



# **FORM 10QSB**

**CAREADVANTAGE INC – CADV**

**Filed: November 14, 2006 (period: September 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 September 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 October 16, 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**

<b>ASSETS</b>	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>Unaudited</b>	
Current assets:		
Cash and cash equivalents	\$ 303,000	\$ 114,000
Accounts receivable, net	427,000	457,000
Other current assets	<u>56,000</u>	<u>108,000</u>
Total current assets	786,000	679,000
Property and equipment, net	53,000	137,000
Intangible assets	–	2,000
Other assets	<u>167,000</u>	<u>167,000</u>
Total Assets	<u>\$ 1,006,000</u>	<u>\$ 985,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 140,000	\$ 139,000
Accrued compensation and related benefits	72,000	105,000
Deferred revenue	13,000	–
Accrued expenses and other current liabilities	<u>100,000</u>	<u>112,000</u>
Total current liabilities	<u>325,000</u>	<u>356,000</u>
Long term liabilities:		
Deferred rent	<u>308,000</u>	<u>176,000</u>
Total Liabilities	\$ 633,000	\$ 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 110,112,041 shares and outstanding 56,717,221 and 53,417,221 shares	110,000	107,000
Additional capital	23,985,000	23,952,000
Deferred compensation cost	–	(40,000)
Accumulated deficit	(23,460,000)	(23,304,000)
Treasury stock at cost, 53,394,820 shares	<u>(262,000)</u>	<u>(262,000)</u>
Total Stockholders' Equity	<u>373,000</u>	<u>453,000</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,006,000</u>	<u>\$ 985,000</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
License fees and service revenue	\$ 1,234,000	\$ 755,000	\$ 3,274,000	\$ 1,946,000
Costs of services	<u>453,000</u>	<u>376,000</u>	<u>1,311,000</u>	<u>1,049,000</u>
Gross profit	781,000	379,000	1,963,000	897,000
Operating cost and expenses:				
Selling, general and administration	<u>691,000</u>	<u>773,000</u>	<u>2,117,000</u>	<u>2,307,000</u>
Operating income/(loss)	90,000	(394,000)	(154,000)	(1,410,000)
Interest income	–	1,000	–	8,000
Provision for income taxes	<u>1,000</u>	<u>1,000</u>	<u>2,000</u>	<u>5,000</u>
Net profit/(loss)	<u>\$ 89,000</u>	<u>\$ (394,000)</u>	<u>\$ (156,000)</u>	<u>\$ (1,407,000)</u>
Net profit/(loss) per share of common stock –				
basic and diluted	<u>\$ .00</u>	<u>(\$ .01)</u>	<u>\$ .00</u>	<u>(\$ .03)</u>
Weighted average number				
of common shares outstanding –				
Basic	<u>56,717,000</u>	<u>50,949,000</u>	<u>55,410,000</u>	<u>47,933,000</u>
Diluted	<u>61,920,000</u>	<u>50,949,000</u>	<u>55,410,000</u>	<u>47,933,000</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2006	2005
<b>Cash flows from operating activities:</b>		
Net (loss)	\$ (156,000)	\$ (1,407,000)
Adjustments to reconcile net (loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	91,000	155,000
Employee stock compensation cost	63,000	57,000
<b>Change in assets and liabilities:</b>		
Accounts receivable	30,000	(246,000)
Other assets	52,000	1,000
Accounts payable	1,000	72,000
Deferred rent	132,000	132,000
Deferred revenue	13,000	-
Accrued expenses and other liabilities	<u>(45,000)</u>	<u>(71,000)</u>
Net cash provided by/ (used in) operating activities	<u>181,000</u>	<u>(1,307,000)</u>
<b>Cash flows from investing activity:</b>		
Capital expenditures	<u>(5,000)</u>	<u>(39,000)</u>
<b>Cash flows from financing activity:</b>		
Proceeds from exercise of common stock options	13,000	69,000
Transfer from restricted cash	<u>-</u>	<u>100,000</u>
Net cash provided by financing activities	13,000	169,000
Net increase/ (decrease) in cash	189,000	(1,177,000)
Cash and cash equivalents – beginning of period	<u>114,000</u>	<u>1,488,000</u>
Cash and cash equivalents – end of period	<u>\$ 303,000</u>	<u>\$ 311,000</u>

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 September 30, 2006 and for the three-month and nine-month periods ended September 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 September 30, 2006 are not necessarily indicative of operating results to be expected for the full year.

For the nine month periods ended September 30, 2006 and 2005, the Company has incurred net losses of \$ (156,000) and (\$1,407,000), respectively and has an accumulated deficit of (\$23,460,000) as of September 30, 2006. Additionally, the Company has \$303,000 of cash and cash equivalents at September 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 \$1,946,000 for the nine months ended September 30, 2005 to \$3,274,000 for the nine months ended September 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 September 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.

On September 28, 2006, the Company was notified by Kaiser Foundation Health Plan of the Northwest (“Kaiser”) that Kaiser was exercising its right to terminate the Services and License Agreement between the Company and Kaiser (the “Agreement”). Accordingly, the Agreement will terminate effective December 31, 2006. Pursuant to the Agreement, the Company provided Management Services to Kaiser and licensed to Kaiser access to the RPNavigator tool. Kaiser informed the Company that it had to terminate the Agreement due to budget issues.

Although the Agreement has accounted for a sizable amount of the Company's revenues over the past several years, the Company does not believe that the termination will materially adversely impact the Company's ongoing business and operations. The Company is continuing to assess the impact of the termination of the Agreement on the Company's business. The Company will attempt to compensate for the terminated Agreement by using its resources to expand its current service to existing customers, market its services to and enter into contracts with new customers, and, if necessary, implement cost reductions measures until the revenues are replaced. There is no assurance, however, that any of these measures will be successful.

**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>September 30,</u>	
	<u>2006</u>	<u>2005</u>
Options	<u>20,110,000</u>	<u>12,757,000</u>

Total Potential Dilutive shares

11,532,000

12,757,000

**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 or modified 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.

	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
Reported net (loss)	(394,000)	(1,407,000)
Stock-based employee compensation included in reported net (loss)	20,000	57,000
Stock-based employee compensation determined under the fair value based method, net of tax	(7,000)	(54,000)
Pro forma net (loss)	(381,000)	(1,404,000)
Basic and diluted (loss) per share:		
As reported	(.01)	(.03)
Pro forma	(.01)	(.03)

For the three months and nine months ended September 30, 2006, the Company included approximately \$14,000 and \$33,000, respectively, of share-based compensation in its Statement of Operations. For the three and nine months ended September 30, 2005, the Company included approximately \$20,000 and \$57,000, respectively, of share-based compensation in the Company’s Statement of Operations.

Prior to the adoption of FAS 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 123R requires cash flows resulting from the tax benefits of 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 nine months ended September 30, 2006.

The following table summarizes the activity of the Company's stock options for the nine months ended September 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 September 30, 2006	20,110,000	\$ 0.012	8.62	\$ 144,000
Exercisable at September 30, 2006	6,500,000	\$ 0.010	7.50	\$ 60,000
Expected to vest after September 30, 2006	13,611,000	\$ 0.013	2.14	\$ 84,000

The following summarizes the activity of the Company's non-vested stock options for the nine months ended September 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	(2,822,000)	\$ 0.009
Non-vested at September 30, 2006	13,611,000	\$ 0.013

As of September 30, 2006, there was approximately \$102,000 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 2.14 years.

The weighted average fair value of options granted during the nine months ended September 30, 2005 and 2006 was \$0.010 and \$0.015, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2005 and 2006 was \$64,000 and \$12,000, respectively.

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.

	<u>September 30, 2006</u>	<u>September 30, 2005</u>
Risk free interest rate	4.99%	4.13%
Dividend yield	0%	0%
Volatility factor	91%	185%
Expected life in years	5	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.

During the nine months ended September 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.

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 with a fair value of \$30,000, which shares vested immediately and are not registered under federal or state securities laws. For the period ended September 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 September 30, 2006, there was no unrecognized compensation cost related to the shares.

#### **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. The lawsuit is scheduled to be tried in May 2007.

#### **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—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.

As part of the Company's offering of 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 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 nine months ended September 30, 2006, with those for the three and nine months ended September 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 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 enables 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.

### ***Three Months Ended September 30, 2006, Compared to Three Months Ended September 30, 2005***

#### **Revenues:**

The Company's total operating revenues for the three-month periods ended September 30, 2006 and September 30, 2005 were approximately \$1,234,000 and \$755,000, respectively. The revenue was generated primarily from consulting fees earned during this period. The current revenue amount represents an increase of approximately \$479,000 for the three-month period ended September 30, 2006 from the corresponding period of the prior year. The increase for the three months ended September 30, 2006 was primarily attributable to increased revenue of approximately \$402,000 in current customer business due to increased services provided to existing customers and increased revenue of approximately \$77,000 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 September 30, 2006 and September 30, 2005 was approximately \$453,000 and \$376,000, respectively. This represents an increase of approximately \$77,000 for the three-month period ended September 30, 2006 over the corresponding period of the prior year. The increase in the cost of services for the three-month period ended September 30, 2006 was primarily due to increases in personnel costs of approximately \$45,000, travel costs of approximately \$1,000 and professional costs of approximately \$31,000. The Company's direct costs are mostly fixed with the exception of its costs associated with licensing fees. Any variation in direct costs is largely due to increased licensing fees related to increased revenue. As a result of this, for the three months ended September 30, 2006 compared to the three months ended September 30, 2005, the Company has experienced revenue growth and its margins have improved favorably, 63% gross profit margin and 50% gross profit margin, respectively. 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 September 30, 2006 and September 30, 2005 were approximately \$691,000 and \$773,000, respectively. This represents a decrease of approximately \$82,000 for the three-month period ended September 30, 2006 over the corresponding period of the prior year. This decrease for the three-month period ended September 30, 2006 is primarily due to decreases in personnel costs of approximately \$45,000, decreased professional costs of approximately \$33,000, decreased facility costs of approximately \$4,000, decreases in other general and administrative costs of approximately \$10,000 and a reduction in depreciation and amortization costs of approximately \$16,000, offset by increases in information and communication costs of approximately \$26,000.

***Nine Months Ended September 30, 2006, Compared to Nine Months Ended September 30, 2005*****Revenues:**

The Company's total operating revenues for the nine-month periods ended September 30, 2006 and September 30, 2005 were approximately \$3,274,000 and \$1,946,000, respectively. This represents an increase of approximately \$1,328,000 for the nine-month period ended September 30, 2006 from the corresponding period of the prior year. The increase for the nine months ended September 30, 2006 was primarily attributable to increased revenue of approximately \$1,102,000 in current customer business due to increased services provided to existing customers and increased revenue of approximately \$226,000 in related consulting business.

**Cost of services:**

The Company's total direct cost of services for the nine-month periods ended September 30, 2006 and September 30, 2005 was approximately \$1,311,000 and \$1,049,000, respectively. This represents an increase of approximately \$262,000 for the nine-month period ended September 30, 2006 over the corresponding period of the prior year. The increase in the cost of services for the nine-month period ended September 30, 2006 was primarily due to increased personnel costs of approximately \$173,000 relating to departmental restructuring from indirect cost to direct cost of services, increased professional costs of approximately \$85,000, which includes approximately \$82,000 due to license fees relating to increased business and increased travel costs of approximately \$4,000. 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, for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, the Company has experienced revenue growth and its margins have improved favorably, 60% gross profit margin and 46% gross profit margin, respectively. 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 nine-month periods ended September 30, 2006 and September 30, 2005 were approximately \$2,117,000 and \$2,307,000, respectively. This represents a decrease of approximately \$190,000 for the nine-month period ended September 30, 2006 over the corresponding period of the prior year. This decrease for the nine-month period ended September 30, 2006 is primarily due to decreases in personnel costs of approximately \$166,000, facility costs of approximately \$9,000, professional costs of approximately \$10,000 and depreciation and amortization costs of approximately \$64,000, offset by increases in information and communication costs of approximately \$29,000, travel costs of approximately \$15,000 and other general and administrative costs of approximately \$15,000.

## **LIQUIDITY, FINANCIAL CONDITION AND CAPITAL RESOURCES:**

### **General overview:**

At September 30, 2006, the Company had working capital of approximately \$461,000, stockholders equity of approximately \$373,000 and an accumulated deficit of approximately \$23,460,000.

### **Financial condition:**

At September 30, 2006, the Company had cash of approximately \$303,000 and working capital of approximately \$461,000. 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 \$181,000 for the nine-month period ended September 30, 2006. The 2006 increase in cash is largely due to changes in operating assets and liabilities relating primarily to the collection of accounts receivable and non cash charges, offset by Company's nine-month loss of approximately \$156,000.

Net cash used in investing activities amounted to approximately \$5,000 for the nine-month period ended September 30, 2006 and is due to capital expenditures during the nine-month period.

Net cash provided from financing activities for the nine-month period ended September 30, 2006 was \$13,000 related to proceeds from exercise of common stock options.

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 \$1,946,000 for the nine months ended September 30, 2005 to \$3,274,000 for the nine months ended September 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 September 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.

On September 28, 2006, the Company was notified by Kaiser Foundation Health Plan of the Northwest ("Kaiser") that Kaiser was exercising its right to terminate the Services and License Agreement between the Company and Kaiser (the "Agreement"). Accordingly, the Agreement will terminate effective December 31, 2006. Pursuant to the Agreement, the Company provided Management Services to Kaiser and licensed to Kaiser access to the RPNavigator tool. Kaiser informed the Company that it had to terminate the Agreement due to budget issues.

Although the Agreement has accounted for a sizable amount of the Company's revenues over the past several years, the Company does not believe that the termination will materially adversely impact the Company's ongoing business and operations. The Company is continuing to assess the impact of the termination of the Agreement on the Company's business. The Company will attempt to compensate for the terminated Agreement by using its resources to expand its current service to existing customers, market its services to and enter into contracts with new customers, and, if necessary, implement cost reductions measures until the revenues are replaced. There is no assurance, however, that any of these measures will be successful.

### **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 September 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 September 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

November 14, 2006

/s/ Dennis J. Mouras

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

## EXHIBIT INDEX

### Exhibit

#### No.      Description of Exhibit

- 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.\*
- 10.55 Letter from Kaiser Foundation Health Plan of the Northwest terminating Services and License Agreement, incorporated by reference to Exhibit 10.1 filed on the Company's Form 8-K filed on October 3, 2006.
- 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 16.1 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 \*\*

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\*filed herewith

\*\* furnished herewith

**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: November 14, 2006

/s/ Dennis J. Mouras

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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 September 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: November 14, 2006

/s/ Dennis J. Mouras

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

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