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## **FORM 10-Q**

**CAREADVANTAGE INC - CADV**

**Filed: May 14, 2010 (period: March 31, 2010)**

Quarterly report which provides a continuing view of a company's financial position

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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)

485-A Route 1 South, Second Floor, Suite 200,  
Iselin, New Jersey

(Address of principal executive offices)

52-1849794

(I.R.S. Employer  
Identification Number)

08830

(Zip Code)

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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 April 26, 2010: 145,250,442.

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

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

	<b>March 31, 2010 Unaudited</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 362,000	\$ 510,000
Accounts receivable	199,000	143,000
Prepaid expenses and other current assets	75,000	108,000
Security deposits	-	167,000
<b>Total current assets</b>	<b>636,000</b>	<b>928,000</b>
Property and equipment, at cost net of accumulated depreciation	93,000	108,000
Intangible assets, net of accumulated depreciation	1,000	2,000
<b>Total Assets</b>	<b>\$ 730,000</b>	<b>\$ 1,038,000</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)/EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 135,000	\$ 82,000
Accrued compensation and related benefits	101,000	81,000
Accrued professional fees	82,000	65,000
Other current liabilities	1,000	1,000
Deferred revenue	254,000	231,000
Capital lease obligation – current	51,000	51,000
<b>Total current liabilities</b>	<b>624,000</b>	<b>511,000</b>
Long term liabilities:		
Capital lease obligation – long term	9,000	23,000
Deferred rent	329,000	340,000
<b>Total long term liabilities</b>	<b>338,000</b>	<b>363,000</b>
<b>Total Liabilities</b>	<b>962,000</b>	<b>874,000</b>
Commitments and Contingencies (Notes D and F)		
Stockholders' (deficit)/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; 145,250,442 issued and outstanding at March 31, 2010 and 142,554,442 shares issued and outstanding at December 31, 2009	144,000	143,000
Additional paid in capital	24,435,000	24,420,000
Accumulated deficit	(24,811,000)	(24,399,000)
<b>Total stockholders' (deficit)/equity</b>	<b>(232,000)</b>	<b>164,000</b>
<b>Total Liabilities and Stockholders' (Deficit)/Equity</b>	<b>\$ 730,000</b>	<b>\$ 1,038,000</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>	
	<u><b>2010</b></u>	<u><b>2009</b></u>
License fees and service revenue	\$ 860,000	\$ 970,000
Costs of services	<u>348,000</u>	<u>330,000</u>
Gross profit	512,000	640,000
Operating expenses:		
Selling, general and administrative	679,000	655,000
Depreciation and amortization	<u>16,000</u>	<u>16,000</u>
Total operating expenses	695,000	671,000
Operating loss	(183,000)	(31,000)
Interest expense	(5,000)	(5,000)
Loss on building lease	<u>(224,000)</u>	<u>-</u>
Net loss	\$ (412,000)	\$ (36,000)
Net loss per share of common stock - Basic and diluted	<u>\$ (.00)</u>	<u>\$ (.00)</u>
Weighted average number of common shares outstanding –		
Basic and diluted	<u>143,448,000</u>	<u>62,254,000</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>	
	<u><b>2010</b></u>	<u><b>2009</b></u>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (412,000)	\$ (36,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,000	16,000
Stock based compensation	5,000	5,000
Deferred revenue	23,000	221,000
Loss on building lease - security deposit	167,000	-
Loss on building lease - deferred rent	57,000	-
Deferred rent	(68,000)	(31,000)
<b>Changes in:</b>		
Accounts receivable	(56,000)	(203,000)
Prepaid expenses and other assets	33,000	(4,000)
Accounts payable	53,000	2,000
Accrued expenses and other liabilities	37,000	42,000
Net cash (used in)/provided by operating activities	<u>(145,000)</u>	<u>12,000</u>
<b>Cash flows from financing activity:</b>		
Proceeds from exercise of stock options, net of costs	11,000	1,000
Repayment of capital leases	(14,000)	(15,000)
Net cash used in financing activities	<u>(3,000)</u>	<u>(14,000)</u>
Net decrease in cash	(148,000)	(2,000)
Cash and cash equivalents - beginning of period	<u>510,000</u>	<u>88,000</u>
Cash and cash equivalents - end of period	<u>\$ 362,000</u>	<u>\$ 86,000</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Note A—Business:

#### [1] Business:

CareAdvantage, Inc. (“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 healthcare consulting services, data warehousing and analytic services designed to enable integrated health care delivery systems, healthcare plans, employee benefit consultants, other care management organizations, self insured employers and unions to reduce the costs, while improving the quality, of medical services provided to the healthcare participants. The services include care management program enhancement services, executive and clinical management services, training programs, risk stratification and predictive modeling. The Company operates in one business segment.

As part of offering its healthcare consulting services, the Company has developed RightPath® Navigator (“RPNavigator”), a proprietary tool to help its customers 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 accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed. These interim condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes hereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.

The unaudited condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of results of operations, financial position and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The results for the interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

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 March 31, 2010 and a forecast prepared by management, which takes into account executed contracts, and cost reductions, 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. For the three months ended March 31, 2010, the Company had a net loss of \$412,000. Additionally, at March 31, 2010, the Company has an accumulated deficit of \$24,811,000, stockholders deficit of \$232,000 and cash and cash equivalents of \$362,000.

#### [3] Recent Accounting Pronouncements:

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, “Multiple Deliverable Revenue Arrangements” (ASU 2009-13). ASU 2009-13 replaces EITF 00-21, and clarifies the criteria for separating revenue between multiple deliverables. This statement is effective for new revenue arrangements or materially modified arrangements in periods subsequent to adoption. The accounting guidance is effective for fiscal years beginning on or after June 15, 2010, but early adoption is allowed. We anticipate the adoption of this pronouncement will not have any impact on the Company’s financial position and results of operations.

### Note B—Per share data:

Basic loss per share is computed based on the weighted average number of outstanding shares of common stock. Potentially dilutive securities where the exercise prices were greater than the average market price of the common stock during the period were excluded from the computation of basic loss per share because they had an anti-dilutive impact are as follows:

	March 31,	
	2010	2009
Total Potential Dilutive Shares	9,472,000	12,357,000

**Note C— Stock-Based Compensation:**

The Company recognizes stock-based compensation for all equity-based payments, including grants of stock options, in the statement of operations as a compensation expense, based on their fair values at the date of grant. 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; all outstanding stock options are fully exercisable.

For the three months periods ended March 31, 2010 and 2009, the Company included approximately \$5,000 of equity-based compensation in its operating expenses (Selling, general and administrative) in the Company's statement of operations. For the quarter ended March 31, 2010, the total equity-based compensation was related to an approximate \$5,000 one-time stock charge related to a stock grant of 599,000 shares of the Company's common stock to an employee in connection with the employee's termination of employment.

Cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are to be classified as financing cash flows. The Company did not realize any tax benefits from stock options during the three months ended March 31, 2010 and 2009.

As of March 31, 2010, there was no unrecognized compensation cost related to non-vested equity-based compensation arrangements granted under existing stock option plans.

During the three months ended March 31, 2010, the exercise of certain stock options resulted in the issuance of 2,097,000 shares of common stock for proceeds of approximately \$11,000. Proceeds of approximately \$12,000 from one exercise were collected subsequent to the period ended March 31, 2010.

**Note D—Contingencies:**

*Alan Fontes v. CareAdvantage, Inc.*, pending in Superior Court of New Jersey, Chancery Division, Monmouth County, 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. In October 2005, pursuant to court order, the Company 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 being tried before a chancery judge; it is anticipated that the trial will conclude during 2010.

**Note E—Concentration of Credit Risk/Fair Value of Financial Instruments:**

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents balances in financial institutions. At times, the amount of cash maintained in a given financial institution may exceed the federally insured limits.

The fair value of the following instruments approximates their carrying values due to the short-term nature of such instruments: cash and cash equivalents; accounts receivable; accounts payable; and accrued liabilities.

**Note F—Leased Space:**

On January 10, 2005, the Company, through CAHS, entered into a Second Amendment to Lease Agreement commencing January 1, 2005 to provide for the reduction in base rent and the waiver of escalations based on increases in real estate taxes and operating expenses, and to provide the landlord with the option to recapture up to 50% of the leased premises at any time. (The landlord was granted the recapture option because when the Company ceased providing services to Horizon BCBSNJ, the Company no longer needed this space.) The expiration date of the lease, March 31, 2011, remained unchanged by this Second Amendment.

Under the Second Amendment to Lease Agreement, the Company was required to meet the following conditions: (1) the Company cannot assign the lease except for an assignment of the lease or a sublet provided under the original lease; (2) the Company cannot be in default under any terms and conditions of the original lease. In the event the Company failed to meet these conditions, the reduction in base rent, real estate taxes and operating expenses would be nullified and entirely forfeited, and the Company would be immediately required to pay the landlord additional rent for the difference in the base rent, and additional rent for all escalations provided in the Second Amendment to Lease Agreement and the original lease as extended. As of January 1, 2005, the additional rent attributable to the difference in base rent was \$1,257,000.

Effective April 19, 2007 (the "Recapture Date"), the landlord "recaptured" certain portions of the leased premises pursuant to the provisions of the Second Amendment to Lease Agreement. This recapture did not reduce or modify, in any respect, the Company's obligations to pay to the landlord monthly rent or, in the event the Company failed to meet above conditions, additional rent. Effective as of the Recapture Date, the premises leased by the Company under the lease was deemed to be, and refer only to, 15,629 rentable square feet.

As of March 26, 2008, the Company and landlord entered into a Third Amendment of Lease which provided that the reduction in base rent and the waiver of escalations based on increases in real estate taxes and operating expenses shall be deemed to be amortized on a straight line basis over the period commencing January 1, 2005 and ending March 31, 2011.

Effective May 1, 2009 and September 1, 2009, the Company signed sublease agreements with the same subtenant (the "Subtenant") for approximately 3,700 and 600 square feet, respectively, of its office space which called for monthly rental payments of approximately \$7,000 and \$1,200, respectively, to the Company from the Subtenant. The term of the subleases ran 23 and 19 months, respectively, through March 31, 2011. The sublease income did not cover the costs of the primary lease for the related space. Consequently, in accordance with ASC Topic 840, formerly FASB Technical Bulletin 79-15, *Accounting for Loss on a Sublease Not Involving the Disposal of a Segment*, during the year ended December 31, 2009, the Company recognized losses of approximately \$79,000 and \$11,000, respectively, which were included in selling, general and administrative expense. The subleases were terminated in connection with the entry by the Company into a new lease with the landlord, discussed below.

On January 18, 2010, the Company received delivery of an executed new Office Lease with its current landlord for 6,189 square feet of space in Building A at Woodbridge Corporate Plaza, 485 Route One South, Iselin, New Jersey, the same office park in which the Company presently maintains its offices in Building C. The new lease ("New Lease") was made as of December 28, 2009, and its term commenced on April 15, 2010, the date the landlord delivered the new space to the Company. The New Lease has a term of seventy-six full calendar months commencing May 1, 2010 (each a "Lease Month"), and a monthly base rent for Lease Months 1 to 12 of \$22,512.49, and for Lease Months 13 to 76 of \$14,441.00. (The rent for the partial calendar month of April 2010 is a prorated portion of the base rent for the first Lease Month.) In addition to the base rent, the Company is obligated to pay separately metered electric charges, and commencing January 1, 2011, a ratable portion of increases from 2010 in real estate taxes, operating expenses and certain utility charges. The New Lease provides the Company a credit of \$10,057.13 against the monthly base rent for Lease Months 1, 2, 7 and 14. In addition, the New Lease provides the Company an additional credit of \$8,379.67 per month for the first 12 Lease Months. The New Lease does not initially provide for a security deposit; however, the Company is required to deliver to the landlord no later than January 15, 2011, the sum of \$10,000 to be held as a security deposit. Finally, the landlord will perform, at its expense, certain work in readying the leased premises for the Company's occupancy.

In connection with entering into the New Lease, the landlord and CAHS, entered into a Surrender Agreement, delivered on January 18, 2010, and made as of December 28, 2009, pursuant to which the landlord agreed to terminate the prior lease as of March 31, 2010 (or the day before the commencement date of the New Lease, if later) (the "Surrender Date"), which existing lease would have otherwise expired on March 31, 2011. As of the date the New Lease commenced, the security deposit of \$167,027 under the existing lease was forfeited to the landlord.

Pursuant to the Surrender Agreement, (i) CAHS releases the landlord from all claims arising out of the prior lease, and (ii) upon CAHS's delivery of the premises (excluding the subleased space) to the landlord in accordance with the Surrender Agreement, and CAHS's timely payment of rent and other expenses owed to the Landlord under the prior lease through the Surrender Date, the landlord released CAHS of all claims arising out of the prior lease. Pursuant to the Surrender Agreement, the sublease agreements with the Subtenant were terminated effective as of the Surrender Date, and the Subtenant is currently leasing the subleased space directly from the landlord.

As a result of the New Lease, during the period ended March 31, 2010, the Company recorded a loss of approximately \$224,000, which includes the forfeiture of the security deposit under the existing lease as described above.

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

### Forward-Looking Information:

Portions of this Quarterly Report of CareAdvantage, Inc. (the "Company") on Form 10-Q "contain forward-looking statements" within the meaning of The Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature, including statements that include the words "anticipate", "estimate", "should", "expect", "believe", "intend", and similar expressions, are expressions about management's confidence, policies, and strategies, the adequacy of capital levels, and liquidity and are not guarantees of future performance. Such forward-looking statements involve certain risks and uncertainties, including economic conditions, competition in the geographic and business areas in which the Company operates, inflation, fluctuations in interest rates, legislation, and governmental regulation. These risks and uncertainties are described in detail in the section of the periodic reports that the Company files with the Securities and Exchange Commission (the "SEC") entitled "Risk Factors" (see Item 1A of Part II of this report). Actual results may differ materially from such forward-looking statements, and the Company assumes no obligation to update forward-looking statements at any time except as required by law.

### GENERAL OVERVIEW:

The Company and its direct and indirect subsidiaries, CAHS and CHCM, are in the business of providing healthcare consulting services, data warehousing and analytic services designed to enable integrated health care delivery systems, healthcare plans, employee benefit consultants, other care management organizations, self-insured employers and unions to reduce the costs, while improving the quality of medical services provided to the healthcare participants. The services include care management program enhancement services, executive and clinical management services, training programs, risk stratification and predictive modeling. The Company operates in one business segment.

As part of offering its healthcare consulting services, the Company has developed RightPath® Navigator ("RPNavigator"), a proprietary tool to help its customers 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. 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. RPNavigator, offers customers:

- actionable financial and utilization data analytics;
- clinical analyses of health status and medical cost trends;
- identification of key management and quality opportunities;
- enhanced group-/segment-specific reporting;
- transparent methodology;
- measurement of performance of internal and external vendors; and
- reduced dependence on internal resources to develop and produce required reports to accomplish these tasks.

With respect to RPNavigator license fees, most of the Company's customers that license 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 .

Management believes that the Company must continue refinement of its current service lines in order to continue adding value to existing and potential customers. Management intends to continue its evaluation of 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.

## **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 the Company's 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, management is periodically faced with uncertainties, the outcomes of which are not within the Company's control and will not be known for prolonged periods of time. Actual results may differ from these estimates under different assumptions or conditions.

Certain accounting policies have a significant impact on amounts reported in financial statements. The Company's most critical accounting policies are discussed in Note B to the audited financial statements presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and relate to revenue recognition, and equity-based compensation. Management continuously monitors the Company's application of these policies to its operations and makes changes as necessary.

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, most of the Company's customers that license 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*

The Company accounts for stock-based compensation in accordance with ASC Topic 718, "Share Based Payment", which requires that all equity-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 ASC Topic 718, 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 ASC Topic 718, the Company has computed the fair values of all equity-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 ASC Topic 718, 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.

### *Recent Accounting Pronouncements*

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, "Multiple Deliverable Revenue Arrangements" (ASU 2009-13). ASU 2009-13 replaces EITF 00-21, and clarifies the criteria for separating revenue between multiple deliverables. This statement is effective for new revenue arrangements or materially modified arrangements in periods subsequent to adoption. The accounting guidance is effective for fiscal years beginning on or after June 15, 2010, but early adoption is allowed. We anticipate the adoption of this pronouncement will not have any impact on the Company's financial position and results of operations.

## **RESULTS OF OPERATIONS:**

The following discussion compares the Company's results of operations for the three months ended March 31, 2010 with those for the three months ended March 31, 2009. This discussion should be read in conjunction with the unaudited consolidated financial statements and related notes presented in this report, as well as the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

### ***Three Months Ended March 31, 2010, Compared to Three Months Ended March 31, 2009***

#### **Revenues:**

The Company's total operating revenues for the three-month periods ended March 31, 2010 and March 31, 2009 were approximately \$860,000 and \$970,000, respectively. The revenue was generated primarily from license and consulting fees earned during the periods. The decrease in revenue for the three months ended March 31, 2010 over the same period last year was primarily attributable to a decrease of approximately \$196,000 due to termination of care management services for one customer, and decreased revenue of approximately \$22,000 due to one-time engagements in 2009 that did not reoccur in 2010, offset by an increase of approximately \$54,000 in current customer business and approximately \$54,000 due to a one-time engagement.

#### **Cost of services:**

The Company's total direct cost of services for the three-month periods ended March 31, 2010 and March 31, 2009 was approximately \$348,000 and \$330,000, respectively. The increase in the cost of services for the three-month period ended March 31, 2010 when compared to the first quarter of March 31, 2009 was primarily due to increases in personnel costs largely on account of severance and bonus payments relating to employee terminations. For the three months ended March 31, 2009, personnel costs relating to the terminated employees were approximately \$75,000. For the three months ended March 31, 2010, personnel costs for the same employees were approximately \$18,000 (one of the employees continued employment through January 31, 2010) plus severance and bonus payments of approximately \$75,000 for both employees.

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

The Company's total selling, general, and administrative costs for the three-month periods ended March 31, 2010 and March 31, 2009 were approximately \$695,000 and \$671,000, respectively. The increase for the three-month period ended March 31, 2010 when compared to the same period last year is primarily due to increases in personnel costs of approximately \$24,000 relating to accrued vacation liability and increased health premium costs, professional fees of approximately \$15,000 largely relating to the Fontes trial discussed in Note D to the unaudited condensed consolidated financial statements presented elsewhere in this report, and increases in other general and administrative costs of approximately \$4,000, offset by decreases in facility costs of approximately \$16,000 largely due to sublet income of approximately \$25,000, and travel and communication costs of approximately \$3,000.

#### **Loss on building lease:**

During the first quarter of 2010, the Company recorded a loss of approximately \$224,000 in connection with the entry into a new building lease, which included the forfeiture of the security deposit under the prior lease as described in Note F.

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

#### **General overview:**

At March 31, 2010, the Company had working capital of approximately \$12,000, stockholders deficit of approximately \$232,000 and an accumulated deficit of approximately \$24,811,000.

#### **Financial condition:**

At March 31, 2010, the Company had cash of \$362,000 as compared to \$510,000 as of December 31, 2009. The decrease in cash was primarily due to net cash used in operating activities of \$145,000 and \$3,000 net cash used in financing activities. The net cash used in operating activities was largely due to the write off of the lease security deposit of \$167,000, an adjustment to deferred rent relating to loss on building lease, non-cash charges of approximately \$21,000, an increase in deferred revenue of approximately \$23,000, a decrease in deferred rent of approximately \$68,000, increases in accounts payable and accrued expenses of approximately \$90,000, decrease in accounts receivable of approximately \$56,000 and increases in prepaid expenses and other assets of approximately \$33,000, offset with a net operating loss of \$412,000 for the quarter ended March 31, 2010.

The Company had working capital at March 31, 2010 of approximately \$12,000 as compared to working capital of approximately \$417,000 at December 31, 2009. The decrease in working capital was primarily due to an increase in current liabilities of \$113,000 largely relating to accounts payable and accrued vacation and a decrease in current assets of approximately \$292,000, largely due to a write off of the \$167,000 security deposit pursuant to the new building lease agreement.

There were no cash flows from investing activity for the three-month period ended March 31, 2010.

During the first quarter of 2010, the Company recorded a loss of approximately \$224,000 in connection with the entry into a new building lease, which included the forfeiture of the security deposit under the prior lease as described in Note F.

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 March 31, 2010 and cash flow from operations based on a forecast prepared by management, which takes into account executed contracts and planned cost reductions, management expects the Company to be able to meet its obligations as they become due during the next 12 months. Such executed contracts include contracts with new customers as well as expanding business with current customers. However, there can be no assurances that management's plans, including projected revenue, will be attained. No adjustments have been made to the accompanying financial statements with respect to such uncertainty.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is a smaller reporting company and is not required to provide the information contemplated by this item.

### **ITEM 4T. Controls and Procedures**

#### **Evaluation of Disclosure 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 Principal 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 quarter ended March 31, 2010, the Company evaluated, under the supervision and with the participation of management, including the Chief Executive Officer, who is also the acting Principal Financial Officer, 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, the Chief Executive Officer has concluded that our disclosure controls and procedures are, in fact, effective at the reasonable assurance level.

#### **Internal Control Over Financial Reporting**

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings**

In March 2010, the Company commenced an action in United States District Court, District of New Jersey, against Rosario Noto, a former employee of the Company and a member of Integrated eCareSolutions, LLC (see Part 1, Item 1, Note D), alleging Noto's breach of his employee confidentiality agreement, breach of his implied covenant of good faith and fair dealing and unfair competition. Noto has denied liability and asserted certain affirmative defenses.

For a description of additional legal proceedings, see Note D to the unaudited condensed consolidated financial statements presented elsewhere in this report. With the exception of such proceedings there are no material pending legal proceedings other than ordinary routine litigation incidental to the business of the Company.

### **Item 1A. Risk Factors**

The risks and uncertainties to which the Company's financial condition and results of operations are subject are discussed in detail in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Management does not believe that any material changes in such risk factors have occurred since they were last disclosed.

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

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. (REMOVED AND RESERVED)**

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

The exhibits that are filed or furnished with this report are listed in the Exhibit Index which immediately follows the signatures to this report, which Exhibit Index is incorporated herein by reference.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CareAdvantage, Inc

May 14, 2010

/s/ Dennis J. Mouras

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

## EXHIBIT INDEX

- 10.1 Office Lease between SMIII Woodbridge Plaza, LLC and the Company, delivered on January 18, 2010 and made as of December 28, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 20, 2010).
- 10.2 Surrender Agreement between SMIII Woodbridge Plaza, LLC and CareAdvantage Health Systems, Inc., delivered on January 18, 2010 and made as of December 28, 2009 (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on January 20, 2010).
- 10.3 Amended and Restated Services and License Agreement between the Company and Blue Cross Blue Shield of Vermont made as of January 1, 2010 (incorporated by reference to Exhibit 10.36 to the Company's Form 10-K for the year ended December 31, 2009). 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.
- 10.4 Letter Agreement between the Company and Blue Cross Blue Shield of Vermont made as of December 31, 2009 (incorporated by reference to Exhibit 10.37 to the Company's Form 10-K for the year ended December 31, 2009). 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.
- 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 (filed herewith)
- 32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (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-Q of CareAdvantage, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(e) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant'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 registrant's internal control over financial reporting.

Date: May 14, 2010

/s/ Dennis J. Mouras

Dennis J. Mouras

Chief Executive Officer and acting Principal Financial Officer

**EXHIBIT 32**

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

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, I, Dennis J. Mouras, Chief Executive Officer and acting principal financial officer of CareAdvantage, Inc. (the "Company"), hereby certify that (i) the Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 2010 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: May 14, 2010

/s/ Dennis J. Mouras

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Dennis J. Mouras

Chief Executive Officer and acting Principal Financial Officer

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