



# **FORM 10QSB**

**CAREADVANTAGE INC - CADV**

**Filed: November 14, 2007 (period: September 30, 2007)**

Quarterly report filed by small businesses

# Table of Contents

[10QSB](#)

## [Part I](#)

---

[Item 1.](#) [Financial Statements](#)

## [PART I](#)

---

[ITEM 1.](#) [Financial Statements](#)

[ITEM 2.](#) [Management s Discussion and Analysis of Financial Condition and Results of Operations](#)

[ITEM 3.](#) [Controls and Procedures](#)

## [PART II](#)

---

[Item 1.](#) [Legal Proceedings](#)

[Item 2.](#) [Unregistered Sales of Equity Security and Use of Proceeds](#)

[Item 3.](#) [Defaults Upon Senior Securities](#)

[Item 4.](#) [Submission of Matters to a Vote of Security Holders](#)

[Item 5.](#) [Other Information](#)

[Item 6.](#) [Exhibits](#)

[SIGNATURES](#)

[EXHIBIT INDEX](#)

[EX-31 \(Certifications required under Section 302 of the Sarbanes-Oxley Act of 2002\)](#)

[EX-32 \(Certifications required under Section 906 of the Sarbanes-Oxley Act of 2002\)](#)

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, 2007

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 29, 2007 is 59,761,665

Transitional Small Business Disclosure Format

Yes  No

---

## I N D E X

### Part I - Financial Information

Item 1.	Financial Statements	
	● Condensed Consolidated Balance Sheets - September 30, 2007 (Unaudited) and December 31, 2006	2
	● Condensed Consolidated Statements of Operations - Three and nine months ended September 30, 2007 and September 30, 2006 (Unaudited)	3
	● Condensed Consolidated Statements of Cash Flows - Nine months ended September 30, 2007 and September 30, 2006 (Unaudited)	4
	● Notes to Unaudited Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 3.	Controls and Procedures	11

### Part II - Other Information

Item 1.	Legal Proceedings	12
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	12
Item 3.	Defaults Upon Senior Securities	12
Item 4.	Submission of Matters to a Vote of Security Holders	12
Item 5.	Other Information	12
Item 6.	Exhibits	12
Signature		13

---

**PART I - FINANCIAL INFORMATION**  
**ITEM 1. Financial Statements**

**CAREADVANTAGE, INC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>ASSETS</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>Unaudited</b>	
Current assets:		
Cash and cash equivalents	\$ 343,000	\$ 371,000
Accounts receivable	400,000	529,000
Other current assets	160,000	92,000
Total current assets	903,000	992,000
Property and equipment, at cost less accumulated depreciation	190,000	232,000
Intangible assets, net of accumulated depreciation	7,000	1,000
Other assets	167,000	167,000
<b>Total Assets</b>	<b>\$ 1,267,000</b>	<b>\$ 1,392,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 86,000	\$ 146,000
Accrued compensation and related benefits	70,000	110,000
Accrued expenses and other current liabilities	196,000	127,000
Deferred revenue	50,000	74,000
Capital lease obligation - current	40,000	40,000
Total current liabilities	442,000	497,000
Long term liabilities:		
Capital lease obligation - long term	113,000	143,000
Deferred rent	409,000	352,000
<b>Total Liabilities</b>	<b>\$ 964,000</b>	<b>\$ 992,000</b>
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; 113,156,485 and 110,170,374 shares issued at September 30, 2007 and December 31, 2006, respectively and 59,761,665 and 56,775,554 shares outstanding at September 30, 2007 and December 31, 2006, respectively	113,000	110,000
Additional capital	24,074,000	24,007,000
Accumulated deficit	(23,622,000)	(23,455,000)
Treasury stock at cost, 53,394,820 shares	(262,000)	(262,000)
Total Stockholders' Equity	303,000	400,000
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,267,000</b>	<b>\$ 1,392,000</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
License fees and service revenue	\$ 1,037,000	\$ 1,234,000	\$ 3,172,000	\$ 3,274,000
Costs of services	<u>418,000</u>	<u>453,000</u>	<u>1,276,000</u>	<u>1,311,000</u>
Gross profit	619,000	781,000	1,896,000	1,963,000
Operating expenses:				
Selling, general and administration	<u>682,000</u>	<u>691,000</u>	<u>2,079,000</u>	<u>2,117,000</u>
Operating income/ (loss)	(63,000)	90,000	(183,000)	(154,000)
Interest (expense)/income, net	(4,000)	-	(13,000)	-
Gain on sale of assets	-	-	32,000	-
Provision for income taxes	<u>2,000</u>	<u>1,000</u>	<u>3,000</u>	<u>2,000</u>
Net profit/ (loss)	<u>\$ (69,000)</u>	<u>\$ 89,000</u>	<u>\$ (167,000)</u>	<u>\$ (156,000)</u>
Net profit/ (loss) per share of common stock	<u>\$ (.00)</u>	<u>\$ .00</u>	<u>\$ (.00)</u>	<u>\$ (.00)</u>
Weighted average number of common shares outstanding -				
Basic	<u>58,074,000</u>	<u>56,717,000</u>	<u>57,213,000</u>	<u>55,410,000</u>
Diluted	<u>58,074,000</u>	<u>61,920,000</u>	<u>57,213,000</u>	<u>55,410,000</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<b>Nine Months Ended September</b>	
	<b>30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (167,000)	\$ (156,000)
<b>Adjustments to reconcile net loss to net cash (used in)/provided by operating activities:</b>		
Depreciation and amortization	52,000	91,000
Stock based compensation	45,000	63,000
Deferred revenue	(24,000)	13,000
Gain on sale of assets	(32,000)	-
<b>Change in:</b>		
Accounts receivable	129,000	30,000
Other assets	(68,000)	52,000
Accounts payable	(60,000)	1,000
Deferred rent	57,000	132,000
Accrued expenses and other liabilities	29,000	(45,000)
Net cash (used in)/provided by operating activities	(39,000)	181,000
<b>Cash flows from investing activity:</b>		
Proceeds from sale of assets	32,000	-
Capital expenditures	(16,000)	(5,000)
Net cash provided by/ (used in) investing activities	16,000	(5,000)
<b>Cash flows from financing activity:</b>		
Repayment of capital leases	(30,000)	-
Proceeds from exercise of stock options	25,000	13,000
Net cash (used in)/ provided by financing activities	(5,000)	13,000
Net (decrease)/increase in cash	(28,000)	189,000
Cash and cash equivalents - beginning of period	371,000	114,000
Cash and cash equivalents - end of period	\$ 343,000	\$ 303,000

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, health insurers, and other care management organizations, employers and unions to reduce the costs, while improving the quality, of medical services provided to their members. 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, employers and unions 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, 2007 and for the three-month and nine-month periods ended September 30, 2007 and 2006 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, 2006 Annual Report on Form 10-KSB. The results of operations for the period ended September 30, 2007 are not necessarily indicative of operating results to be expected for the full year.

The Company has a history of losses and for the nine months to September 30, 2007 had a net loss of (\$167,000). Additionally, the Company has an accumulated deficit of (\$23,622,000) and \$343,000 of cash and cash equivalents at September 30, 2007. The Company generates most of its revenue from the licensing of RPNavigator and providing consulting services in connection with that licensing. Based on cash on hand at September 30, 2007 and a forecast prepared by management based on executed contracts, management expects the Company to be able to meet its obligations as they become due during the next twelve months. However, there can be no assurances that management's plans, included projected 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 they had an anti-dilutive impact, are as follows:

	<u>September 30,</u>	
	<u>2007</u>	<u>2006</u>
Options	<u>16,866,000</u>	<u>20,110,000</u>
Total Potential Dilutive shares	<u>16,866,000</u>	<u>11,532,000</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.

For the three months and nine months ended September 30, 2007, the Company included approximately \$13,000 and \$45,000, respectively, of share-based compensation in the Company's statement of operations. For the three and nine months ended September 30, 2006, the Company included approximately \$14,000 and \$33,000, respectively, of share-based compensation in the Company's statement of operations. Included in share-based compensation for the nine months ended September 30, 2006 is \$30,000 related to a restrictive stock grant.

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, 2007.

As of September 30, 2007, there was approximately \$61,000 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 remaining vesting period of 1.43 years.

**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. This matter is presently scheduled to be tried in February 2008.

**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. At September 30, 2007, the Company had deposits of approximately \$343,000 in one commercial bank.

**Note F—Income Taxes:**

In June 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. FIN 48 clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attributable for financial disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact our financial position, results of operations or cash flows for the three and nine months ended September 30, 2007. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. The Company's historical tax years are subject to examination by the Internal Revenue Service ("IRS") and various state jurisdictions for years ended December 31, 2004 to present and for certain other state jurisdictions for years ended December 31, 2003 to present. The Company has no years under examination by the IRS or any state jurisdictions.

**Note G—Leased Space:**

On March 15, 2007, the Company's landlord notified the Company that pursuant to the provisions of the lease amendment dated January 10, 2005, the Landlord would be "recapturing" certain portions of the leased premises, effective April 19, 2007 (the "Recapture Date"). This recapture did not reduce or modify, in any respect, the Company's obligation or contingent obligation to pay the Landlord monthly rent. In conjunction with this recapture, the landlord purchased fixed assets that were previously written off for \$32,000 and the Company recognized a gain of \$32,000.

**Note H - Exercise of Stock Options:**

During the nine months ended September 30, 2007, the exercise of certain stock options resulted in the issuance of 2,986,111 shares of common stock for proceeds of \$25,000.

**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, 2006. 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, health insurers, other care management organizations, employers and unions to reduce the costs, while improving the quality, of medical services provided to their members. 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 the Company's offering of its management and consulting services, the Company has developed RPNavigator, a proprietary tool to help managed care plans, employers and unions 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 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 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, 2007, with those for the three and nine months ended September 30, 2006. 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.

#### ***Three Months Ended September 30, 2007, Compared to Three Months Ended September 30, 2006***

##### **Revenues:**

The Company's total operating revenues for the three-month periods ended September 30, 2007 and September 30, 2006 were approximately \$1,037,000 and \$1,234,000, respectively. The revenue was generated primarily from consulting fees earned during this period. The current revenue amount represents a decrease of approximately \$197,000 for the three-month period ended September 30, 2007 from the corresponding period of the prior year. The decrease for the three months ended September 30, 2007 was primarily attributable to loss of revenue of approximately \$247,000 related to terminated contracts in 2006, offset by increased revenue of approximately \$31,000 in current customer business and increased revenue of approximately \$19,000 in new 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, 2007 and September 30, 2006 was approximately \$418,000 and \$453,000, respectively. This represents a decrease of approximately \$35,000 for the three-month period ended September 30, 2007 over the corresponding period of the prior year. The decrease in the cost of services for the three-month period ended September 30, 2007 was primarily due to decreases in professional costs of approximately \$35,000, largely related to decreased license fee costs associated with the terminated contracts in 2006.

##### **Selling, general and administrative expenses:**

The Company's total selling, general, and administrative costs for the three-month periods ended September 30, 2007 and September 30, 2006 were approximately \$682,000 and \$691,000, respectively. This represents a decrease of approximately \$9,000 for the three-month period ended September 30, 2007 over the corresponding period of the prior year. This decrease for the three-month period ended September 30, 2007 is primarily due to decreases in personnel costs of approximately \$62,000, decreased information and communication costs of approximately \$36,000 and a reduction in depreciation and amortization costs of approximately \$14,000, offset by increases in facility costs of approximately \$15,000, increases in travel costs of approximately \$4,000, increases in professional costs of approximately \$78,000 relating to legal expenses due to the upcoming trial of Alan Fontes vs. CareAdvantage, Inc., as discussed in Note D, and increases in other general and administrative costs of approximately \$6,000.

## *Nine Months Ended September 30, 2007, Compared to Nine Months Ended September 30, 2006*

### **Revenues:**

The Company's total operating revenues for the nine-month periods ended September 30, 2007 and September 30, 2006 were approximately \$3,172,000 and \$3,274,000, respectively. This represents a decrease of approximately \$102,000 for the nine-month period ended September 30, 2007 from the corresponding period of the prior year. The decrease for the nine months ended September 30, 2007 was primarily attributable to loss of revenue of approximately \$704,000 related to terminated contracts in 2006, offset by increased revenue of approximately \$459,000 in current customer business and increased revenue of approximately \$143,000 in new business.

### **Cost of services:**

The Company's total direct cost of services for the nine-month periods ended September 30, 2007 and September 30, 2006 was approximately \$1,276,000 and \$1,311,000, respectively. This represents a decrease of approximately \$35,000 for the nine-month period ended September 30, 2007 over the corresponding period of the prior year. The decrease in the cost of services for the nine-month period ended September 30, 2007 was primarily due to decreased professional costs of approximately \$54,000 relating to decreased license fee costs associated with terminated contracts in 2006, offset by increases in personnel costs of approximately \$17,000 and increased travel costs of approximately \$2,000.

### **Selling, general and administrative expenses:**

The Company's total selling, general, and administrative costs for the nine-month periods ended September 30, 2007 and September 30, 2006 were approximately \$2,079,000 and \$2,117,000, respectively. This represents a decrease of approximately \$38,000 for the nine-month period ended September 30, 2007 over the corresponding period of the prior year. This decrease for the nine-month period ended September 30, 2007 is primarily due to decreases in personnel costs of approximately \$121,000, information and communication costs of approximately \$58,000, travel costs of approximately \$4,000, other general and administrative costs of approximately \$37,000 and a reduction in depreciation and amortization costs of approximately \$40,000, offset by increased facility costs of approximately \$26,000 and professional costs of approximately \$196,000 relating to legal expenses due to the upcoming trial of Alan Fontes vs. CareAdvantage, Inc., as discussed in Note D.

### **Net Loss:**

The Company's net loss includes a gain on the sale of fixed assets of approximately \$32,000.

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

### **General overview:**

At September 30, 2007, the Company had working capital of approximately \$461,000, stockholders equity of approximately \$303,000 and an accumulated deficit of approximately \$23,622,000.

### **Financial condition:**

At September 30, 2007, the Company had cash of approximately \$343,000 and working capital of approximately \$461,000. At December 31, 2006, the Company had cash of approximately \$371,000 and working capital of approximately \$495,000.

Net cash used in operating activities amounted to approximately \$39,000 for the nine-month period ended September 30, 2007. The cash used in operating activities is largely due to the changes in operating assets and liabilities relating primarily to the collection of accounts receivable and non cash charges, offset by the Company's nine-month loss of \$167,000.

Net cash provided from investing activities amounted to approximately \$16,000 for the nine-month period ended September 30, 2007 largely related to proceeds from sales of assets of approximately \$32,000, offset by approximately \$16,000 in capital expenditures during the nine-month period.

Net cash used in financing activities for the nine-month period ended September 30, 2007 was approximately \$5,000 largely related to payments on a capital lease for equipment of approximately \$30,000, offset by proceeds from exercise of common stock options of approximately \$25,000.

The Company generates most of its revenue from the licensing of RPNavigator and providing consulting services in connection with that licensing. Based on cash on hand at September 30, 2007 and a forecast prepared by management, management expects the Company to be able to meet its obligations as they become due during the next twelve months. However, there can be no assurances that management's plans, including projected revenue, will be attained.

### **Critical Accounting Policies:**

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and assumptions about future events and their effects cannot be determined with certainty. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, our management is periodically faced with uncertainties, the outcomes of which are not within our control and will not be known for prolonged periods of time. Actual results may differ from these estimates under different assumptions or conditions.

A critical accounting policy is one that is both important to the portrayal of the Company's financial condition or results of operations and requires significant judgment or a complex estimation process. The Company believes the following fit that definition:

#### *Revenue recognition*

With respect to RPNavigator license fees, all of the Company's customers licensing RPNavigator are required, as part of their agreements with the Company, to receive consulting services from the Company. All contracts provide for licensing of RPNavigator and consulting services at a fixed monthly fee, a per member per month fee, or a combination of both. The Company earns the revenue from licensing and consulting services on a monthly basis and recognizes revenue from both services on a monthly basis at either a fixed monthly fee, a per member per month fee or a combination of both. Additionally, the Company provides separate consulting services on a fee for service basis. Revenue for these consulting services is recognized as the services are provided.

#### *Accounting for 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, be recognized in the statement of operations as 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 service period which is generally the same as the option-vesting period.

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. This model requires the Company to make certain estimates and assumptions. The Company calculated expected volatility based on the Company's historical stock volatility. The computation of expected life is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. 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.

In June 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. FIN 48 clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attributable for financial disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact our financial position, results of operations or cash flows for the three and nine months ended September 30, 2007.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, "Fair Value Measurements", to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007. The Company is assessing the impact the adoption of SFAS No. 157 will have on the Company's financial position and results of operations.

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of SFAS No. 115. SFAS No. 159 provides companies with an option to report selected financial liabilities at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its financial position and results of operations.

### **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, in fact, effective at the reasonable assurance level.

During the quarter ended September 30, 2007, 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 Condensed 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, 2007.

### **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, 2007

By: /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.
3.2	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).
3.2(a)	Amendment to the Company's Bylaws incorporated by reference to Exhibit 3.2(a) filed with the Company's Form 10-KSB for the year ended December 31, 2006.
10.1	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).
10.2	Registrant's 1996 Stock Option Plan incorporated by reference to the Company's Information Statement dated September 1996.
10.3	Registrant's 1996 Director Stock Option Plan incorporated by reference to the Company's Information Statement dated September 1996.
10.4	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.
10.5	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.
10.6	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.
10.7	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.
10.8	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, incorporated by reference to Exhibit 10.53 filed with the Company’s Form 10-QSB for the quarter ended June 30, 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.
- 10.54 Amendment to Services and License Agreement between the Company and BCBSTX, effective as of June 1, 2006, incorporated by reference to Exhibit 10.54 filed with the Company’s Form 10-QSB for the quarter ended June 30, 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.
- 10.13 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 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

**EXHIBIT 31**

CAREADVANTAGE, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Dennis J. Mouras, 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, 2007

/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, the undersigned hereby certifies that (i) the Quarterly Report of CareAdvantage, Inc. (the "Company") on Form 10-QSB for the quarter ended September 30, 2007 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.

Date: November 14, 2007

/s/ Dennis J. Mouras

---

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