before taxes of \$1,022,000 and \$296,000, respectively, and net losses of \$1,043,000 and \$325,000, respectively. As part of the net losses in prior years, we incurred goodwill impairment charges of \$12,069,000, \$6,440,000 including tax considerations of \$426,000, and \$12,900,000 in 2007, 2006 and 2005, respectively. In 2007, we recorded goodwill impairment charges of \$4,092,000 for Foresight due to the loss of significant contracts by the Regional Healthcare Division, \$3,377,000 for Capella due to the failure of certain new product and marketing initiatives by the Consumer Plan Division 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 (the Regional Healthcare Division and \$2,800,000 for Capella (the Consumer Plan Division). In 2005, we recorded a goodwill impairment charge of \$12,900,000 related to Capella (the Consumer Plan Division). The operating losses before goodwill impairment charges in 2007 and 2005 were primarily attributable to the continuing costs associated with our medical savings program. There is no assurance that operating losses will not continue or that our operations will become or continue to be profitable in 2008 or thereafter.

WE MAY BE UNABLE TO OBTAIN ADDITIONAL CAPITAL ON A TIMELY BASIS OR ON ACCEPTABLE TERMS TO FUND OUR WORKING CAPITAL REQUIREMENTS.

As a result of our decline in revenues, our merger with ICM, our acquisition of PME, and certain marketing and sales initiatives, we have used significant amounts of cash in our operations and in financing and investing activities. As of March 31, 2008, we had a balance of \$1.4 million of unrestricted cash. In the first quarter of 2008, cash used in investing and financing activities was \$.8 million and our operating activities used \$.6 million in cash. This resulted in a decrease of \$1.3 million in our unrestricted cash and cash equivalents during the quarter.

We expect that we will need significant additional cash resources to operate and execute our business plan in the future, particularly with respect to our agent advance commission programs that are critical to the success of our Insurance Marketing Division. Our future capital requirements will depend on many factors, including our ability to maintain our existing cost structure and return on sales, fund obligations for additional capital and execute our business and strategic plans as currently conceived. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities may result in additional dilution to our stockholders. Additional indebtedness could result in debt service obligations and lender imposed operating and financing covenants that restrict our operations. In addition, financing might be unavailable in amounts or on terms acceptable to us, if at all.

THE PENDING FEDERAL INVESTIGATION RELATED TO OUR REGIONAL HEALTHCARE DIVISION MAY RESULT IN THE IMPOSITION OF SUBSTANTIAL PENALTIES AND REQUIRE SUBSTANTIAL RESTITUTION PAYMENTS TO LOCAL GOVERNMENT AGENCIES.

The former CEO of our Regional Healthcare Division subsidiary, Foresight (formerly Access HealthSource, Inc.), is currently under federal investigation related to the obtaining of certain contracts with local government agencies or entities in the El Paso area. Although no indictments have occurred, we believe that the investigation involves, among other things, allegations of corruption relating to contract procurement for Foresight by its former Chief Executive Officer, Frank Apodaca. In addition to the negative financial effect from the loss of business by the Regional Healthcare Division, we have suffered and may continue to suffer the adverse publicity associated with the investigation. This adverse publicity may adversely affect the reputation of our other divisions and their ability to attract business, and secure financing. We provide no assurance as to the outcome of the investigation. Our financial condition and the results of operations will be adversely affected in the event that we become obligated to pay fines, make restitution payments to the applicable local governmental agencies or entities, and result in the imposition of license restrictions or terminations. We have accrued \$125,000 for resolution of this matter.

OUR REGIONAL HEALTHCARE DIVISION 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.

The Regional Healthcare Division (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. This Division's primary market is

Table of Contents

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 and third quarters of 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 this Division) 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 the Regional Healthcare Division will obtain renewal or extension on its remaining contracts. One remaining client accounts for 45% of the division's revenue. The loss of any of these remaining contractual relationships will adversely affect 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 HAVE IDENTIFIED MATERIAL WEAKNESSES IN OUR INTERNAL CONTROLS THAT COULD AFFECT OUR ABILITY TO ENSURE TIMELY AND RELIABLE FINANCIAL REPORTS.

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. This 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. While we have established multiple compensating manual processes designed to partially mitigate these weaknesses, we nevertheless have insufficient control procedures in place to fully assure that commission information received from those insurance carriers is complete, accurate or received in a timely manner. Additionally, some information is processed for us by outside third-party service bureaus or administrators. Some of those third-party service bureaus or administrators have not had their controls evaluated by independent registered accountants and they have not received SAS 70 reports on their controls. We have performed limited reviews of their controls and have preliminarily determined that they have insufficient information technology controls. Additionally, we determined that we had numerous weaknesses in our own internal information technology controls in these areas. Our failure to receive and process such commission information in a timely, complete and accurate fashion or to process it accurately could adversely impact our ability to pay commissions to our agents in a timely and accurate manner or to state revenues or expenses in our financial statements in a materially correct manner.

WE RELY ON OUR INSURANCE CARRIER PARTNERS TO ACCURATELY AND REGULARLY PREPARE COMMISSION REPORTS, AND IF THESE REPORTS ARE INACCURATE OR NOT SENT TO US IN A TIMELY MANNER, OUR RESULTS OF OPERATIONS COULD SUFFER.

Our Insurance Marketing Division generates revenues primarily from the receipt of commissions paid to us by insurance companies based upon the insurance policies sold to consumers through agents with which we have contracted. These revenues are in the form of first year and renewal commissions that vary by company and product. In calculating the amount of commission earned by us and in accounting for commission paid to us by insurance companies, we rely on data not under our control, including data provided to us by the insurance company and premium collection and payment service providers engaged by the insurance company to calculate and pay commissions. The data that we receive may fluctuate as the insurance company or its collection and payment service providers make adjustments to their reports of policies sold. We have implemented our own processes to evaluate the data that we receive to help confirm that it is consistent with the number and types of policies that we believe have been sold. However, it is difficult for us to independently determine whether carriers are reporting all commissions due to us, primarily because the majority of our members terminate their policies by discontinuing their premium payments to the carrier instead of informing us of the cancellation. Because we cannot always rely on the accuracy or timeliness of the data that we receive from the insurance company or its payment service providers, our financial reports are subject to adjustment and we may not collect and recognize revenue that we are entitled to, both of which would harm our business, operating results and financial condition.

The same data from insurance carriers or their payment service providers is used to calculate the balances of advanced commissions owed by us to the insurance carrier or owed to us by agents. Because we cannot always rely on the accuracy or timeliness of the data that we receive from the insurance company or its payment service, our calculation of these balances may fluctuate and resulting adjustments may adversely affect our business, operating

results and financial condition.

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. This processing and recording of commission revenue and expense, together with the accurate and timely disbursement of commission payments to 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.

Table of Contents***OUR REVENUES IN THE CONSUMER PLAN DIVISION ARE LARGELY DEPENDENT ON THE INDEPENDENT MARKETING REPRESENTATIVES, WHOSE REDUCED SALES EFFORTS OR TERMINATION HAVE RESULTED, AND MAY CONTINUE TO RESULT, IN SIGNIFICANT LOSSES 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 USA Healthcare Savings and Care Entrée™ medical savings programs. Our independent marketing representatives typically offer and sell these programs 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 programs. Also, our ability to attract and retain marketing representatives could be negatively affected by adverse publicity relating to our programs 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 Consumer Plan Division products 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 TWO KEY PREFERRED PROVIDER ORGANIZATIONS AND THE LOSS OF OR A CHANGE IN OUR RELATIONSHIPS WITH THESE PROVIDERS 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 have obtained savings on medical services through our Care Entrée™ program. PME has utilized the Galaxy Health Network (Galaxy) preferred provider organization. The loss of PHCS or Galaxy as a preferred provider organization or a disruption of our members' access to PHCS or Galaxy could affect our ability to retain our members and could, therefore, adversely affect our business. While we currently enjoy a good relationship with Galaxy, 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

Table of Contents

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 our Consumer Plan Division subsidiaries. We hold these licenses in every jurisdiction where a license or registration is required to be held and where the respective subsidiary conducts business. Because these laws and regulations are relatively new, we do not know the full extent of their effect on our business or our ability to maintain all required licenses. Our need to comply with these laws and regulations may adversely affect or limit our future operations and the compliance cost has and will likely continue to have a material adverse 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 to continue selling these memberships would be adversely affected and we may subject us to fines and penalties and may require our payment of refunds or restitutions 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 these arrangements, and addressing disclosures of these 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 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.

OUR FAILURE TO PROTECT OUR MEMBERS AND CUSTOMERS 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 their 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

Table of Contents

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 that could 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 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

Table of Contents

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 of the Consumer Plan Division 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 were 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 certain information related to our Consumer Plan Division membership on an administrative proprietary information system. Because it is a proprietary system, we do not rely on any third party for its support and maintenance. There is no assurance that we will be able to continue operating without experiencing any disruptions in our operations or that our relationships with our members, marketing representatives or providers will not be adversely affected or that our internal controls will not be adversely affected.

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

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

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

we will be able to compete successfully;

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

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

THE RECORDED GOODWILL ASSOCIATED WITH OUR ACQUISITIONS OF ICM AND PME MAY BECOME IMPAIRED AND REQUIRE A SUBSTANTIAL WRITE-DOWN AND THE RECOGNITION OF AN IMPAIRMENT EXPENSE.

In connection with our acquisitions of Capella, ICM and PME, we recorded goodwill that had a net aggregate asset value of \$5,489,000 at December 31, 2007 and at March 31, 2008. This carrying value has been reduced through impairment charges of

Table of Contents

\$12,069,000 in 2007, \$6,440,000 in 2006, and \$12,900,000 in 2005. 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.

WE MAY FIND IT DIFFICULT TO INTEGRATE PME'S BUSINESSES AND OPERATIONS WITH OUR BUSINESS AND OPERATIONS.

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. However, 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 THESE SERVICE PROVIDERS TO ADEQUATELY PROVIDE SERVICES TO US COULD AFFECT OUR FINANCIAL RESULTS BECAUSE THIS FAILURE COULD ADVERSELY 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. We are also dependent upon third-party data processing and administrative service providers for the processing of commission revenue and expense for our Insurance Marketing Division. As a result of these outsourcing arrangements, we may lose direct control over key functions and operations. The failure by Lifeguard or any of our other third-party service providers to perform the services to the same or similar level of quality that we could provide could adversely affect our relationships with our members, customers, marketing representatives and our ability to retain and attract members, customers, marketing representatives and, accordingly, have a material adverse effect on our financial condition and results of operations. Although we are transitioning the services provided to us by Lifeguard to systems that we now own or manage as a result of our acquisition of PME, we will remain dependent on Lifeguard for certain services until that transition is complete and for the accurate completion of the transition.

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 our Insurance Marketing Division has strategic relationships, more than 85% of this Division's 2007 revenue and 95% of its 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.

Table of Contents

Furthermore, of the approximately 5,000 independent agents with whom our Insurance Marketing Division has active distribution and marketing relationships, more than 80% of this Division'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 MARKETPLACE 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 our products and services, we utilize independent insurance agencies and their agents as the principal marketing and distribution channel. Competition for independent insurance agencies and their agents is intense. Also, competition from products and services similar to or directly in competition with the products and services that we offer is intense, including those products and services offered and sold through the same channels utilized for distribution of our insurance products and financial services. Under arrangements with the independent insurance agencies, the agencies and their agents may offer and sell a variety of insurance products and financial services, including those that compete with the insurance products and financial services that we offer.

Thus, our business operations compete in two channels of competition. First, we compete based upon the insurance products and financial services offered. This competition includes products and services of insurance companies that compete with the products and services of the insurance companies that we offer 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.

22

Table of Contents

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit

No.	Description
3.1	Registrant's Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of Registrant's Form 10-K filed with the Commission on April 2, 2007.
3.2	Registrant's Amended and Restated Bylaws incorporated by reference to Exhibit 3.2 of Registrant's Form 10-K filed with the Commission on April 2, 2007.
4.1	Form of certificate of the common stock of Registrant is incorporated by reference to Exhibit 4.1 of Registrant's Form 10-K filed with the Commission on April 2, 2007.
4.2	Precis, Inc. 1999 Stock Option Plan (amended and restated), incorporated by reference to the Schedule 14A filed with the Commission on June 23, 2003.
4.3	Precis, Inc. 2002 IMR Stock Option Plan, incorporated by reference to the Schedule 14A filed with the Commission on June 26, 2002.
4.4	Precis, Inc. 2002 Non-Employee Stock Option Plan (amended and restated), incorporated by reference to the Schedule 14A filed with the Commission on December 29, 2006
31.1	Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of Ian R. Stuart as Interim President and 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 President and 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.

Table of Contents

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: May 9, 2008

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

Date: May 9, 2008

By: /s/ ROBERT L. BINTLIFF
Robert L. Bintliff
Chief Financial Officer and Principal Accounting
Officer
24

INDEX TO FINANCIAL STATEMENTS

<u>Condensed Consolidated Balance Sheets as of March 31, 2008 (unaudited) and December 31, 2007</u>	26
<u>Unaudited Condensed Consolidated Statements of Operations for the Three months ended March 31, 2008 and 2007</u>	27
<u>Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Three months ended March 31, 2008</u>	28
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three months ended March 31, 2008 and 2007</u>	29
<u>Notes to Condensed Consolidated Financial Statements</u>	30

Table of Contents

ACCESS PLANS USA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2008 AND DECEMBER 31, 2007

Dollars in Thousands	As of March 31, 2008 (unaudited)	As of December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,372	\$ 2,711
Restricted short-term investments	1,735	1,231
Total cash and short-term investments	3,107	3,942
Accounts and notes receivable, net	1,083	1,054
Advanced agent commissions, net	6,062	5,332
Income taxes receivable, net	70	70
Prepaid expenses	298	193
Deferred tax asset		23
Total current assets	10,620	10,614
Fixed assets, net	706	682
Goodwill, net	5,489	5,489
Other intangible assets, net	3,707	3,960
Other assets	189	73
Total assets	\$ 20,711	\$ 20,818
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 628	\$ 563
Short-term debt	736	1,255
Income taxes payable	261	267
Unearned commissions	4,362	4,126
Deferred service fees and deferred enrollment fees, net of acquisition costs	295	378
Current portion of capital leases		48
Other accrued liabilities	3,055	2,901
Total current liabilities	9,337	9,538
Long-term debt	1,124	
Deferred tax liability		23
Total liabilities	10,461	9,561
Commitments and contingencies (Note 10)		

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 issued and 20,269,145 outstanding

Additional paid-in capital

Accumulated deficit

Less: treasury stock (480,000 shares)

Total stockholders' equity

Total liabilities and stockholders' equity

207	207
40,655	40,619
(29,603)	(28,560)
(1,009)	(1,009)
10,250	11,257
\$ 20,711	\$ 20,818

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

Table of Contents

ACCESS PLANS USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

Dollars in Thousands, except Earnings per Share	For the Three Months Ended	
	March 31,	
	2008	2007
Commission and service revenues	\$ 10,402	\$ 8,189
Interest income on agent advances	168	84
Interest income	15	52
 Total revenues	 10,585	 8,325
Operating expenses:		
Commissions	5,621	3,219
Cost of operations	2,810	2,408
Sales and marketing	925	956
General and administrative	1,887	1,743
Depreciation and amortization	335	247
Interest expense	29	48
 Total operating expenses	 11,607	 8,621
 Loss before taxes	 (1,022)	 (296)
Provision for income taxes expense	21	29
 Net loss	 \$ (1,043)	 \$ (325)
 Loss per share:		
Basic and diluted:	\$ (0.05)	\$ (0.02)
 Weighted average number of common shares outstanding, basic and diluted:	 20,269,145	 16,561,766

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

Table of Contents

**ACCESS PLANS USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2008**

Dollars in Thousands	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL		ACCUMULATED DEFICIT		TREASURY STOCK		TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	
Balance, December 31, 2007	20,749,145	\$ 207	\$ 40,619		\$ (28,560)		(480,000)	\$ (1,009)	\$ 11,257
Stock option awards			36						36
Net loss					(1,043)				(1,043)
Balance, March 31, 2008 (unaudited)	20,749,145	\$ 207	\$ 40,655		\$ (29,603)		(480,000)	\$ (1,009)	\$ 10,250

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

Table of Contents

ACCESS PLANS USA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

Dollars in Thousands	For the Three Months Ended March 31,	
	2008	2007
Operating activities:		
Net loss	\$ (1,043)	\$ (325)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	335	250
Provision for losses on accounts and notes receivable	48	(19)
Loss on disposal and impairment of fixed assets		32
Stock options expense	36	259
Changes in operating assets and liabilities (net of business acquired):		
Accounts and notes receivable, net	(77)	120
Income taxes receivable, net of payable	(6)	28
Inventory		6
Prepaid expenses	(105)	475
Other assets	(117)	(12)
Accounts payable	65	111
Accrued liabilities	154	(196)
Deferred service fees and deferred enrollment fees, net of acquisition costs	(83)	(70)
Net cash (used) provided by operating activities	(793)	659
Investing activities:		
(Increase) decrease in restricted short-term investments	(504)	320
Increase in advanced agent commissions	(730)	(361)
Purchase of fixed assets	(105)	(144)
Cash acquired in business combination, net		77
Net cash used in investing activities	(1,339)	(108)
Financing activities:		
Payments of capital leases	(48)	(50)
Increase (decrease) in debt, net	605	(44)
Unearned commissions	236	60
Net cash provided by (used) in financing activities	793	(34)
Net change in cash and cash equivalents	(1,339)	517
Cash and cash equivalents at beginning of period	2,711	3,232
Cash and cash equivalents at end of period	\$ 1,372	\$ 3,749

Supplemental disclosure:

Income taxes recovered (paid), net	\$	(35)	\$	
Interest paid	\$	29	\$	48
Non-cash investing and financing activities:				
Accrued cash and stock issuance for consideration on business combination	\$		\$	7,018

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

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

The accompanying condensed consolidated financial statements are unaudited, but include all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position at such dates and of the operations and cash flows for the periods then ended. The financial information is presented in a condensed format, and it does not include all of the footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Operating results for the three months ended March 31, 2008 and 2007 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, 2007 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, the Capella Group, Inc. (Capella), Insuraco USA LLC (Insuraco), Access Healthsource, Inc., doing business as Foresight TPA (Foresight), and Protective Marketing Enterprises, Inc. (PME). 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 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 as well as allowances for doubtful recoveries of advanced agent commissions and accounts and notes receivable. Actual results could differ from those estimates and such differences could be material.

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, ratably over the membership month. Membership revenues are reduced by the amount of estimated refunds. For members that are billed directly, the billed amount is collected almost entirely by electronic charge to the members' credit cards, automated clearinghouse or electronic check. The settlement of those charges occurs within a day or two. Under certain private label arrangements, the Company's private label partners bill their members for the membership fees and the Company's portion of the membership fees is periodically remitted to the Company. During the time from the billing of these private-label membership fees and the remittance to it, the Company records a receivable from the private label partners and records an estimated allowance for uncollectible amounts. The allowance for 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 the Company's Insurance Marketing Division is primarily from sales commissions due from 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 and are recognized in income as earned. 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 eighteen months to two years and is based upon the Company's historical policyholder contract termination experience.

Table of Contents

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. 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 the Company's independent marketing representatives in the month following the receipt of the related membership fees. In 2007, the Company began issuing advances of commissions on certain Consumer Plan programs to increase sales representative recruitment. In 2008, the Company began paying accelerated commissions, comprising amounts paid in excess of the initial revenue collected at the time of sale, on certain programs. These commissions have been expensed as incurred, rather than being capitalized and amortized over the expected lives of the respective programs.

Insurance Marketing. Commission expenses for the Insurance Marketing Division consist primarily of commissions payable to agents and are generally recognized at their gross amount, as earned on a monthly basis, until such time as the underlying policyholder 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 record an estimated allowance for 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, generally lead expenses for sales of major medical policies, are capitalized and amortized over the estimated lives of the respective policies, provided that the amount capitalized does not exceed the amount of capitalized and deferred enrollment fees for the Insurance Marketing Division. 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.

Advanced Agent Commissions. The Company's Insurance Marketing Division advances agent commissions up to one year for certain insurance programs. Collection of the commissions advanced (plus accrued interest) is 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. Advanced agent commissions are reviewed periodically to determine if any advanced agent commissions will likely be uncollectible. An allowance is provided for the estimated advanced agent commission balance where recovery is considered doubtful. This allowance for uncollectible advances required judgment and 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. Advances are written off when determined to be non-collectible.

Cash and Cash Equivalents. Cash and cash equivalents consist primarily of cash on deposit or cash investments purchased with original maturities of three months or less.

Unrestricted Short-Term Investments. Unrestricted short-term investments represent investments with original maturities of more than three months and less than one year.

Restricted Short-Term Investments. Restricted short-term investments represent investments with original maturities of one year or less pledged to obtain processing and collection arrangements for credit card and automated clearing house payments.

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. Accounts receivable are written off when they are determined to be uncollectible. The Company does not require collateral as security for payment of its receivables.

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 the shorter of their estimated useful lives or the lease term. Ordinary maintenance and repairs are charged to expense as

Table of Contents

incurred. Expenditures that extend the physical or economic life of property and equipment are capitalized. The estimated useful lives of property and equipment are as follows:

Furniture and Fixtures	7 years
Leasehold Improvements	Over the term of the lease, or useful life, whichever is shorter
Computers and Office Equipment	3-5 years
Software	3 years

The Company capitalizes both internal and external costs of developing or obtaining computer software for internal use. Costs incurred to develop internal-use software during the application development stage are capitalized, while data conversion, training and maintenance costs associated with internal-use software are expensed as incurred. As of March 31, 2008 and 2007, the net book value of capitalized software costs was \$130,000 and \$339,000, respectively. Amortization expense related to capitalized software was \$13,000 and \$26,000 for the three months ended March 31, 2008 and 2007, respectively.

Intangible Asset Valuation. Intangible assets consist of goodwill and finite life intangible assets. 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), certain agent relationships (Agent Relationships), and proprietary networks of contracted dental and vision providers.

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 may have a material effect on the fair value of our goodwill in future accounting periods.

As of the end of our 2007 third quarter, the Company performed an annual assessment of the carrying value of goodwill as mentioned above. 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. The Company estimated fair values of Foresight and Capella using discounted cash flow projections and other valuation methodologies in evaluating and measuring a potential goodwill impairment charges. To the extent that, in the future, the estimates change or the Company's stock price decreases, further goodwill write-downs may occur. Those assessments of the carrying value of goodwill were reviewed and approved by the Audit Committee of the Board of Directors.

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. As of March 31, 2008, 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 was appropriate as of March 31, 2008.

On July 14, 2006, the Financial Accounting Standards Board (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 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 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 March 31, 2008 and 2007, income taxes payable included \$55,000 and \$90,000 of accrued interest expense, respectively, and \$3,750 and \$26,000 of accrued penalties, respectively, related to state tax liabilities.

Net Earnings per Share. Basic net earnings per share is calculated by dividing the net earnings by the weighted average number of shares outstanding for the year without consideration for common stock equivalents. Diluted net earnings per share gives effect to all dilutive potential common shares outstanding for the year. Diluted earnings per share are not considered when there is a net loss. The number of stock options and warrants that were considered out-of-the-money and thus excluded for purposes of the diluted earnings per share calculation for three months ended March 31, 2008 and 2007 was 1,292,500 and 893,354, respectively.

Table of Contents

Concentration of Credit Risk. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk. The Company attempts to mitigate this risk by transferring balances not immediately needed into accounts secured with pledged U.S. government securities of short maturity.

During 2008, insurance commissions on sales of policies for two carriers amounted to 15.6% and 16.3% of our total revenue. Additionally, a material portion of our Regional Healthcare Division's revenues have historically been derived from its contractual relationships with a few key governmental entities in the El Paso, Texas region. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

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 and capital lease obligations approximate fair value because of the short-term maturity of these items.

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 Statement of Financial Accounting Standards (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 March 31, 2008 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 March 31, 2008 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.

Recently Issued Accounting Standards In September 2006, the FASB issued Statement of 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. It has not had a material impact through March 31, 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. 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 does not presently anticipate election to measure any of the Company's assets or liabilities on a fair value basis.

In December 2007, the FASB issued SFAS No. 141R (FAS 141R), Business Combinations, that revises FAS 141 and changes multiple aspects of the accounting for business combinations. Under the guidance in FAS 141R, the acquisition method must be used, which requires the acquirer to recognize most identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree at their full fair value on the acquisition date. Goodwill is to be recognized as the excess of the consideration transferred plus the fair value of the non-controlling interest over the fair values of the identifiable net assets acquired. Subsequent changes in the fair value of contingent consideration classified as a liability are to be recognized in earnings, while contingent consideration classified as equity is not to be re-measured. Costs such as transaction costs are to be excluded from acquisition accounting, generally leading to recognizing expense, and, additionally, restructuring costs that do not meet certain criteria at acquisition date are to be subsequently recognized as post-acquisition costs. FAS 141R is effective for business combinations for which the

acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The company anticipates that adoption of this pronouncement will not have a material impact on its financial position or results of operations.

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

Note 3 Business Acquisitions

On January 30, 2007, the Company completed its merger with Insurance Capital Management USA, Inc. (ICM). On October 1, 2007 the Company completed its acquisition of Protective Marketing Enterprises, Inc. (PME).

Table of Contents

The following proforma condensed results of operations have been prepared as if the Company's acquisitions of ICM and PME occurred on January 1, 2007:

Dollars in Thousands	For the Three Months Ended March 31, (unaudited) 2007
Service revenues	\$ 13,437
Net (loss) earnings	\$ (734)
(Loss) earnings per share, basic and diluted Continuing operations	\$ (0.04)
Weighted average number of common shares outstanding, basic and diluted:	20,269,145

The proforma revenues for the three months ended March 31, 2007 reflected above include \$3,446,000 of revenue from PME's operations. Because PME had discontinued much of its marketing activities during 2007, its revenues declined to \$1,320,000 for the three months ended December 31, 2007.

Note 4 Intangible Assets

The changes in the carrying amount of the Company's intangible assets for the three months ended March 31, 2008 are as follows:

Dollars in Thousands	Goodwill	Customer Contracts	Agent Relationships	Total (Unaudited)
Intangible assets, balance as of December 31, 2007	\$ 5,489	\$ 1,704	\$ 2,256	\$ 9,449
Amortization of intangibles		(177)	(76)	(253)
Intangible assets, balance as of March 31, 2008	\$ 5,489	\$ 1,527	\$ 2,180	\$ 9,196

Goodwill is subject to impairment of valuations as described above but is not subject to amortization. During 2007, the Company recorded additions to intangible assets subject to amortization of \$4,773,000, with a weighted average amortization life of 4.6 years. The components of finite-lived intangible assets acquired during 2007 are: \$2,282,000 Customer contracts (3.2 years); \$1,900,000 Agent relationships (8 years); and \$591,000 Network contracts (8 years).

Note 5 Advanced Agent Commissions

Advanced agent commissions consist of:

Dollars in Thousands	As of March 31, 2008 (Unaudited)
Advances funded by:	
Specialty lending corporation	\$ 1,605
Insurance carriers	4,362
Self-funded	495
Sub-total	6,462

Allowance for doubtful recoveries		(400)
Total advanced agent commissions	\$	6,062

Note 6 Short-term and Long-term Debt

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

34

Table of Contents

Dollars in Thousands	As of March 31, 2008 (Unaudited)	
Short-term debt:		
Loan from specialty lending corporation	\$	481
Promissory note from related party (Peter Nauert Estate)		255
 Total short-term debt	 \$	 736
Long-term debt:		
Loan from specialty lending corporation	\$	1,124
 Total long-term debt	 \$	 1,124

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"). The Nauert Trust holds approximately 27% of the Company's issued and outstanding common stock. Under this arrangement, the Nauert Trust lent the Company \$500,000 as evidenced by the Revolving Promissory Note (the "Note") of which \$255,000 remains outstanding at March 31, 2008. 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 (4.75% at March 31, 2008). Based upon the current interest rate, the Note requires 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.

On March 24, 2008, our subsidiary AHCP entered into a Loan and Security Agreement (the "Loan Agreement") with CFG, LLC ("CFG"). The Company is a co-borrower under the Loan Agreement. Through that Loan Agreement, CFG loaned to AHCP \$1,604,972. The Company used part of the loan proceeds to pay off existing indebtedness incurred to finance its agent commission advance program for the Insurance Marketing Division. Additional loan proceeds are available for the Company's working capital needs, including the agent advance program. Outstanding balances under this loan are bear interest at a rate that is the greater of (x) five percentage points above the Prime Rate (as defined in the Wall Street Journal as of the first publication day of the month), or (y) 10%. As of March 31, 2008, the interest rate was 11.0% per annum. The principal amount of this loan is payable in 36 monthly installments of \$52,000, plus interest. The loan may be prepaid without penalty. The loan is secured by the assets, including rights to commissions from insurance carriers, of AHCP. CFG may accelerate the principal installments in the event of our default under the Loan Agreement terms.

Note 7 Common Stock Options

Total estimated unrecognized compensation cost from unvested stock options as of March 31, 2008 was approximately \$87,000, which is expected to be recognized over a weighted average period of approximately 1.4 years.

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

	Number of Shares	Outstanding Options			Aggregate Intrinsic Value
		Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (in years)	
Outstanding at January 1, 2008	1,317,500	\$1.95	\$1.16	2.9	\$ 250,000

Edgar Filing: Access Plans USA, Inc. - Form 10-Q

Granted					\$
Exercised					\$
Forfeited	(25,000)	2.00	1.71		\$
Outstanding at March 31, 2008	1,292,500	1.95	1.15	2.5	\$
Vested (exercisable)	1,013,750	1.98	1.18	2.5	\$
Non-Vested	278,750	1.83	1.04	3.3	\$
Outstanding at March 31, 2008	1,292,500	\$1.95	\$1.15	2.7	\$

No stock options were exercised during the three months ended March 31, 2008. 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 March 31, 2008 shares available for grant under the 1999 Option Plan and 2002 Non-Employee Stock Option Plan were 603,294 and 929,500, respectively.

Table of Contents

Stock options outstanding and currently exercisable at March 31, 2008 are as follows:

	Options Outstanding			Options Exercisable	
	Outstanding	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Outstanding	Weighted Average Exercise Price
Range of exercise prices					
\$1.05 to \$1.75	287,000	3.8	\$ 1.37	287,000	\$ 1.37
\$1.76 to \$3.55	988,500	2.4	2.08	709,750	2.17
\$3.56 to \$5.25	17,000	0.8	4.36	17,000	4.36
	1,292,500	2.6	1.95	1,013,750	1.98

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 may be 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 \$684,000 and \$146,000 in 2006 and 2007, 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 11% of the issued and outstanding shares of IPG and, occasionally provides management services to IPG. In addition, during April 2008, the Peter Nauert Revocable Trust, which owns 27% of the Company's issued and outstanding common stock, sold its interest in IPG.

See Note 6 for a discussion of a note payable to the Nauert Trust.

Note 9 Risk Concentration

Currently, 86% of the Company's Insurance Marketing Division revenue is derived from insurance products underwritten by five insurance carriers. During the three months ended March 31, 2008, 60%, of the Company's revenues arose from commissions on policies written by two health 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 Commitments and Contingencies

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

effect on the Company's business, financial condition and results of operations.

Zermeno v Precis, 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 Precis, Inc., 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 under case number BC 300788.

Table of Contents

The Zermeno plaintiffs are former members of the Care Entréetm discount healthcare program who allege that they (for themselves and for the general public) are entitled to injunctive, declaratory, and equitable relief. Under California Health and Safety Code § 445 (Section 445). That provision governs medical referral services. The plaintiffs also sought relief under Business and Professions Code § 17200, California's Unfair Competition Law (Section 17200).

On December 21, 2007, the Company received a favorable verdict. The plaintiffs have indicated that they plan to appeal. 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.

The Company believes it has complied with all applicable statues and regulations in the state of California. Although the Company 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 Capella and Equal Access Health, Inc. (including various names under which Equal Access Health, Inc. does business) on April 28, 2005. Equal Access Health was a third-party marketer of the Company's discount medical card programs, but is otherwise not affiliated with the Company's subsidiaries or the Company. The lawsuit alleges that Care Entréetm, directly and through at least one other party that formerly resold the services of Care Entréetm 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. The Company believes 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 the Company's 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, the Company acquired Foresight (formerly Access Healthsource, Inc.) and its subsidiaries from National Center for Employment of the Disabled, Inc. (now known as Ready One Industries, NCED). Robert E. Jones, the C.E.O. of NCED was elected to and served on the Company's Board of Directors until his March 2006 resignation. Frank Apodaca served as the President and C.E.O. of Foresight from the Company's acquisition until September 3, 2007, on which his date his employment was terminated by the Company. Mr. Apodaca, who had been placed on leave prior to the termination of his employment, also served as Chief Administrative Officer and a member of the Board of Directors of NCED. Mr. Apodaca also served as the Company's President from June 10, 2004 to January 30, 2007. Until July 2006, his employment agreement with the Company allowed him to spend up to 20% of his time on matters related to NCED's operations. NCED is one of the Company's greater than 10% shareholders as a result of shares it received from the 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. The Company 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 the other divisions' reputation and ability to attract business, and secure financing.

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

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

The Company has accrued \$575,000 for resolution of the above matters.

Table of Contents

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 the Company can provide no assurance, we believe that the ultimate outcome of these claims and lawsuits will not have a material adverse effect on the Company's consolidated financial condition, results of operation, or liquidity, and no amounts for any potential losses have been accrued at March 31, 2008.

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 \$1,735,000 and \$1,231,000 as of March 31, 2008 and December 31, 2007, respectively.

Note 11 Segmented Information

The Company discloses segment information in accordance with SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information*, that requires companies to report selected segment information on a quarterly basis and to report certain entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues. The Company's reportable segments are strategic divisions that offer different services and are managed separately as each division requires different resources and marketing strategies. The Company's Consumer Plan Division segment, the Company's largest segment, offers savings on healthcare services to persons who are un-insured, under-insured, or who have elected to purchase only high deductible or limited benefit medical insurance policies, by providing access to the same preferred provider organizations (PPOs) that are utilized by many insurance companies and employers who self-fund at least a portion of their employees' healthcare risk. These programs are sold primarily through private label resellers and 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 benefits plans, primarily through a broad network of independent agency channels. The Company's Regional Healthcare Division segment 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.

The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 2. Intersegment sales are not material and all intersegment transfers are eliminated.

The Company evaluates segment performance based on revenues and income before provision for income taxes. The following table summarizes segment information for continuing operations:

	For the Three Months Ended March 31, 2008 (unaudited)				Total
	Consumer Plan Division	Insurance Marketing Division	Regional Healthcare Division	Corporate and Other Division	
Dollars in Thousands					
Commission and service revenue(1)	\$ 3,915	\$ 5,641	\$ 846	\$	\$ 10,402
Interest income	13	168	2		183
Total revenue	3,928	5,809	848		10,585
Income (loss) before income taxes	(270)	258	(405)	(605)	(1,022)
Interest expense	7	24		(2)	29
Depreciation and amortization	90	218	25	2	335
Tax provision (benefit) (2)	18	11	5	(13)	21
Assets acquired, net of disposals	105				105
Intangible assets and goodwill(2)	979	8,212		5	9,196
Assets held	2,447	15,552	3,920	(1,208)	20,711

Table of Contents

Dollars in Thousands	For the Three Months Ended March 31, 2007 (unaudited)				Total
	Consumer Plan Division	Insurance Marketing Division	Regional Healthcare Division	Corporate and Other Division	
Commission and service revenue(1)	\$ 3,104	\$ 3,332	\$ 1,736	\$ 17	\$ 8,189
Interest income	17	84	35		136
Total revenue	3,121	3,416	1,771	17	8,325
Income (loss) before income taxes	154	(40)	266	(676)	(296)
Interest expense	5	43			48
Depreciation and amortization	75	142	28	2	247
Tax provision (benefit) (2)	4	7	12	6	29
Assets acquired, net of disposals	109		(36)		73
Intangible assets and goodwill(2)	3,377	13,580	4,091	5	21,053
Assets held	5,004	19,751	8,276	1,564	34,595

(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 operations of the related segment.