



FORM 10QSB

CAREADVANTAGE INC – CADV

Filed: August 14, 2006 (period: June 30, 2006)

Quarterly report filed by small businesses

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2006

COMMISSION FILE NUMBER 0-26168

CAREADVANTAGE, INC.

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

DELAWARE

(State or other jurisdiction of
Incorporation or organization)

52-1849794

(I.R.S. Employer
Identification Number)

485-C Route 1 South, Iselin, New Jersey

(Address of principal executive offices)

08830

(Zip Code)

Issuer's telephone number, including area code: (732) 362-5000

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

The number of shares of Common Stock outstanding as of July 24, 2006 is 56,717,221

Transitional Small Business Disclosure Format

Yes No

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PART I – FINANCIAL INFORMATION
ITEM 1. Financial Statements

CAREADVANTAGE, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2006 Unaudited	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 221,000	\$ 114,000
Accounts receivable, net	358,000	457,000
Other current assets	62,000	108,000
Total current assets	641,000	679,000
Property and equipment, net	78,000	137,000
Intangible assets	1,000	2,000
Other assets	167,000	167,000
Total Assets	\$ 887,000	\$ 985,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 114,000	\$ 139,000
Accrued compensation and related benefits	108,000	105,000
Deferred revenue	26,000	–
Accrued expenses and other current liabilities	104,000	112,000
Total current liabilities	352,000	356,000
Long term liabilities:		
Deferred rent	264,000	176,000
Total Liabilities	\$ 616,000	\$ 532,000
Stockholders' equity:		
Preferred stock—par value \$.10 per share; authorized 10,000,000 shares; none issued		
Common stock—par value \$.001 per share; authorized 200,000,000 shares; issued 108,112,041 shares and outstanding 56,717,221 and 53,417,221 shares	110,000	107,000
Additional capital	23,972,000	23,952,000
Deferred compensation cost	–	(40,000)
Accumulated deficit	(23,549,000)	(23,304,000)
Treasury stock at cost, 53,394,820 shares	(262,000)	(262,000)
Total Stockholders' Equity	271,000	453,000
Total Liabilities and Stockholders' Equity	\$ 887,000	\$ 985,000

See Notes to Unaudited Condensed Consolidated Financial Statements.

CAREADVANTAGE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
License fees and service revenue	\$ 1,095,000	\$ 634,000	\$ 2,040,000	\$ 1,192,000
Costs of services	<u>416,000</u>	<u>363,000</u>	<u>858,000</u>	<u>674,000</u>
Gross profit	679,000	271,000	1,182,000	518,000
Operating cost and expenses:				
Selling, general and administration	<u>720,000</u>	<u>764,000</u>	<u>1,426,000</u>	<u>1,535,000</u>
Operating (loss)	41,000	(493,000)	(244,000)	(1,017,000)
Interest income	–	3,000	–	8,000
Provision for income taxes	<u>–</u>	<u>–</u>	<u>1,000</u>	<u>3,000</u>
Net (loss)	\$ (41,000)	\$ (490,000)	\$ (245,000)	\$ (1,012,000)
Net (loss) per share of common stock	<u>\$.00</u>	<u>\$ (.01)</u>	<u>\$.00</u>	<u>\$ (.02)</u>
Weighted average number of common shares outstanding –				
Basic and diluted	<u>55,862,000</u>	<u>46,400,000</u>	<u>54,646,000</u>	<u>46,400,000</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

CAREADVANTAGE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net (loss)	\$ (245,000)	\$ (1,012,000)
Adjustments to reconcile net (loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	60,000	109,000
Employee stock compensation cost	50,000	37,000
Change in assets and liabilities:		
Accounts receivable	99,000	(126,000)
Other assets	46,000	(90,000)
Accounts payable	(25,000)	6,000
Deferred rent	88,000	88,000
Deferred revenue	26,000	-
Accrued expenses and other liabilities	(5,000)	(26,000)
Net cash provided by/(used in) operating activities	94,000	(1,014,000)
Cash flows from investing activity:		
Capital expenditures	-	(27,000)
Cash flows from financing activity:		
Proceeds from issuance of common stock	13,000	-
Transfer from restricted cash	-	100,000
Net increase/(decrease) in cash	107,000	(941,000)
Cash and cash equivalents – beginning of period	114,000	1,488,000
Cash and cash equivalents – end of period	\$ 221,000	\$ 547,000

See Notes to Unaudited Condensed Consolidated Financial Statements.

Note A—Basis of presentation:**[1] Business:**

CareAdvantage, Inc. (“CAI” or the “Company”) and its direct and indirect subsidiaries, CareAdvantage Health Systems, Inc. (“CAHS”) and Contemporary HealthCare Management, Inc. (“CHCM”), are in the business of providing management and consulting services designed to enable integrated health care delivery systems and other care management organizations to reduce the costs, while improving the quality, of medical services provided to their subscribers. The management and consulting services include care management program enhancement services, executive and clinical management services, and training programs. The Company operates in one business segment.

As part of offering its management and consulting services, the Company has developed RightPath® Navigator (RPNavigator), a proprietary tool to help managed care plans and employers better understand and forecast resource consumption, risk, and costs associated with their respective populations. In providing its services, the Company licenses RPNavigator to its customers and provides consulting services in connection with that licensing.

[2] Basis of presentation:

The condensed consolidated financial statements as of June 30, 2006 and for the three-month and six-month periods ended June 30, 2006 and 2005 have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information with the instructions to Form 10-QSB. The accompanying financial statements include all adjustments (which include only normal recurring adjustments), which in the opinion of management are necessary to present fairly the financial position, results of operations and cash flows. All amounts contained in the financial statements, except per share data, have been rounded to the nearest thousand. Certain information and footnote disclosures required to be included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included with the Company's December 31, 2005 Annual Report on Form 10-KSB. The results of operations for the period ended June 30, 2006 are not necessarily indicative of operating results to be expected for the full year.

For the six month periods ended June 30, 2006 and 2005, the Company has incurred net losses of (\$245,000) and (\$1,012,000), respectively and has an accumulated deficit of (\$23,549,000) as of June 30, 2006. Additionally, the Company has \$221,000 of cash and cash equivalents at June 30, 2006. The Company has changed its business model over the past three years whereby it now generates most of its revenue from the licensing of RPNavigator and providing consulting services in connection with that licensing. Revenue has grown from \$1,192,000 for the six months ended June 30, 2005 to \$2,040,000 for the six months ended June 30, 2006. The Company plans to increase cash flows from operations through increases in revenue generated from the licensing and related consulting services. Based on cash on hand at June 30, 2006 and a forecast prepared by management indicating an increased level of revenue, management expects the Company to be able to meet its obligations as they become due for the next twelve months. However, there can be no assurances that management's plans and the projected increase in revenue will be attained.

Note B—Per share data:

Basic and diluted net loss per share has been computed based on the weighted average number of outstanding shares of common stock. Potentially dilutive securities which were excluded from the computation of basic loss per share because to do so would have been anti-dilutive are as follows:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Options	<u>20,110,000</u>	<u>19,775,000</u>
Total Potential Dilutive shares	<u><u>20,110,000</u></u>	<u><u>19,775,000</u></u>

Note C— Stock-Based Compensation:

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123R, “Share Based Payment” (FAS123R), which requires that all share-based payments, including grants of stock options, to be recognized in the income statement as a compensation expense, based on their fair values at the date of grant. Under the provisions of FAS 123R, the estimated fair value of options granted under the Company's Employee Stock Option Plan and Director Stock Option Plan are recognized as compensation expense over the option-vesting period. The Company is using the modified prospective method, in which compensation expense is recognized beginning with the effective date of adoption of FAS123R for all share-based payments (i) granted after the effective date of the adoption and (ii) granted prior to the effective date of the adoption and that remain unvested on the date of the adoption.

Prior to January 1, 2006, the Company accounted for stock-based employee compensation under Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees”, and related interpretations. Under the provisions of APB25, no compensation expense was recognized when stock options were granted with exercise prices equal to or greater than market value on the date of the grant.

The following table illustrates the effect on net (loss) per share if the fair value based method had been applied to the prior periods in comparison to the current periods, where it was applied.

	<u>Three Months Ended June 30, 2005</u>	<u>Six Months Ended June 30, 2005</u>
Reported net (loss)	(490,000)	(1,012,000)
Stock-based employee compensation included in reported net (loss)	37,000	37,000
Stock-based employee compensation determined under the fair value based method, net of tax	<u>(42,000)</u>	<u>(47,000)</u>
Pro forma net (loss)	(495,000)	(1,022,000)
Basic and diluted (loss) per share:		
As reported	(.01)	(.02)
Pro forma	(.01)	(.02)

For the three months and six months ended June 30, 2006, the Company included approximately \$12,000 and \$19,000, respectively, of share-based compensation in its Statement of Operations. For the three and six months ended June 30, 2005, the Company included approximately \$37,000 of share-based compensation in the Company's Statement of Operations.

Prior to the adoption of FAS No. 123R, the Company presented cash flows resulting from the tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. FAS No. 123R requires cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The Company did not realize any tax benefits from stock options during the six months ended June 30, 2006.

The following table summarizes the activity of the Company's stock options for the six months ended June 30, 2006:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Number of shares under option:				
Outstanding at December 31, 2005	12,832,000	\$ 0.010		
Granted	8,578,000	\$ 0.015		
Exercised	(1,300,000)	\$ 0.010		
Canceled or expired	-	-		
Outstanding as of June 30, 2006	20,110,000	\$ 0.012	8.87	\$ 64,000
Exercisable at June 30, 2006	5,439,000	\$ 0.010	7.62	\$ 28,000

The following summarizes the activity of the Company's non-vested stock options for the six months ended June 30, 2006:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Non-vested at January 1, 2006	9,155,000	\$ 0.010
Granted	8,578,000	\$ 0.015
Exercised	(1,300,000)	\$ 0.010
Canceled or expired	-	-
Vested	(1,762,000)	\$ 0.009
Non-vested at June 30, 2006	14,671,000	\$ 0.013

As of June 30, 2006, there was approximately \$116,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under existing stock option plans. This cost is expected to be recognized over the weighted average of 2.33 years.

The weighted average fair value of options granted during the six months ended June 30, 2006 and 2005 was \$0.009 and \$0.010, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was \$6,500 and \$36,024, respectively.

For the purposes of the disclosure in the foregoing table and for the purposes of determining estimated fair value under FAS 123R, the Company has computed the fair values of all share-based compensation using the Black-Scholes option pricing model and has applied the assumptions set forth in the following table. The Company calculated expected volatility based on the Company's historical stock volatility. The following table illustrates the assumptions used in the Company's Black-Scholes calculations to determine the stock option expense for the three and six months ended June 30, 2006.

	<u>June 30, 2006</u>
Risk free interest rate	4.99%
Dividend yield	0%
Volatility factor	91%
Expected life in years	5

The Black-Scholes option-pricing model requires the input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not provide a reliable single measure of the fair value of its employee stock options. In addition, management will continue to assess the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time, which result in changes to these assumptions and methodologies, which could materially impact the Company's fair value determination.

Under FAS123R forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which the actual forfeitures differ, or are expected to differ, from the previous estimate. Under FAS123 and APB 25, the Company elected to account for forfeitures when awards were actually forfeited, at which time all previous pro forma expense was reversed to reduce pro forma expense for that period.

Note D--Contingencies:

Alan Fontes v. CareAdvantage, Inc., pending in Superior Court of New Jersey, was commenced in June 2004 by a former employee of the Company seeking compensation under various legal theories. In October 2005, the court dismissed the claim under all theories except express contract. The Company believes that Mr. Fontes's claim is without merit and is contesting the matter vigorously. Moreover, the Company filed a counterclaim for damages against Mr. Fontes claiming Mr. Fontes induced another employee to quit his employment with the Company and in October 2005, pursuant to court order, amended its counterclaim to seek equitable relief and damages against Mr. Fontes and Integrated eCare Solutions, LLC, claiming Mr. Fontes misappropriated and used certain Company property.

Note E—Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and accounts receivable. The Company maintains its cash balances in high quality financial institutions. Collateral is not required to support these financial instruments.

Note F—Exercise of Stock Options

During the six months ended June 30, 2006, the exercise of certain stock options resulted in the issuance of 1,300,000 shares of common stock for proceeds of \$13,000.

Note G—Restricted Stock

On May 16, 2006, the Company's Board of Directors granted as a bonus to a key employee 2,000,000 shares of the Company's Common Stock, which shares vested immediately and are not registered under federal or state securities laws. For the period ended June 30, 2006, the Company recorded approximately \$30,000 in stock based compensation expense in connection with this stock grant, which is based on the fair value of the stock on the grant date. As of June 30, 2006, there was no unrecognized compensation cost related to the shares.

Note H—Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An interpretation of FASB Statement No. 109," or FIN 48, which clarifies the accounting and disclosure requirements for uncertainty in tax positions, as defined. We are currently evaluating the provisions of FIN 48, which is effective for fiscal years beginning after December 15, 2006.

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

Cautionary Statements:

Statements in this Form 10-QSB may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"), including statements concerning management's plans, intentions and expectations with respect to future financial performance and future events, particularly relating to revenues from performance-based services and re-negotiations of existing and new contracts with customers. Many of these statements involve known and unknown risks, uncertainties and contingencies, many of which are beyond our control, which could cause actual results and outcomes to differ materially from those expressed in this 10-QSB. For a more complete discussion of these risk factors, please see "Cautionary Statements" in Item 6 of the Company's Form 10-KSB for the fiscal year ended December 31, 2005. Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we can give no assurance that our plans, intentions or expectations will be achieved.

GENERAL OVERVIEW:

The Company and its direct and indirect subsidiaries, CAHS and CHCM are in the business of providing management and consulting services designed to enable integrated health care delivery systems and other care management organizations to reduce the costs, while improving the quality, of medical services provided to their subscribers. The management and consulting services include care management program enhancement services, executive and clinical management services, and training programs. The Company's management and consulting services have been and continue to be provided to integrated health care delivery systems and other care management organizations. The Company operates in one business segment.

The Company is now focusing on offering its management and consulting services. As part of this effort, the Company has developed RightPath® Navigator (RPNavigator), a proprietary tool to help managed care plans and employers better understand and forecast resource consumption, risk, and costs associated with their respective populations. In providing its consulting services, the Company licenses RPNavigator to its customers. The Company recognizes revenue as services are performed or ratably under contract terms. For a further discussion of considerations relating to this business, see "Liquidity, Financial Condition and Capital Resources – General Overview".

Management believes it must continue to refine its current service lines in order to continue to add value to existing and potential customers. In addition, the Company intends to broaden the services offered with unique and complementary cost-containment strategies. Management intends to evaluate each service in light of anticipated changes in the health care industry, the cost to enter each such service line as well as the availability and timeliness of competent resources. To further expand its line of services, the Company contemplates pursuing alternatives to its internal product and service development efforts by entering into strategic alliances and joint ventures as well as through acquisitions.

RESULTS OF OPERATIONS:

The following discussion compares the Company's results of operations for the three and six months ended June 30, 2006, with those for the three and six months ended June 30, 2005. The Company's consolidated financial statements and notes thereto included elsewhere in this report contain detailed information that should be referred to in conjunction with the following discussion.

Because the Company ceased offering health care containment services three years ago, the Company is now concentrating on offering its management and consulting services (the "Management Services"). At the present time, the Company's primary focus now is to build up revenues from the Management Services, which will require the Company to devote significant resources, both in the time and efforts of its employees as well as funding, to promote and support these activities. As part of this effort, the Company has developed RPNavigator, a proprietary tool to help managed care plans and employers better understand and forecast resource consumption, risk, and costs associated with their respective populations. The tool uses 3M's Clinical Risk Group (CRGs), a classification methodology that groups members according to risk related to the individual's clinical history and demographic information. Using RPNavigator, the Company will enable its customers to:

- track population and member-related disease progression changes over time;
- compare health plan sub-populations on a valid and reliable basis;
- profile providers using case mix and severity-adjusted techniques;
- select and prioritize members to optimize the allocation and assess the impact of care management resources, direct interventions and initiatives; and
- reduce client dependence on internal information technology resources.

The Company believes that the Management Services business has the potential to generate positive cash flows for the Company. As of April 1, 2006, the Company amended its Services and License Agreement with Kaiser Foundation Health Plan of the Northwest ("Kaiser") dated as of January 1, 2005, to provide Kaiser more extensive services in exchange for increased compensation. As of June 1, 2006, the Company amended its Services and License Agreement with Blue Cross Blue Shield of Texas ("BCBSTX") dated as of August 18, 2003, to provide BCBSTX more extensive services in exchange for increased compensation. Management believes that opportunities such as this will enhance business prospects, facilitate a more significant market penetration and improve revenues and profitability for the Company.

Three Months Ended June 30, 2006, Compared to Three Months Ended June 30, 2005

Revenues:

The Company's total operating revenues for the three-month periods ended June 30, 2006 and June 30, 2005 were approximately \$1,095,000 and \$634,000, respectively. The revenue was generated primarily from consulting fees earned during this period. The current revenue amount represents an increase of approximately \$461,000 for the three-month period ended June 30, 2006 from the corresponding period of the prior year. The increase for the three months ended June 30, 2006 was primarily attributable to increased revenue of approximately \$392,000 in current customer business due to increased services provided to existing customers and increased revenue of approximately \$69,000 in related consulting business. The Company is currently focusing its efforts to produce revenue by providing services in connection with its RPNavigator product (see "Liquidity, Financial Condition and Capital Resources").

Cost of services:

The Company's total direct cost of services for the three-month periods ended June 30, 2006 and June 30, 2005 was approximately \$416,000 and \$363,000, respectively. This represents an increase of approximately \$53,000 for the three-month period ended June 30, 2006 over the corresponding period of the prior year. The increase in the cost of services for the three-month period ended June 30, 2006 was primarily due to increased personnel costs of approximately \$41,000, travel costs of approximately \$2,000 and an increase of approximately \$10,000 in professional costs. The Company's direct costs are mostly fixed with the exception of its licensing fees. Any variation in direct costs is largely due to increased licensing fees related to increased revenue. As a result of this, as the Company begins to experience revenue growth, its margins are expected to improve favorably. Other direct costs, such as personnel costs, may increase only if a large volume of increased business occurs where additional staffing would be required.

Selling, general and administrative expenses:

The Company's total selling, general, and administrative costs for the three-month periods ended June 30, 2006 and June 30, 2005 were approximately \$720,000 and \$764,000, respectively. This represents a decrease of approximately \$44,000 for the three-month period ended June 30, 2006 over the corresponding period of the prior year. This decrease for the three-month period ended June 30, 2006 is primarily due to decreases in personnel costs of approximately \$42,000, decreased professional costs of approximately \$2,000, facility costs of approximately \$5,000 and a reduction in depreciation and amortization costs of approximately \$24,000, offset by increases in travel costs of approximately \$7,000, an increase of approximately \$5,000 in information and communication costs and an increase of approximately \$17,000 in other general and administrative costs.

Six Months Ended June 30, 2006, Compared to Six Months Ended June 30, 2005**Revenues:**

The Company's total operating revenues for the six-month periods ended June 30, 2006 and June 30, 2005 were approximately \$2,040,000 and \$1,192,000, respectively. This represents an increase of approximately \$848,000 for the six-month period ended June 30, 2006 from the corresponding period of the prior year. The increase for the six months ended June 30, 2006 was primarily attributable to increased revenue of approximately \$700,000 in current customer business due to increased services provided to existing customers and increased revenue of approximately \$148,000 in related consulting business.

Cost of services:

The Company's total direct cost of services for the six-month periods ended June 30, 2006 and June 30, 2005 was approximately \$858,000 and \$674,000, respectively. This represents an increase of approximately \$184,000 for the six-month period ended June 30, 2006 over the corresponding period of the prior year. The increase in the cost of services for the six-month period ended June 30, 2006 was primarily due to increased personnel costs of approximately \$127,000 relating to departmental restructuring, professional costs of approximately \$55,000, which includes approximately \$52,000 due to license fees relating to increased business and travel costs of approximately \$2,000. The Company's direct costs are mostly fixed with the exception of its licensing fees. Any variation in direct costs is largely due to increased licensing fees related to increased revenue. As a result of this, as the Company begins to experience revenue growth, its margins are expected to improve favorably. Other direct costs, such as personnel costs, may increase only if a large volume of increased business occurs where additional staffing would be required.

Selling, general and administrative expenses:

The Company's total selling, general, and administrative costs for the six-month periods ended June 30, 2005 and June 30, 2004 were approximately \$1,426,000 and \$1,535,000, respectively. This represents a decrease of approximately \$109,000 for the six-month period ended June 30, 2006 over the corresponding period of the prior year. This decrease for the six-month period ended June 30, 2006 is primarily due to decreased personnel costs of approximately \$120,000, facility costs of approximately \$5,000 and depreciation and amortization costs of approximately \$48,000, offset by increases in information and communication costs of approximately \$2,000, travel costs of approximately \$14,000, professional costs of approximately \$23,000 and other general and administrative costs of approximately \$25,000.

LIQUIDITY, FINANCIAL CONDITION AND CAPITAL RESOURCES:**General overview:**

At June 30, 2006, the Company had working capital of approximately \$289,000, stockholders equity of approximately \$271,000 and an accumulated deficit of approximately \$23,549,000.

Financial condition:

At June 30, 2006, the Company had cash of approximately \$221,000 and working capital of approximately \$289,000. At December 31, 2005, the Company had cash of approximately \$114,000 and working capital of approximately \$323,000.

Net cash provided by operating activities amounted to approximately \$94,000 for the six-month period ended June 30, 2006. The cash provided by operations related principally to a decrease in accounts receivable of approximately \$99,000, a decrease in other assets of approximately \$46,000, an increase in deferred rent of approximately \$88,000, an increase in deferred revenue of approximately \$26,000 and other non cash charges of approximately \$110,000, offset by the Company's six-month loss of approximately \$245,000, a decrease in accounts payable of approximately \$25,000 and a decrease in accrued expenses of approximately \$5,000.

There were no cash flows from investing activity for the six-month period ended June 30, 2006.

Net cash provided from financing activities for the six-month period ended June 30, 2006 was \$13,000 related to proceeds from issuance of common stock.

The Company has changed its business model over the past three years whereby it now generates most of its revenue from the licensing of RPNavigator and providing consulting services in connection with that licensing. Revenue has grown from \$1,192,000 for the six months ended June 30, 2005 to \$2,040,000 for the six months ended June 30, 2006. The Company plans to increase cash flows from operations through increases in revenue generated from the licensing and related consulting services. Based on cash on hand at June 30, 2006 and a forecast prepared by management indicating an increased level of revenue, management expects the Company to be able to meet its obligations as they become due for the next twelve months. However, there can be no assurances that management's plans and the projected increase in revenue will be attained.

Application of Critical Accounting Policies:

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain accounting policies have a significant impact on amounts reported in the financial statements. A summary of those significant accounting policies can be found in Note B to the Company's financial statements included in the Company's 2005 Annual Report on Form 10-KSB. Deferred revenue consists of payments received in advance of revenue being earned and will be recognized on a monthly basis as the services are provided.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An interpretation of FASB Statement No. 109," or FIN 48, which clarifies the accounting and disclosure requirements for uncertainty in tax positions, as defined. We are currently evaluating the provisions of FIN 48, which is effective for fiscal years beginning after December 15, 2006.

ITEM 3. Controls and Procedures

Senior management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods provided in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer, who is also currently the acting Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, senior management has recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and therefore has been required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-QSB, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and acting Chief Financial Officer has concluded that our disclosure controls and procedures are effective.

During the quarter ended June 30, 2006, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect these controls.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

CareAdvantage, Inc. v. Blue Cross & Blue Shield of Rhode Island and Coordinated Health Partners, commenced March 2002 and pending in the Superior Court of the State of Rhode Island, arises out of the defendants' termination of an Agreement effective as of January 1, 2000, among the parties pursuant to which the Company had been providing services. The Company is seeking declaratory relief including judgment (i) that the Company's failure to attain Performance Goals under the Agreement was as a result of the defendants' conduct, (ii) that defendants lacked cause to terminate the Agreement based on the Company's failure to meet the Performance Goals, and (iii) that the Company is entitled to compensation under the Agreement, including compensation for having been deemed to have met the Performance Goals. In addition, the suit seeks equitable relief and damages with respect to defendants' hiring a physician formerly employed by the Company

For a description of additional legal proceedings, see Note D to the Financial Statements. With the exception of the legal proceedings described above and in Note D to the Financial Statements, there are no material pending legal proceedings other than ordinary routine litigation incidental to the business of the Company.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

No matters were submitted to a vote of the Company's security holders during the quarter ended June 30, 2006.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

See Exhibit Index.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CareAdvantage, Inc

August 14, 2006

/s/ Dennis J. Mouras

Dennis J. Mouras
Chief Executive Officer and acting Principal Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	Deposit Agreement dated October 31, 1994 among Midlantic Bank, N.A., PMDX and the Registrant incorporated by reference to Exhibit 2.1 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
2.2	Certificate of Merger of Care Advantage Health Systems (f/k/a Advantage Health Systems, Inc.), a Georgia corporation into CareAdvantage Health Systems, Inc., a Delaware corporation incorporated by reference to Exhibit 2.2 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
3.1	Registrant's Certificate of Incorporation incorporated by reference to Exhibit 3.1 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
3.1(a)	Amended and Restated Certificate of Incorporation incorporated by reference to the Company's Information Statement dated September 1996.
3.1(b)	Amendment to Amended and Restated Certificate of Incorporation incorporated by reference to the Company's Information Statement dated December 29, 2000.
3.2	Registrant's By-Laws incorporated by reference to Exhibit 3.2 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
10.1	Letter of intent dated September 30, 1994 between the Registrant and New Jersey BCBS, amendments thereto of December 29, 1994, February 27, 1995 and April 4, 1995 and Interim Services Agreement as of April 1, 1995 between the Registrant and New Jersey BCBS incorporated by reference to Exhibit 10.12 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
10.1(a)	December 22, 1995 Letter Agreement between the Registrant and New Jersey BCBS extending the Letter of Intent and Interim Services Agreement to March 31, 1996 incorporated by reference to Exhibit 10.12(a) filed with the Company's Annual Report on Form 10-KSB for the year ended October 31, 1996.
10.2	Lease Agreement dated April 14, 1995 between the Registrant and Metropolitan Life Insurance Company incorporated by reference to Exhibit 10.13 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
10.3	Letter of Intent dated January 2, 1996 between CW Ventures II, L.P., the Registrant and its CareAdvantage Health Systems, Inc. subsidiary incorporated by reference to Exhibit 10.14 filed with the Company's Annual Report on Form 10-KSB for the year ended October 31, 1996.
10.4	Securities Purchase Agreement dated February 22, 1996 among CW Ventures, CAHS and the Registrant incorporated by reference to Exhibit 10.15 filed with the Company's Annual Report on Form 10-KSB for the year ended October 31, 1996.
10.5	CW Exchangeable Note incorporated by reference to Exhibit 10.16 filed with the Company's Annual Report on Form 10-KSB for the year ended October 31, 1996.
10.6	Stock Acquisition Agreement dated February 22, 1996 among EHC, CHCM, CAHS and the Registrant incorporated by reference to Exhibit 10.17 filed with the Company's Annual Report on Form 10-KSB for the year ended October 31, 1996.

- 10.7 EHC Exchangeable Note incorporated by reference to Exhibit 10.18 filed with the Company's Annual Report on Form 10-KSB for the year ended October 31, 1996.
- 10.8 Services Agreement dated February 22, 1996 among Horizon BCBSNJ, CHCM, CAHS and the Registrant incorporated by reference to Exhibit 10.19 filed with the Company's Annual Report on Form 10-KSB for the year ended October 31, 1996.
- 10.9 Stockholders' Agreement dated February 22, 1996 among EHC, CW Ventures and the Registrant incorporated by reference to Exhibit 10.20 filed with the Company's Annual Report on Form 10-KSB for the year ended October 31, 1996.
- 10.10 Joint Services Agreement, dated May 29, 1997, among Allied Health Group, Inc., CAHS, Inc. and the Company incorporated by reference to Exhibit 10(c) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.11 Agreement, dated as of January 1, 1997 between Blue Cross and Blue Shield of Rhode Island ("BCBSRI") and CAHS, Inc. incorporated by reference to Exhibit 10(a) filed with the Company's Form 10-QSB for the quarter ended July 31, 1997.
- 10.12 Consultant Agreement dated March 17, 1997, between Coordinated Health Partners, Inc. d/b/a Blue Chip, and CAHS, Inc. incorporated by reference to Exhibit 10(d) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.13 Letter Agreement, dated as of March 1, 1997, between Medigroup of New Jersey, Inc. d/b/a HMO Blue, the Company and Allied Health Group, Inc. incorporated by reference to Exhibit 10(e) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.14 First Amendment and Restatement of Services Agreement, dated as of June 13, 1997, among CAHS, Inc., CHCM, the Company and Horizon BCBSNJ incorporated by reference to Exhibit 10(b) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.15 Credit Agreement among Summit Bank, the Company and Horizon BCBSNJ, dated June 13, 1997 incorporated by reference to Exhibit 10(f) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.16 Revolving Credit Note, dated June 13, 1997 by the Company in favor of Summit Bank in the original principal amount of \$1,500,000 incorporated by reference to Exhibit 10(f)(1) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.17 Term Note, dated June 13, 1997, by the Company in favor of Summit Bank in the original principal amount of \$1,500,000 incorporated by reference to Exhibit 10(f)(2) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.18 Promissory Note and Security Agreement, dated April 1, 1997, by CHCM in favor of Horizon BCBSNJ, in the original principal amount of \$1,862,823 incorporated by reference to Exhibit 10(f)(3) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.19 Employment Agreement between the Company and Thomas Riley, dated June 10, 1997, as supplemented by a side agreement with CW and Horizon BCBSNJ, of even date therewith incorporated by reference to Exhibit 10(a) filed with the Company's Form 10-QSB for the quarter ended April 30, 1997.
- 10.20 Services Agreement as of January 5, 1998, by and between New York Care Plus Insurance Company, Inc. and the Company, incorporated by reference to Exhibit 10.20 filed with the Company's Form 10KSB for the year ended October 31, 1997.

- 10.21 Consultation Agreement dated October 1, 1997 by and between the Company and David McDonnell, an independent director of the Company, incorporated by reference to Exhibit 10.21 filed with the Company's Form 10KSB for the year ended October 31, 1997.
- 10.22 Mutual Release Agreement dated as of January 6, 1998 between the Company and MEDecision, Inc., incorporated by reference to Exhibit 10.22 filed with the Company's Form 10KSB for the year ended October 31, 1997.
- 10.23 Separation Agreement dated April 20, 1995 between PMDX and the Registrant incorporated by reference to Exhibit 10.1 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
- 10.24 Agreement dated as of January 1, 1995, between Maine BCBS and CAHS incorporated by reference to Exhibit 10.2 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
- 10.25 Products and Services Agreement dated November 7, 1994 between MEDecision, Inc. and CAHS incorporated by reference to Exhibit 10.3 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
- 10.26 Registrant's 1995 Comprehensive Stock Incentive Plan incorporated by reference to Exhibit 4.2 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
- 10.27 Registrant's 1996 Stock Option Plan incorporated by reference to the Company's Information Statement dated September 1996.
- 10.28 Registrant's 1996 Director Stock Option Plan incorporated by reference to the Company's Information Statement dated September 1996.
- 10.29 Option Agreement between CW Ventures and Horizon BCBSNJ incorporated by reference to Exhibit 5 of Schedule 13(d) of Horizon BCBSNJ respecting beneficial ownership of Common Stock of the Company dated June 1997.
- 10.30 Settlement and Release Agreement dated January 13, 1998 between the Company and John Petillo incorporated by reference to Exhibit 10.30 filed with the Company's Form 10KSB for the year ended October 31, 1997.
- 10.31 Settlement and Release Agreement dated December 19, 1997 between the Company and Vince Achillarre incorporated by reference to Exhibit 10.31 filed with the Company's Form 10KSB for the year ended October 31, 1997.
- 10.32 Employment Agreement between the Company and David Noone, dated January 8, 1999, incorporated by reference to Exhibit 10.32 filed with the Company's Form 10KSB for the year ended September 30, 1998.
- 10.33 Confidentiality, Invention, and Non-Compete Agreement between the Company and David Noone, dated as of January 8, 1999, incorporated by reference to Exhibit 10.33 filed with the Company's Form 10KSB for the year ended September 30, 1998.
- 10.34 Settlement and Release Agreement entered into among Horizon BCBSNJ, the Company, CAHS, and CHCM, Enterprise Holding Company, Inc. ("EHC") and CW Ventures, incorporated by reference to Exhibit 10(a) filed with the Company's Form 10-QSB for the quarter ended July 31, 1998.
- 10.35 Services Agreement dated as of January 1, 1999, by and between HealthNow New York, Inc. ("HNNY") and the Company, incorporated by reference to Exhibit 10.35 filed with the Company's Form 10KSB for the year ended September 30, 1998

- 10.36 Amended and Restated Employment Agreement, dated as of September 29, 1998, with Richard W. Freeman, M.D., CAHS and the Company (the "Freeman Employment Agreement"), incorporated by reference to Exhibit 10.36 filed with the Company's Form 10KSB for the year ended September 30, 1998.
- 10.37 Employment Agreement, dated as of March 25, 1997, by and between the Company and Elaine del Rossi, incorporated by reference to Exhibit 10.37 filed with the Company's Form 10KSB for the year ended September 30, 1998.
- 10.38 Confidentiality, Invention and Non-Compete Agreement dated as of March 25, 1998 between the Company and Elaine del Rossi, incorporated by reference to Exhibit 10.38 filed with the Company's Form 10KSB for the year ended September 30, 1998.
- 10.39 Employment Agreement, effective as of April 28, 1998, by and among Stephan D. Deutsch, M.D., the Company and CAHS, incorporated by reference to Exhibit 10.39 filed with the Company's Form 10KSB for the year ended September 30, 1998.
- 10.40 Employment Agreement, effective as of April 19, 1999, between Dennis M. Mouras, and the Company, incorporated by reference to Exhibit 10.40 filed with the Company's Form 10KSB for the year ended December 31, 1999.
- 10.41 Settlement Agreement dated August 9, 2000 among the Company, Horizon Healthcare of New Jersey, Inc. and Allied Specialty Care Services, Inc., incorporated by reference to Exhibit 10.1 filed with the Company's Form 10QSB for the quarter ended September 30, 2000.
- 10.42 Employment Agreement, effective as of April 17, 2000, between Christopher Minor and the Company, incorporated by reference to Exhibit 10.2 filed with the Company's Form 10QSB for the quarter ended September 30, 2000.
- 10.43 Satisfaction of Debt Agreement among Horizon Blue Cross Blue Shield of New Jersey, Horizon Healthcare of New Jersey, Inc., CareAdvantage Inc., CareAdvantage Health Systems, Inc. and Contemporary Healthcare Management, Inc., incorporated by reference to Exhibit 10.1 filed on the Company's Form 8-K dated December 5, 2000 and filed on December 13, 2000.
- 10.44 Amendment dated March 26, 2001 to Satisfaction of Debt Agreement dated as of November 1, 2000 among Horizon BCBSNJ, Horizon Healthcare of New Jersey, Inc., CareAdvantage, Inc., CareAdvantage Health Systems, Inc. and Contemporary HealthCare Management, Inc, incorporated by reference to Exhibit 10.1 filed with the Company's Form 10-QSB for the quarter ended March 31, 2001.
- 10.45 Service Agreement dated as of January 1, 2000 between Blue Cross Blue Shield of Rhode Island, Coordinated Health Partners, Inc. and CareAdvantage Health Systems, Inc., incorporated by reference to Exhibit 10.2 filed with the Company's Form 10-QSB for the quarter ended March 31, 2001.
- 10.46 Amendment dated as of August 9, 2001 to Satisfaction of Debt Agreement dated as of November 1, 2000 among Horizon BCBSNJ, Horizon Healthcare of New Jersey, Inc., CareAdvantage, Inc., CareAdvantage Health Systems, Inc. and Contemporary Healthcare Management, Inc. incorporated by reference to Exhibit 10.1 filed with the Company's Form 10-QSB for the quarter ended June 30, 2001.
- 10.47 Settlement Agreement between CareAdvantage, Inc. and Horizon Blue Cross Blue Shield of New Jersey, effective as of October 1, 2004, incorporated by reference to Exhibit 10.1 filed on the Company's Form 8-K filed on October 1, 2004.
- 10.48 Second Amendment to Lease Agreement between CareAdvantage Health Systems, Inc. and Corporate Plaza Associates, L.L.C., incorporated by reference to Exhibit 10.1 filed on the Company's Form 8-K filed on January 11, 2005.

- 10.49 Services and License Agreement between the Company and Kaiser Foundation Health Plan of the Northwest ("Kaiser"), effective as of January 1, 2005, incorporated by reference to Exhibit 10.49 filed with the Company's Form 10-KSB for the year ended December 31, 2004. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.50 Amendment to Employment Agreement between the Company and Dennis J. Mouras, dated as of November 11, 2005, and Employment Agreement between the Company and Dennis J. Mouras, dated as of October 25, 2000, incorporated by reference to Exhibit 10.50 filed with the Company's Form 10-QSB for the quarter ended September 30, 2005.
- 10.51 First Amendment to Services and License Agreement between the Company and Kaiser Foundation Health Plan of the Northwest ("Kaiser"), effective as of January 1, 2006, incorporated by reference to Exhibit 10.51 filed with the Company's Form 10-KSB for the year ended December 31, 2005. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.52 Second Amendment to Services and License Agreement between the Company and Kaiser, effective as of April 1, 2006, incorporated by reference as Exhibit 10.52 filed with the Company's Form 10-KSB for the year ended December 31, 2005. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.53 Services and License Agreement between the Company and Blue Cross Blue Shield of Texas ("BCBSTX"), effective as of August 18, 2003. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.*
- 10.54 Amendment to Services and License Agreement between the Company and BCBSTX, effective as of June 1, 2006. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.*
- 16.1 Letter regarding change in accountants, incorporated by reference to Exhibit 16.1 filed on the Company's Form 8-K dated June 6, 1996.
- 16.2 Letter regarding change in accountants, incorporated by reference to Exhibit 16 filed on the Company's Form 8-K dated July 31, 2001.
- 16.3 Letter regarding change in accountants, incorporated by reference to Exhibit 16.1 filed on the Company's Form 8-K dated June 6, 2002.
- 31 Certifications pursuant to Rule 13a-14(a), promulgated under the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002*
- 32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **

*filed herewith

** furnished herewith

SERVICES AND LICENSE AGREEMENT

AGREEMENT made as of the 18th day of August, 2003 (“Effective Date”), by CareAdvantage, Inc. (“CareAdvantage” or “CAI”), a Delaware corporation with its principal place of business at 485–C Route One South, Iselin, New Jersey 08830, and Blue Cross and Blue Shield of Texas, a division of the Health Care Service Corporation (“BCBSTX”), with its principal place of business at 901 S. Central Expressway, Richardson, Texas 75080.

WHEREAS, CareAdvantage offers to process health care data through its proprietary RPNavigator software (which uses Clinical Risk Groups (“CRGs”)) and to make the results available through its web–based RPNavigator Secure Information Portal (“Portal”);

WHEREAS, CareAdvantage also offers certain services with respect to health care data;

WHEREAS, BCBSTX desires CareAdvantage to process its health care data (i.e., inpatient, outpatient, professional and pharmacy claims as well as physician encounter data) relating to its HMO, POS, PPO and ASO product lines, to license from CareAdvantage access to its RPNavigator Secure Information Portal and to purchase from CareAdvantage certain services, all on the terms set forth herein,

NOW, THEREFORE, in consideration of the premises the parties agree as follows:

1. Services.

1.1. Implementation Services. CareAdvantage shall perform the implementation services (“Implementation Services”) described in Attachment 1.1.

1.2. Recurring Services. During the term of this Agreement, CareAdvantage shall perform the services (“Recurring Services”) described in Attachment 1.2.

1.3. Additional Services. At BCBSTX's request, CareAdvantage shall perform such additional services as the parties may agree.

2. License.

2.1. Definitions. As used in this Agreement, the terms below are defined as follows:

(a) “BCBSTX Data” means data provided to CareAdvantage by BCBSTX pursuant to this Agreement.

(b) “Information” means all information made available through the Portal, including BCBSTX Data that is categorized, aggregated, displayed, arrayed, or otherwise made available through the Portal.

(c) “Analysis Period” means the last twelve month period of incurred data incorporating a payment lag.

(d) “Covered Population” means those members eligible to receive health care services at the end of the Analysis Period.

2.2. **Grant of License.** Subject to the terms and conditions of this Agreement, during the term of this Agreement CareAdvantage grants BCBSTX the non-exclusive right to access and use CareAdvantage's RPNavigator Secure Information Portal (the "Portal"). CareAdvantage will provide BCBSTX with accounts accessible solely by password for fifteen (15) concurrent users. Concurrent user access licenses are granted against the covered population, three (3) concurrent users per 100,000 lives, or can be purchased for an additional annual fee of \$* per concurrent user.

2.3. **Portal Access.** BCBSTX shall be responsible for obtaining the requisite common carrier communication lines and Internet connections to access the Portal.

2.4. **Security.** CareAdvantage requires and enforces 128 bit encryption for web access to the Portal. CareAdvantage will limit access to the BCBSTX Data maintained at the Portal to those persons authorized by BCBSTX and provided a password by BCBSTX. BCBSTX shall be responsible for the confidentiality of passwords assigned to it and shall be solely responsible for any authorized or unauthorized access to BCBSTX Data using such passwords. In addition, BCBSTX shall be responsible for the configuration and maintenance of the web browser software.

2.5. **Ownership.** The Portal contains materials (including but not limited to programs, methods, design and screen formats) proprietary to CareAdvantage and/or to third parties ("Third Party Suppliers") and licensed to CareAdvantage (collectively, "CareAdvantage Materials"). CareAdvantage and Third Party Suppliers retain title and ownership to the CareAdvantage Materials; provided, however, that in no event shall CareAdvantage Materials be deemed to include BCBSTX Data, which shall remain the sole property of BCBSTX.

2.6. **Proprietary Rights; Corporate Names.** BCBSTX understands and agrees that CareAdvantage and its Third Party Suppliers have proprietary rights in certain trademarks, service marks, trade names, corporate names and in the format of the reports used for displaying and arraying the BCBSTX Data (the "Intellectual Property"). BCBSTX agrees not to use the Intellectual Property in any way that would infringe the rights of CareAdvantage and its Third Party Suppliers. BCBSTX agrees not to alter, remove, or obscure any copyright notices or other proprietary notices on and in any part of the Portal and to include on and in any copies of reports printed from the Portal the following: "All copyrights in and to CRGs are owned by 3M. All rights reserved. All copyrights in and to the algorithms other than CRGs presented in this report, are owned by CareAdvantage, Inc. All rights reserved."

2.7. **Authorized Use of Portal and Information.** BCBSTX (including Health Care Service Corporation and authorized agents) is authorized to use the Portal and Information solely in accordance with this Agreement. BCBSTX is authorized to view the BCBSTX Data in any of the reports available at the Portal, to print any such report, and to use any such report solely for its own purposes in providing and administering health insurance and benefits (including but not limited to making copies of such reports and providing copies of such reports to its customers). Any other use of the Portal or Information by BCBSTX is prohibited and except as authorized herein, BCBSTX shall not transmit, divulge, or publish any part of the contents or substance of the Portal or in any way provide the Information, or any part thereof, to any other person; provided, however, that the foregoing shall not in any way limit BCBSTX's use of the BCBSTX Data.

2.8. **Warranties.**

2.8.1. **Ownership.** CareAdvantage warrants that it is the owner of the Portal and that it has the full power, authority and right to license such Portal in the manner set forth in this Agreement.

2.8.2. **No Other Warranties.** CareAdvantage shall furnish to BCBSTX access to and use of the Portal as promptly and accurately as is reasonably practicable. WITH RESPECT TO THE INFORMATION AND THE PORTAL, EXCEPT AS PROVIDED IN SECTION 2.8.1, THERE ARE NO WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. No oral or written information or advice given by CareAdvantage, its agents, employees, affiliates, directors, or officers, shall create a warranty or in any way increase the scope of this warranty.

2.9. Limitation of Liability. The liability of any or all of CareAdvantage, its Third Party Suppliers and their respective affiliates, agents or licensors and any other person claiming through, on behalf of, or as harmed by BCBSTX, is limited to a prorated refund of any monies paid on account of this Agreement to CareAdvantage by BCBSTX for the period at issue. Neither CareAdvantage nor its Third Party Suppliers and their respective affiliates, agents or licensors shall be liable to BCBSTX or to any other person for indirect, punitive, special, consequential or incidental damages (including, but not limited to, loss of profits or anticipated profits, loss by reason of shutdown in operation or increased expenses of operation, or other indirect loss or damage) of any nature arising from any cause whatsoever, even if CareAdvantage, its Third Party Suppliers, or their respective affiliates, agents or licensors have been advised of the possibility of such damages.

3. Business Associate Agreement. The parties agree that the terms of the Business Associate Agreement set forth in Attachment 3.3 shall be deemed a part of this Agreement.

4. Compensation.

4.1. Generally. BCBSTX shall pay CareAdvantage for the services and license provided under this Agreement as follows:

- (a) as compensation for the Implementation Services, the sum of \$* upon execution of this Agreement; plus
- (b) as compensation for the grant of the license and for the Recurring Services \$* PMPM for each member in the Covered Population, commencing as of the Effective Date.

Compensation payable pursuant to paragraph (b) of this Section 4.1 shall be payable within thirty (30) days after receipt of invoice each month during the term of this Agreement. Payments made pursuant to the foregoing sentence shall be reconciled to the eligibility data for the Covered Population BCBSTX makes available to CareAdvantage each recurring update, and CareAdvantage shall pay any reconciling adjustment to BCBSTX within thirty (30) days of its making a determination that such adjustment is owing, and BCBSTX shall pay any reconciling adjustment to CareAdvantage within thirty (30) days of CareAdvantage's notifying it in writing that such adjustment is owing.

4.2. Additional Services. BCBSTX shall pay CareAdvantage for Additional Services as the parties may agree.

4.3. Expenses. BCBSTX shall reimburse CareAdvantage for CareAdvantage's reasonable out-of-pocket expenses incurred in providing services under this Agreement, including expenses for travel, lodging and meals. BCBSTX shall pay CareAdvantage within thirty (30) days of its receipt of CareAdvantage's invoice for such expenses. Any onsite visit by CareAdvantage shall be approved in advance in writing by BCBSTX.

4.4. Adjustments.

4.4.1. On Account of Changes in Covered Population. CareAdvantage's compensation under Section 4.1(b) has been determined by assuming that BCBSTX will provide a Covered Population of at least 502,000 members plus or minus 50,000 members. If the Covered Population increases beyond 552,000 members or decreases below 452,000 members, then at a party's request the parties agree to renegotiate in good faith the rate of the PMPM fees, except as provided in Attachment 4.4.1.

4.4.2. **Annual Adjustment.** Commencing on the first anniversary of the Effective Date, the fees set forth in Section 4.1(b) and in Attachment 4.2 and Attachment 4.4.1 shall increase by * percent for each year or fraction thereof that this Agreement remains in effect.

4.5. **Taxes.** All fees quoted herein are exclusive of any taxes. BCBSTX shall be liable for and shall pay all taxes (local, state and federal), charges or assessments, and any penalties or interest which may now or hereafter be imposed or levied upon the Portal and/or services provided under this Agreement.

5. Term and Termination.

5.1. **Term.** The term of this Agreement shall commence on the Effective Date and continue in effect through and including the third anniversary of the Effective Date. Thereafter, this Agreement shall automatically renew for successive one-year terms unless either party provides the other with ninety (90) days' advance written notice of termination.

5.2 Termination.

5.2.1. **Termination for Cause.** In the event that either party materially defaults in the performance of any of its duties or obligations under this Agreement and does not substantially cure such default or defaults within 30 days after being given written notice specifying the default or defaults, then the non-defaulting party may terminate this Agreement immediately by giving notice to that effect to the defaulting party.

5.2.2. **Termination without Cause.** Notwithstanding Section 5.2.1 of the Agreement, BCBSTX may terminate this Agreement, without cause, any time after the first anniversary of the Effective Date, upon ninety (90) days' prior written notice to CareAdvantage.

6. **Defense of Litigation** Each party shall be responsible at its own expense for defending itself in any litigation brought against it, whether or not the other party is also a defendant, arising out of any aspect of activities undertaken in connection with this Agreement. Each party agrees to provide the other party information in its possession which is necessary to the other party's defense in such litigation.

7. Additional Requirements.

7.1. **Independent Contractors.** The relationship of the parties under this Agreement shall be that of independent contractors. Neither shall have any claim under this Agreement or otherwise against the other party as a joint venturer or partner.

7.2. **Proprietary Rights.** Subject to Section 2.6, neither party shall use the name, logos, trademarks, or servicemarks of the other without the other's prior written consent, except that CareAdvantage may include BCBSTX in its listing of clients.

8. Miscellaneous.

8.1. **Compliance with Laws.** Each party shall, throughout the term of this Agreement, use its best efforts to be in continuous compliance with all applicable laws.

8.2. **Notice.** All notices and other communications hereunder shall be in writing and shall be deemed to have been given upon receipt, and shall be addressed as follows:

If to BCBSTX:

Blue Cross and Blue Shield of Texas
1251 South Sherman Street,
Richardson, Texas 75080
Attention: Carolyn Dawson.
Vice President, Utilization Management and Provider Services

If to CareAdvantage:

CareAdvantage, Inc.
Metropolitan Corporate Center
485-C Route One South
Iselin, New Jersey 08830
Attention: Dennis Mouras,
President & Chief Executive Officer

8.3. **Governing Law.** This Agreement shall be construed in accordance with and governed by the laws of the State of New Jersey without giving effect to the principles of conflicts of laws.

8.4. **Entire Agreement.** Except as provided herein, this Agreement and its attachments constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all previous proposals, both oral and written, negotiations, representations, commitments, writings and all other communications between the parties. It may not be released, discharged, or modified except by an instrument in writing signed by a duly authorized representative of each of the parties.

8.5. **Binding Agreement; Assignability.** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns and subcontractors. No party hereto shall sell, assign, transfer, convey, subcontract or otherwise dispose of its rights or obligations under, title to, or interest in, this Agreement, in whole or in part, to a third party other than a wholly-owned subsidiary without the prior written consent of the other party, which consent shall not be unreasonably withheld.

8.6. **Severability.** If any provision of this Agreement is determined by a court of competent jurisdiction to be invalid or unenforceable, such determination shall not affect the validity or enforceability of any other part or provision of this Agreement.

8.7. **Disputes.** In the event of any dispute between the parties hereto arising out of or concerning this Agreement, the parties agree to use their reasonable best efforts to resolve any such dispute amicably, in good faith, and expeditiously prior to resorting to litigation.

8.8. **Injunctive Relief.** The parties acknowledge that in the event of the breach of certain provisions of this Agreement, including Sections 2.6, 2.7 and 7.2, they may not have an adequate remedy at law and will suffer irreparable damage and injury. Therefore, in addition to any other remedy available, each party agrees that if it violates any of such provisions, the non-breaching party shall be entitled to injunctive relief, without bond, from a court of competent jurisdiction.

8.9. **Waiver.** No waiver by any party of any breach of any provision of this Agreement shall constitute a waiver of any other breach of that or any other provision of this Agreement.

8.10. **Impossibility of Performance.** No party shall be deemed to be in violation of this Agreement if prevented from performing any obligation hereunder due to matters that are beyond its control, including without limitation acts of war or terrorism, strikes, riots, floods, storms, earthquakes, other elements or acts of God or the public enemy, utility or communication failure or delays, labor disputes, strikes, or shortages, equipment failures, or software malfunctions.

8.11. **Counterparts.** This Agreement may be executed in several counterparts, each of which is an original but all of which shall constitute one and the same instrument.

In WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

CAREADVANTAGE, INC.

BLUE CROSS AND BLUE SHIELD OF TEXAS,
A DIVISION OF HEALTH CARE SERVICE CORPORATION

BY: /s/Alan Fontes 8/19/03

TITLE: Vice President, Client Services

BY: /s/Illegible Signature 8/18/03

TITLE: Senior Vice President and Chief Information Officer

ATTACHMENT 1.1

IMPLEMENTATION SERVICES

This Agreement covers data from BCBSTX's HMO, POS, PPO and ASO product lines, and includes inpatient, outpatient, professional and pharmacy claims as well as physician encounter data.

CAI estimates that it will require five to six weeks to process the initial claims data once the Information Gathering stage is completed.

CAI projects the following timeline:

Information Gathering

- Review business environment
- Gather business rules
- Review claims system(s)
- Develop claims data requirements
- Develop system deployment, access and usage plan (i.e., user entitlements, etc.)
- Develop\finalize implementation plan
- Prepare processing environment
- BCBSTX prepare and deliver to CAI required claim data which will include claims incurred from January 1, 2001 through May 30, 2003 and paid any time

Weeks 1–2 (Begins when claims data is received)

- Load data into processing environment
- Conduct technical and initial clinical review of data (review for completeness)
- Begin initial programming for data conversion
- Produce initial claims data review report
- Test data conversion programming
- Run data through conversion program

Weeks 3–4

- Validate data conversion
- Prepare\run data though CRGs algorithm
- Validate CRG assignments (validity check)
- Conduct a clinical analysis
- Configure RPNavigator backend systems to support BCBSTX
- Program reports to generate analyses against actual data elements
- Review RPNavigator analyses results
- Test RPNavigator configuration against documented system deployment and usage plan
- Configure and assign BCBSTX user entitlements

Weeks 5–6

- Conduct three (3) days of on–site consulting to include user training, data analytical review and operational integration
- Provide BCBSTX users access to RPNavigator Secure Information Portal
- Deliver observations summary report

Thereafter, CAI will provide three (3) days of on–site management consulting services, delivered by two (2) consultants, to include user training, data analytical review and operational integration, at the end of the initial data processing and analysis implementation.

Also, as part Implementation, assuming that the Covered Population contains at least 225,000 members who have remained eligible for a 27–month period, CAI will generate custom prospective relative weights for CRGs that BCBSTX may use to predict future resource consumption and costs.

(CareAdvantage has assumed that no more than seven (7) days of services will be required during the Information Gathering stage of Implementation. Any additional effort will be billed in accordance with Attachment 4.2. So long as BCBSTX provides CareAdvantage with the information requested by CareAdvantage during the Information Gathering stage in a timely and complete fashion (including, but not limited to the required claims data conforming to the specifications provided by CareAdvantage), then CareAdvantage agrees that it shall make no charge under this paragraph for any additional effort that may be required in providing Implementation Services.)

RECURRING SERVICES

1. CareAdvantage will maintain a telephone support desk for technical and clinical inquiries 8:30 am through 5:30 pm, Eastern Time, during each business day.

2. On a semiannual basis, at the conclusion of each six (6) month period, BCBSTX will provide CareAdvantage with paid claims data for all claims in the Covered Population. Within two weeks of CareAdvantage's receipt of this data, CareAdvantage will:

- Load data into data processing environment
- Conduct technical and initial clinical review of data (review for completeness)
- Run data through conversion program
- Validate data conversion
- Prepare/run data files through CRG algorithms
- Validate CRG assignments (validity check)
- Conduct clinical analysis
- Program reports to generate analyses with updated data elements
- Review RPNavigator analyses results
- Move into production environment
- Deliver observations summary report (which includes changes from previous periods)

Thereafter, CareAdvantage will conduct two (2) days of on-site consulting, delivered by one (1) consultant, to include data analytical and operational integration reviews

(The two-week schedule provided by Section 2 of this Attachment assumes that there has been no change from Implementation in BCBSTX's claims system(s) and business rules. In the event of any such changes, the two-week schedule is subject to adjustment, and any additional services required by CAI on account of such changes will be billed in accordance with Attachment 4.2, or on such terms as the parties may agree.)

BUSINESS ASSOCIATE AGREEMENT

The Business Associate Agreement deemed a part of this Agreement is the executed Business Associate Addendum between CareAdvantage, Inc. and Blue Cross and Blue Shield of Texas, a division of the Health Care Service Corporation, with an effective date of April 14, 2003.

FEEES FOR ADDITIONAL SERVICES

CAI Standard Rates

<u>Consulting Level</u>	<u>Daily Rates</u>
Analyst	\$ *
Consultant	\$ *
Sr. Consultant	\$ *
Manager	\$ *
Sr. Manager	\$ *
Director	\$ *
Sr. Medical Director	\$ *
Vice President	\$ *
VP, National Medical Director	\$ *

ESTIMATED PMPM FEES FOR CHANGE IN COVERED LIVES

<u>Covered Lives</u>	<u>PMPM Fees</u>
100,000 – 199,999	\$ *
200,000 – 299,999	\$ *
300,000 – 399,999	\$ *
400,000 – 499,999	\$ *
500,000 – 599,999	\$ *
600,000 – 699,999	\$ *
700,000 – 799,999	\$ *
800,000 – 899,999	\$ *
900,000 – 999,999	\$ *
1,000,000 – 1,499,999	\$ *
1,500,000 – 1,999,999	\$ *
2,000,000 – 2,499,999	\$ *

This fee table reflects the year one fees for a change in the Covered Population in the HMO, POS, PPO and ASO product lines and does not reflect any Annual Adjustments.

AMENDMENT TO SERVICES AND LICENSE AGREEMENT

AMENDMENT TO SERVICES AND LICENSE AGREEMENT made as of the 1st day of June 2006 (“Effective Date of Amendment”), by CareAdvantage, Inc. (“CareAdvantage” or “CAI”), a Delaware corporation with its principal place of business at 485–C Route One South, Iselin, New Jersey 08830, and Blue Cross and Blue Shield of Texas, a division of the Health Care Service Corporation (“BCBSTX”), with its principal place of business at 901 S. Central Expressway, Richardson, Texas 75030.

WHEREAS, BCBSTX and CareAdvantage have entered into a Services and License Agreement as of August 18, 2003 (the “Agreement”), which Agreement has from time–to–time been modified to provide for Additional Services;

WHEREAS, the parties desire to further amend the Agreement to provide for bi–monthly updates of paid claims data, to clarify Portal availability, to provide for performance guarantees, to provide for certain reports and the processing of data from certain PBMs and to extend the term of the Agreement;

WHEREAS, the parties also desire to amend the compensation payable under the Agreement;

NOW, THEREFORE, in consideration of the premises the parties agree as follows:

1. *Bi–Monthly Processing of Paid Claims Data.* Commencing as of the Effective Date of the Amendment, Attachment 1.2 of the Agreement is amended in its entirety as provided in Attachment 1.2 attached hereto.

2. *Portal Availability.* Commencing as of the Effective Date of the Amendment:

a. Section 2.7 of the Agreement is amended by adding to the heading, immediately prior to the period, the following: “; **Portal Access and Performance Guarantee**”;

b. The existing text of Section 2.7 (exclusive of the heading) is re–designated 2.7.1, and immediately thereafter there is added new Sections 2.7.2 and 2.7.3 as follows:

2.7.2 CareAdvantage will use commercially reasonable efforts to ensure that the Portal is accessible for a minimum of 99% of scheduled uptime (the “Portal Service Levels”). Scheduled uptime shall consist of 9:00 a.m. to 9:00 p.m. Eastern Time, Monday through Friday. Access to the Portal generally will be available at times other than scheduled uptime, except when CareAdvantage is conducting maintenance, but CareAdvantage cannot guarantee the extent to which the Portal will be accessible at these other times. CareAdvantage will notify BCBSTX at least five (5) days in advance of any maintenance that may be required during scheduled uptime; provided, however, total down time for maintenance or other reasons shall not exceed 1% of scheduled uptime. BCBSTX acknowledges and agrees that access to the Internet is subject to unexpected outages due to equipment failure that can occur through a variety of external causes, and which may have an affect on CareAdvantage's ability to satisfy the Portal Service Levels. BCBSTX agrees that CareAdvantage is not responsible for any unexpected outages of the Portal caused by external circumstances beyond CareAdvantage's control. BCBSTX may contact CareAdvantage to report problems with Portal access anytime twenty–four hours a day. CareAdvantage will use all commercially reasonable efforts in restoring unscheduled outages of the Portal whenever they occur. If the Portal Service Levels fall below 99% of scheduled uptime in one or more monthly periods, CareAdvantage will (i) use all reasonable efforts to diagnose the problem(s) causing the excessive downtime, as required, and (2) prepare and implement a remediation plan to resolve the issues. If, notwithstanding CareAdvantage's remediation efforts, Portal Service Levels continue below 99% for a period of ninety (90) days or more, BCBSTX may terminate the Agreement for cause, providing no further cure period, and pursue all of its available remedies at law and equity.

2.7.3 In the event that for any month the Portal Service Level is less than 99%, then during the remainder of the term of this Agreement, if for any subsequent month the Portal Service Level is again below 99%, the compensation payable pursuant to Section 4.1 for such subsequent month shall be reduced as follows:

less than 99% but at least 96%	2%
less than 96% but at least 90%	5%
less than 90% but at least 80%	10%
less than 80% but at least 70%	25%
less than 70%	100%

CareAdvantage will monitor continuously during scheduled uptime network server availability as well as Portal Application availability. Monitoring Portal Application availability encompasses testing the Portal for login success and a sample data query for backend database availability. CareAdvantage will maintain data logs and will upon BCBSTX's request provide it reports as to server availability and Portal Application availability. In computing the Portal Service Level for any month, such data logs shall be conclusive as to the extent of network server availability and Portal Application availability. No reduction in compensation shall be made to the extent the Portal Service Level was affected by matters beyond CareAdvantage's control as provided by Section 8.10.

3. *Term.* Commencing as of the Effective Date of the Amendment, Section 5.1 is amended by substituting “May 31, 2009” for “the third anniversary of the Effective Date.”

4. *Compensation.* Commencing as of the Effective Date of the Amendment:

a. Section 4.1 of the Agreement is amended in its entirety as follows:

4.1. **Generally.** BCBSTX shall pay CareAdvantage for the services and license provided under this Agreement, as amended, \$* PMPM for each member in the Covered Population; provided, however, that in the event BCBSTX, in accordance with Attachment 1.2, provides CareAdvantage with Incremental claims data, then in lieu of the foregoing the fee shall be \$* PMPM for each member in the Covered Population. Notwithstanding the foregoing, because BCBSTX intends to provide Incremental claims data commencing August 2006, the parties have agreed that the payments due June 1, July 1 and August 1, 2006, shall be computed at the Incremental claims data rate of \$* PMPM; provided, however, that in the event BCBSTX fails to provide CareAdvantage with Incremental claims data for August 2006, then the amounts due for June, July and August 2006 shall be retroactively adjusted to the \$* PMPM rate, and the resulting amount owing shall be paid with the amount otherwise due on September 1, 2006. During the term of this Agreement, compensation shall be payable without invoice monthly commencing on the 1st day of June 2006, and on the 1st day of each subsequent month; payment for the month commencing June 1, 2006, shall be \$* (which assumes * members). Payments made pursuant to the foregoing sentence shall be reconciled to the BCBSTX Data that BCBSTX makes available to CareAdvantage pursuant to Attachment 1.2, and CareAdvantage shall pay any reconciling adjustment to BCBSTX within thirty (30) days of its making a determination that such adjustment is owing, and BCBSTX shall pay any reconciling adjustment to CareAdvantage within thirty (30) days of CareAdvantage's notifying it in writing that such adjustment is owing.

b. Section 4.4.1 is amended in its entirety as follows:

4.4.1. **On Account of Changes in BCBSTX Covered Population.** CareAdvantage's compensation under Section 4.1 has been determined by assuming that the Covered Population contains at least 2,500,000 members but not more than 3,500,000 members. If the number of members in the Covered population falls below 2,500,000 members or increases beyond 3,500,000 members, then in lieu of the amounts provided by Section 4.1, the rate shall be determined in accordance with Attachment 4.4.1.

c. Section 4.4.2 is amended by inserting "of the Amendment" immediately after "Effective Date".

d. Attachment 4.2 is amended in its entirety as attached hereto.

e. Attachment 4.4.1 is amended in its entirety as attached hereto.

5. Except to the extent set forth herein, the Agreement, as amended, shall remain in full force and effect.

This Amendment may be executed in several counterparts, each of which is an original but all of which shall constitute one and the same instrument.

In WITNESS WHEREOF, the parties have executed this Amendment as of the date set forth above.

CAREADVANTAGE, INC.

BLUE CROSS AND BLUE SHIELD OF TEXAS,
A DIVISION OF HEALTH CARE SERVICE CORPORATION

BY: /s/ Dennis J. Mouras
TITLE: CEO

BY: /s/ Carolyn Dawson
TITLE: Vice president, UMPS

RECURRING SERVICES

Generally

During the term of this Agreement, no later than the 15th day of June, August, October, December, February, and April, BCBSTX will provide CareAdvantage with “Incremental” or “Non-Incremental” claims data in accordance with the Claims Data Specifications set forth in Attachment 1.2.1 for all claims in the Covered Population. “Incremental” data are data for the Covered Population that includes only data from the time that BCBSTX last provided CareAdvantage with its data; “Non-Incremental” data are data for the Covered Population that are not Incremental data. Upon CareAdvantage's receipt of this data, CareAdvantage will:

- Load data into data processing environment
- Conduct technical and initial clinical review of data (review for completeness)
- Run data through conversion program
- Validate data conversion
- Prepare/run data files through CRG algorithms
- Validate CRG assignments (validity check)
- Program reports to generate analyses with updated data elements
- Review RPNavigator analyses results
- Move into production environment
- Deliver observations summary report (which would address significant changes from previous periods)

CareAdvantage will conduct at least one day of on-site consulting two times per year, including data analytical and operational integration reviews.

During the term of this Agreement, CareAdvantage will maintain telephone support for technical and clinical inquiries 9:00 a.m. through 9:00 p.m., Eastern Time, Monday through Friday.

PBM Data

BCBSTX may include in the BCBSTX Data data from the following four external PBMs: Merck–Medco, Express Scripts, PharmaCare and CareMark, and at BCBSTX's option by notifying CareAdvantage, Scriptcare and Rxedo, two additional external PBMs. BCBSTX shall deliver data from such external PBMs in the form specified at Attachment 1.2.1 at the same time it delivers the remaining BCBSTX Data. At the election of BCBSTX, in connection with any bi-monthly processing of BCBSTX data, CareAdvantage shall perform the data cleansing and formatting responsibilities regarding data from such external PBMs; in such case, BCBSTX shall pay CareAdvantage the sum of \$* for each bi-monthly data cleansing and formatting provided by CareAdvantage. In addition, for implementation services regarding CareMark, BCBSTX shall make a one-time payment to CareAdvantage of \$* within 30 days of the execution of this Amendment; and in the event BCBSTX opts to include data from Scriptcare and/or Rxedo, BCBSTX shall make a one-time payment to CareAdvantage of \$* for each such additional PBM within 30 days of the date it notifies CareAdvantage of its intention to include data from such PBM.

Reports

At the request of BCBSTX, CareAdvantage will provide BCBSTX with up to fifteen (15) custom reports for the Covered Population each twelve-month period commencing on the Effective Date of Amendment.

BCBSTX shall pay CareAdvantage for the services regarding the custom reports in accordance with Attachment 4.2.

* * *

(CareAdvantage will provide its services in accordance with the Cycle Time Schedule set forth in Attachment 1.2.2. Except as contemplated by the Claims Data Specifications set forth in Attachment 1.2.1, the Cycle Time Schedule assumes (a) that there has been no change in BCBSTX's claims system(s) and business rules from those provided by BCBSTX to CareAdvantage on or before August 18, 2003, and (b) that there has been no change in the claims system(s) and business rules of the four external PBMs specified in this Attachment subsequent to CareAdvantage's set-up to receive data from such PBMs. In the event of any such change, that schedule is subject to adjustment, and any additional services required by CareAdvantage on account of such changes will be billed in accordance with Attachment 4.2.)

CLAIMS DATA SPECIFICATIONS

* The Claims Data Specifications have been deleted in their entirety

CYCLE TIME SCHEDULE

<u>FILE TYPE/ PROCESS STEP</u>	<u>STANDARD CYCLE TIME BUSINESS DAYS</u>	<u>DEPENDENCIES & NON STANDARD ISSUES</u>	<u>BCBSTX CYCLE TIME BUSINESS DAYS</u>
LOAD DATA EXTRACT	1 Day	Upon receipt of files from BCBSTX in accordance with BCBSTX's schedule to send data to CAI, as specified in Attachment 1.2, Recurring Services. If all data files are not received on the same day, the process is delayed until all data is received. >	Add 3–5 Days
ASSESS DATA EXTRACT	2 Days	< Complete/valid data received Note missing files/data elements; advise client, delay start until data rec'd If any issues >	Add 2–3 Days
MEMBERSHIP	2 Days	Prepare Membership Files before processing Eligibility/Claims If any issues >	Add 2–3 Days
ELIGIBILITY	2 Days (simultaneous) not counted in Total	Process Eligibility simultaneous w/Claims If any issues >	Add 2–3 Days
PHARMACY CLAIMS – INTERNAL – EXTERNAL	5 Days	< Prep Internal Rx Files Prep External Rx Files > All Rx Claims must be prepped and internal/external combined before CRxG Algorithm Processing	Add 6–10 Days # of days depends on: –# of external files –if new PBM or update of prior external PBM –# of crosswalks
CRxG ALGORITHM	10 Days (simultaneous) not counted in Total	Processing time is affected by size of membership and # Analysis Periods; simultaneous w/Med Claims–next	
MEDICAL CLAIMS – INTERNAL – EXTERNAL	10–12 Days	< Prep Internal Medical Files Prep External Medical Files > All Medical Claims must be prepped and internal/external combined before CRG Algorithm Processing	Add 5–6 Days # of days depends on: –# of external files –if new or update of previous files – # of crosswalks
PROVIDER	1 Day (simultaneous) not counted in Total	Prep/process Files simultaneous w/Claims	
CRG GROUPE PROCESSING	3–4 Days	All above steps must be completed before proceeding to remaining steps below	
POST GROUPE PROCESSING	2 Days		

TABLE/APPL LOADING	3–5 Days		
CAI UAT and Application Refinements	3 Days	UAT/Application refinements can take longer; when RPNavigator calculations are implausible, due to shortcomings in standard BCBSTX data extract, rework/delays occur >	# days delay depends on significance of data issues discovered; some issues cannot be identified until data is in RPNavigator
BCBSTX UAT	3 Days		
PRODUCTION LOAD/TEST	1 Day		
TOTALS	35–40 Days		20–30 Additional days

Notwithstanding any provision of this Attachment to the contrary, (a) in the event that BCBSTX fails to deliver all data files within two (2) business days of the due date, or (b) in the event that BCBSTX fails to meet more than one of the dependencies described above, then in lieu of the additional time for performance set forth above, CareAdvantage will process the BCBSTX Data to completion as soon as commercially possible given its contractual commitments to its other clients.

In the event that for any scheduled data run the preceding paragraph does not apply to postpone CareAdvantage's processing the BCBSTX Data because of BCBSTX's timely and complete performance, and in the further event that CareAdvantage fails to make the newly-processed BCBSTX Data available through RPNavigator within ten (10) business days of the due date indicated by this Attachment, then CareAdvantage shall pay BCBSTX the sum of \$* (which amount shall be paid by BCBSTX's reducing the amount next due to be paid CareAdvantage under this Agreement). The foregoing sentence, however, shall not apply to the first data run in which BCBSTX provides Incremental claims data.

FEEES FOR ADDITIONAL SERVICES

<u>Consulting Level</u>	<u>Daily Rates</u>
Analyst	\$ *
Consultant	\$ *
Sr. Consultant	\$ *
Manager	\$ *
Sr. Manager	\$ *
Director	\$ *
Sr. Medical Director	\$ *
Vice President	\$ *
VP, National Medical Director	\$ *

**PMPM RATE SCHEDULE
FOR SIGNIFICANT CHANGES IN THE COVERED POPULATION**

<u>Covered Population</u>	<u>Incremental Data PMPM Fees</u>	<u>Non-Incremental Data PMPM Fees</u>
100,000–199,999	\$ *	\$ *
200,000–299,999	\$ *	\$ *
300,000–399,999	\$ *	\$ *
400,000–499,999	\$ *	\$ *
500,000–599,999	\$ *	\$ *
600,000–699,999	\$ *	\$ *
700,000–799,999	\$ *	\$ *
800,000–899,999	\$ *	\$ *
900,000–999,999	\$ *	\$ *
1,000,000–1,499,999	\$ *	\$ *
1,500,000–1,999,999	\$ *	\$ *
2,000,000–2,499,999	\$ *	\$ *
2,500,000–3,500,000	\$ *	\$ *
3,500,000–4,500,000	\$ *	\$ *
> 4,500,000	\$ *	\$ *

EXHIBIT 31

CAREADVANTAGE, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Dennis J. Mouras, Chief Executive Officer and acting Principal Financial Officer of CareAdvantage, Inc. certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CareAdvantage, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the small business issuer and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation to the internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which could adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 14, 2006

/s/ Dennis J. Mouras

Dennis J. Mouras,
Chief Executive Officer and acting Principal Financial Officer

EXHIBIT 32

**CAREADVANTAGE, INC
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, I, Dennis J. Mouras, Chief Executive Officer and acting principal financial officer of CareAdvantage, Inc. (the “Company”), hereby certify that (i) the Quarterly Report of the Company on Form 10–QSB for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2006

/s/ Dennis J. Mouras

Dennis J. Mouras,
Chief Executive Officer and acting Principal Financial Officer

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