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FORM 10-Q

CAREADVANTAGE INC - CADV

Filed: August 15, 2011 (period: June 30, 2011)

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 June 30, 2011

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)

22-3326528
(I.R.S. Employer
Identification Number)

485-A Route 1 South, Iselin, New Jersey
(Address of principal executive offices)

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 July 22, 2011 is 145,250,442

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PART I - FINANCIAL INFORMATION
ITEM 1. Financial Statements

CAREADVANTAGE, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 109,000	\$ 457,000
Accounts receivable	98,000	125,000
Prepaid expenses and other current assets	106,000	86,000
Total current assets	313,000	668,000
Property and equipment, at cost net of accumulated depreciation	19,000	47,000
Other assets	75,000	-
Total Assets	<u>\$ 407,000</u>	<u>\$ 715,000</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 52,000	\$ 70,000
Accrued compensation and related benefits	65,000	64,000
Accrued professional fees	50,000	50,000
Other current liabilities	1,000	1,000
Note payable – current	35,000	-
Deferred revenue	89,000	227,000
Capital lease obligation – current	6,000	26,000
Total current liabilities	298,000	438,000
Long term liabilities:		
Note payable – long term	68,000	-
Deferred rent	302,000	316,000
Total long term liabilities	370,000	316,000
Total Liabilities	<u>668,000</u>	<u>754,000</u>
Stockholders' deficit:		
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		
shares issued and outstanding at June 30, 2011 and at December 31, 2010	145,000	145,000
Additional capital	24,446,000	24,446,000
Accumulated deficit	(24,852,000)	(24,630,000)
Total stockholders' deficit	(261,000)	(39,000)
Total Liabilities and Stockholders' Deficit	<u>\$ 407,000</u>	<u>\$ 715,000</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
License fees and service revenue	\$ 760,000	\$ 1,116,000	\$ 1,216,000	\$ 1,976,000
Costs of services	<u>221,000</u>	<u>323,000</u>	<u>453,000</u>	<u>671,000</u>
Gross profit	539,000	793,000	763,000	1,305,000
Operating expenses:				
Selling, general and administrative	453,000	599,000	931,000	1,278,000
Depreciation and amortization	15,000	16,000	29,000	32,000
Loss on building lease	<u>8,000</u>	<u>-</u>	<u>8,000</u>	<u>224,000</u>
Total operating expenses	476,000	615,000	968,000	1,534,000
Operating income/(loss)	63,000	178,000	(205,000)	(229,000)
Interest expense	9,000	5,000	17,000	10,000
Net income/(loss)	<u>\$ 54,000</u>	<u>\$ 173,000</u>	<u>\$ (222,000)</u>	<u>\$ (239,000)</u>
Net income/(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>145,250,000</u>	<u>145,250,000</u>	<u>145,250,000</u>	<u>144,354,0000</u>
Diluted	<u>145,381,000</u>	<u>145,250,000</u>	<u>145,250,000</u>	<u>144,354,0000</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (222,000)	\$ (239,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,000	32,000
Stock based compensation	-	5,000
Loss on building lease – security deposit	-	167,000
Loss on building lease – deferred rent	8,000	57,000
Change in:		
Deferred revenue	(138,000)	(195,000)
Accounts receivable	27,000	31,000
Prepaid expenses and other assets	(95,000)	19,000
Accounts payable	(18,000)	9,000
Accrued expenses and other current liabilities	1,000	22,000
Deferred rent	(22,000)	(63,000)
Net cash used in operating activities	(430,000)	(155,000)
Cash flows from investing activities:		
Capital expenditures	(1,000)	-
Net cash used in investing activities	(1,000)	-
Cash flows from financing activities:		
Proceeds from exercise of stock options, net of costs	-	23,000
Proceeds from note payable	116,000	-
Repayment of note payable	(13,000)	-
Repayment of capital leases	(20,000)	(30,000)
Net cash provided by/(used in) financing activities	83,000	(7,000)
Net decrease in cash and cash equivalents	(348,000)	(162,000)
Cash and cash equivalents - beginning of period	457,000	510,000
Cash and cash equivalents - end of period	\$ 109,000	\$ 348,000

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 and Going Concern:

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 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, 2010.

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 unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. 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 June 30, 2011 and a forecast prepared by management, which takes into account executed contracts and a pipeline of new business from existing and prospective clients, management has determined that the Company may not be able to meet its obligations as they become due during the next twelve months unless the Company obtains the proposed financing discussed in Note [A][5] below and/or other financing, and there can be no assurance that the Company will obtain such financing. For the three and six months ended June 30, 2011, the Company had net income/(loss) of \$54,000 and (\$222,000), respectively. Additionally, at June 30, 2011, the Company has an accumulated deficit of \$24,852,000, stockholders deficit of \$261,000 and cash and cash equivalents of \$109,000. These factors, combined with the termination of the BCBSTX Agreement as discussed in Note [A][3] below, raise doubt regarding the Company’s ability to continue as a going concern. If the Company does not attain management’s plans, the Company will have to curtail operations, which will have a material adverse effect on the Company’s business prospects. If the Company is unable to fund continuing operations, the Company will continue to operate at a loss and will be required to wind up its operations, sell its assets, restructure the business, or liquidate, as a result of which there is substantial doubt about its ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

[3] Termination of Blue Cross and Blue Shield of Texas Agreement:

As previously reported by the Company on the Form 8-K filed on September 2, 2010, Blue Cross and Blue Shield of Texas (“BCBSTX”), a division of Health Care Service Corporation (“HCSC”), terminated the Service and License Agreement between the Company and BCBSTX effective November 30, 2010. In so doing, HCSC nevertheless indicated a desire to continue to obtain ad hoc reports using the Company’s RPNavigator tool, as well as do business with the Company, and Mr. Mouras has proposed providing HCSC assistance regarding Accountable Care Organizations (“ACOs”) and “Medical Home” (wherein the health plan uses the physician’s office to manage care). An officer of HCSC has indicated to Mr. Mouras that HCSC continues to be interested in working with the Company regarding ACOs and Medical Home, but it must first develop its strategy for these initiatives. Accordingly, at present, it is uncertain whether the Company will obtain additional work from HCSC and if so, the timing and extent of any such additional work. The Company recognized approximately \$998,000 and \$1,835,000 of revenues for the six months ended June 30, 2010 and year ended December 31, 2010, respectively, from BCBSTX.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[4] Recent Accounting Pronouncements:

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards" (ASU 2011-04), which amends ASC 820. ASU 2011-04 provides a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 is effective for the Company prospectively for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of ASU 2011-04 will have a material effect on its financial position or results of operations.

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. The adoption of this pronouncement did not have any impact on the Company's financial position and results of operations.

[5] Agreements with InterComponentWare AG and InterComponentWare, Inc.:

As previously reported by the Company on the Form 8-K filed on April 15, 2011, the Company entered into a Memorandum of Understanding ("MOU") with InterComponentWare AG ("ICW AG") and its subsidiary, InterComponentWare, Inc. ("ICW") dated April 15, 2011. The MOU contained both binding and non-binding sections.

A summary of material binding sections is as follows:

The Company would enter into a Professional Services Agreement ("PS Agreement") and Statement of Work ("SOW") to provide two full time equivalent employees to perform care management business process and clinical process consulting services to ICW AG on an as needed basis for the remainder of April 2011, and in the months of May 2011 and June 2011. The fees to be paid to the Company would be \$40,000 due April 18, 2011, \$80,000 due May 1, 2011 and \$80,000 due June 1, 2011, plus applicable travel expenses. Upon mutual agreement of the parties, additional due diligence by ICW AG relating to the Company, and contingent upon the execution of a contract for RPNavigator by Geisinger Health Plan by June 30, 2011, the PS Agreement could be extended for an additional term of three months at the same rates and capacity as described above.

ICW AG would purchase a license to the Company's Care Management Specifications ("Specifications") and 12 of the Company's Care Management Plans under a worldwide perpetual, royalty free license for a payment of \$175,000, plus annual maintenance fees to update the Care Management Plans. Of the \$175,000, ICW AG paid \$125,000 upon the execution of the MOU and receipt of the Specifications and the remaining payment of \$50,000 payable 30 days from the execution of the MOU and receipt of the 12 Care Management Plans was paid on June 1, 2011. The remaining terms would be defined in a separate license agreement.

On May 10, 2011, the Company received delivery of a License Agreement with ICW AG, effective as of April 21, 2011 ("License Agreement") for the Specifications and 12 of the Company's Care Management Plans as described above, filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2011, and on April 19, 2011, ICW AG paid the Company \$165,000—\$125,000 for the execution of the MOU and receipt of the Specifications as discussed above and \$40,000 for professional services for the period April 18, 2011 until the end of April. Thereafter, for each of the months of May 2011 and June 2011, the Company provided professional services, and ICW AG paid the Company \$80,000 for professional services in accordance with the terms of the MOU. Notwithstanding the provision in the MOU providing that the parties would enter into a PS Agreement and SOW regarding these professional services, no such PS Agreement or SOW have been agreed upon to date.

The Company and ICW agreed they would enter into a Reseller Agreement to allow ICW to resell RPNavigator software. The Reseller Agreement will provide for a source code escrow, pursuant to which the Company will deposit with an intellectual property management company, at ICW's expense, the latest version of the Company's source code, its documentation and related materials for the RPNavigator software. The source code may be released to ICW in the event the Company (i) files a petition for bankruptcy, (ii) is forced into an involuntary bankruptcy, (iii) is acquired by another company, (iv) the Company ceases operations, and (v) the Company defaults on a loan from ICW during the period of the loan (as discussed below) (each of the foregoing events is a "Trigger Event"). Upon the occurrence of a Trigger Event, ICW will have a right to the release of the source code as follows:

- During the term of the Reseller Agreement and in the absence of any loan agreement entered into between the parties, ICW can receive the source code to install, support, maintain and allow customers to use RPNavigator for any executed license or subscription agreements entered into prior to the date of a Trigger Event or subsequent license or subscription agreements entered into after the Trigger Event with any active prospects that are memorialized in writing by the parties up to the date of the Trigger Event, and ICW will pay a monthly fee per unique member to the Company during the term of any such licenses or subscription agreements; and

- During the term of any loan agreement between the Company and ICW and thereafter, ICW will have the right to use the source code to install, support, maintain and allow customers to use RPNavigator for any executed license or subscription agreements entered into the date of a Trigger Event or subsequent license or subscription agreements entered into after the Trigger Event with any active prospects that are memorialized in writing by the parties up to the date of the Trigger Event, and no additional payments to the Company will be required to be made.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A summary of the material non-binding sections of the MOU is as follows:

ICW AG would consider a loan to the Company for up to \$700,000 for a period of 24 months, subject to the results of the SOW deliveries under the PS Agreement, market conditions and final approval of the supervisory board of ICW AG. The current discussion between the parties has included (i) monthly repayments beginning 13 months after the date of the loan, to be paid in 12 monthly installments of principal and interest through the 24th month, with interest beginning to accrue on the first day at a rate of prime plus one percent (1%), and (ii) warrants for no consideration to acquire at least 10% of the outstanding shares of the Company at the time of the loan.

If a loan agreement is entered into between the parties, and a Trigger Event occurs during the loan period, ICW AG will have the following options with the respect to the RPNavigator source code: (i) exercise its rights under the escrow agreement discussed above, or (ii) in lieu of exercising its rights under the escrow agreement, pay the Company the sum of the difference between \$1.5 million and the sum of all amounts paid or loaned to the Company during the SOW period or the loan period in exchange for a copy of the source code for RPNavigator and the remainder of the Company's Care Management Plans that were not previously licensed to ICW AG. Under the second option, ICW AG will have global, unlimited, nonexclusive rights to sell, license, distribute, maintain, modify, enhance and use the software, and the loan indebtedness will be cancelled.

[6] Subsequent Event:

On July 28, 2011, ICW paid the Company \$100,000 for additional professional services. In so doing, it indicated that it desires to enter into a PS Agreement regarding such services.

Also, the parties are continuing the process of negotiating a Reseller Agreement, and ICW has informally advised the Company that it intends to loan the Company \$700,000.

No assurance can be given that the Company will obtain the loan from ICW AG on favorable terms, or at all, or, even if it does obtain the loan, that the Company's ability to continue as a going concern will improve.

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 diluted income or loss because they had an anti-dilutive impact are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Total Potential Dilutive Shares	7,914,000	9,472,000	9,472,000	9,472,000

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 value at the date of the 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 six month periods ended June 30, 2011 and 2010, the Company included approximately \$0 and \$5,000, respectively, of equity-based compensation in its operating expenses (Selling, general and administrative) in the Company's statements of operations. For the six months ended June 30, 2010, the total equity-based compensation was related to an approximate \$5,000 one-time charge for 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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 and six months ended June 30, 2011 and 2010.

As of June 30, 2011, there was no unrecognized compensation cost related to non-vested equity-based compensation arrangements granted under existing stock option plans.

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 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 being tried before a chancery judge; the evidentiary portion of the trial concluded in fall 2010; and the attorneys appeared before the court on May 5, 2011 arguing proposed findings of fact and conclusions of law. The chancery judge is currently considering his decision.

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 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 previously maintained 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 did not require an initial security deposit; however, the Company was required to deliver to the landlord no later than January 15, 2011, the sum of \$10,000 to be held as a security deposit, which the Company timely delivered. Finally, the landlord performed, 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 with the Company 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 released 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 the Company had entered into with a subtenant subleasing the space under the old lease 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 six months ended June 30, 2010, the Company recorded a loss of approximately \$224,000, which included the forfeiture of the security deposit under the existing lease as described above. During the quarter ended June 30, 2011, the Company revised its estimated loss as a result of the New Lease and recorded an additional charge of approximately \$8,000.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At June 30, 2011, the Company had deferred rent of approximately \$302,000, representing the difference between the negotiated lease obligation and the rent expense on a straight-line basis over the term of the New Lease.

Note G – Note Payable and Prepaid Assets:

The Company entered into a finance agreement with Somerset Leasing Corporation (“SLC”) to pay for an initial non-refundable fee plus an annual support fee for a software license agreement with Informatica Corporation. Under the finance agreement terms, monthly payments of \$4,030 are to be made for a period of 36 months starting February 1, 2011. The software will be utilized in connection with the Company’s RPNavigator software. Under the terms of the license agreement, the Company will have to pay Informatica an annual support fee and an “end user license and support services fee” based on covered lives throughout the term of this agreement.

As of June 30, 2011, the Company had approximately \$90,000 in prepaid assets relating to the license agreement with Informatica, representing the unamortized portion of the licensed software. The Company also had the related liability of approximately \$103,000 representing the unamortized amount of the note payable to SLC.

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 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 or annual 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 sources 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 refining its current product offerings 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, as well as the availability and timeliness of competent resources. To further expand its product offerings, the Company may pursue alternatives to its internal product and service development efforts by entering into strategic alliances and joint ventures.

As previously reported by the Company on the Form 8-K filed on September 2, 2010, Blue Cross and Blue Shield of Texas ("BCBSTX"), a division of Health Care Service Corporation ("HCSC"), terminated the Service and License Agreement between the Company and BCBSTX effective November 30, 2010. In so doing, HCSC nevertheless indicated a desire to continue to obtain ad hoc reports using the Company's RPNavigator tool, as well as do business with the Company, and Dennis Mouras, the Company's Chief Executive Officer, has proposed providing HCSC assistance regarding Accountable Care Organizations ("ACOs") and "Medical Home" (wherein the health plan uses the physician's office to manage care). An officer of HCSC has indicated to Mr. Mouras that HCSC continues to be interested in working with the Company regarding ACOs and Medical Home, but it must first develop its strategy for these initiatives. Accordingly, at present, it is uncertain whether the Company will obtain additional work from HCSC and if so, the timing and extent of any such additional work. The Company recognized approximately \$998,000 and \$1,835,000 of revenues for the six months ended June 30, 2010 and year ended December 31, 2010, respectively, from BCBSTX.

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, 2010 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 or annual fee, a per member per month fee, or a combination of both. The Company recognizes the revenue from licensing RPNavigator and consulting services ratable as such services are performed. 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 May 2011, the FASB issued Accounting Standards Update No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards" (ASU 2011-04), which amends ASC 820. ASU 2011-04 provides a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 is effective for the Company prospectively for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of ASU 2011-04 will have a material effect on its financial position or results of operations.

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. The adoption of this pronouncement did 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 and six months ended June 30, 2011, with those for the three and six months ended June 30, 2010. The 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, 2010.

Three Months Ended June 30, 2011, Compared to Three Months Ended June 30, 2010

Revenues:

The Company's total operating revenues for the three-month periods ended June 30, 2011 and June 30, 2010 were approximately \$760,000 and \$1,116,000, respectively. The revenue was generated primarily from license and consulting fees earned during the periods. The decrease in revenue for the three months ended June 30, 2011 over the same period last year was primarily attributable to a decrease of approximately \$498,000 due to termination of services for one customer, decreases of approximately \$243,000 in current customer business largely due to decreased services for one customer and fluctuations in membership for certain customers, offset by increased revenue of approximately \$385,000 in new business.

Cost of services:

The Company's total direct cost of services for the three-month periods ended June 30, 2011 and June 30, 2010 was approximately \$221,000 and \$323,000, respectively. The decrease in the cost of services for the three-month period ended June 30, 2011 when compared to the same period last year was primarily due to decreases in personnel costs of approximately \$89,000 largely on account of severance and bonus payments relating to employee terminations in 2010, decreases of approximately \$32,000 relating to licenses fees for one customer that terminated services with the Company, offset by an increase of approximately \$19,000 in reimbursable travel expenses for one customer.

Selling, general and administrative expenses:

The Company's total selling, general, and administrative costs for the three-month periods ended June 30, 2011 and June 30, 2010 were approximately \$453,000 and \$599,000, respectively. The decrease for the three-month period ended June 30, 2011 when compared to the same period last year is primarily attributable to decreases in professional costs of approximately \$86,000, decreases in personnel costs of approximately \$28,000, decreases in information and communication costs of approximately \$4,000, decreases in facility costs of approximately \$1,000, decreases in travel costs of approximately \$1,000, and decreases of approximately \$26,000 in other general and administrative costs.

Net income:

The Company had a net income of \$54,000 for the three months ended June 30, 2011 compared to a net income of \$173,000 for the three months ended June 30, 2010. The \$119,000 decrease in net income is primarily attributable to an \$8,000 loss on the building lease reported for the three months ended June 30, 2011 that was not reported for the same period of the previous year as well as a \$115,000 decrease in operating income from \$178,000 for the three months ended June 30, 2010 to \$63,000 for the three months ended June 30, 2011 largely due to the termination of services of one customer.

Six Months Ended June 30, 2011, Compared to Six Months Ended June 30, 2010**Revenues:**

The Company's total operating revenues for the six-month periods ended June 30, 2011 and June 30, 2010 were approximately \$1,216,000 and \$1,976,000, respectively. The revenue was generated primarily from license and consulting fees earned during these periods. The decrease in revenue for the six months ended June 30, 2011 over the same period last year was primarily attributable to approximately \$998,000 due to termination of services for one customer and one time engagements of approximately \$54,000 in 2010 that did not reoccur in 2011, decreases of approximately \$93,000 in current customer business largely due to decreased services for one customer and fluctuations in membership for certain customers, offset by increased revenue of approximately \$385,000 in new business.

Cost of services:

The Company's total direct cost of services for the six-month periods ended June 30, 2011 and June 30, 2010 was approximately \$453,000 and \$671,000, respectively. The decrease in the cost of services for the six-month period ended June 30, 2011 when compared to the same period last year is primarily due to decreases in personnel costs of approximately \$185,000 largely on account of severance and bonus payments relating to employee terminations in 2010, decreases of approximately \$63,000 relating to license fees for one customer that terminated services with the Company, offset by an increase of approximately \$30,000 in reimbursable travel expenses for one customer.

Selling, general and administrative expenses:

The Company's total selling, general, and administrative costs for the six-month periods ended June 30, 2011 and June 30, 2010 were approximately \$931,000 and \$1,278,000, respectively. The decrease for the six-month period ended June 30, 2011 when compared to the same period last year is primarily attributable to decreases in professional costs of approximately \$143,000, decreases in personnel costs of approximately \$71,000, decreases in information and communication costs of approximately \$8,000, decreases in facility costs of approximately \$51,000 largely due to a new lease, decreases in travel costs of approximately \$5,000, and decreases of approximately \$69,000 in other general and administrative costs.

Net Loss

The Company had a net loss of (\$222,000) for the six months ended June 30, 2011 compared to a net loss of (\$239,000) for the six months ended June 30, 2010. The \$17,000 decrease in net loss is primarily attributable to a one time loss in the amount of \$224,000 reported for the six months ended June 30, 2010 in connection with the new building lease, offset by a decrease in operating loss from (\$229,000) for the six months ended June 30, 2010 to (\$205,000) for the six months ended June 30, 2011, largely due to the termination of services by one customer and one time engagements in 2010 that did not reoccur in 2011, offset by decreases in professional costs, personnel costs, and other selling, general and administrative expenses.

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

At June 30, 2011, the Company had working capital of approximately \$15,000, stockholders' deficit of approximately \$261,000 and an accumulated deficit of approximately \$24,852,000.

Financial condition and Going Concern:

At June 30, 2011, the Company had cash of \$109,000 as compared to \$457,000 as of December 31, 2010. The decrease in cash was primarily due to net cash used in operating activities of \$430,000. The net cash used in operating activities was largely a consequence of the net operating loss of (\$205,000) for the period ended June 30, 2011, a decrease in deferred liabilities of approximately \$152,000, non-cash charges of approximately \$29,000, decreases in prepaid expenses of approximately \$95,000, decreases in accounts receivable of approximately \$27,000 and decreases in accounts payable and other current liabilities of approximately \$17,000.

The Company had working capital at June 30, 2011 of approximately \$15,000 as compared to working capital of approximately \$230,000 at December 31, 2010. The decrease in working capital was primarily due to cash used in operating activities of approximately \$430,000, which included an operation loss of approximately (\$205,000) for the period ended June 30, 2011.

Net cash used in investing activities for the six-month period ended June 30, 2011 was approximately \$1,000, largely due to the purchase of fixed assets.

Net cash provided by financing activities for the six-month period ended June 30, 2011 was approximately \$83,000 related to proceeds from a note payable of approximately \$116,000 offset with payments on the note of approximately \$13,000 and payments of approximately \$20,000 relating to capital lease payments.

During the period ended June 30, 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 in the Notes to Unaudited Condensed Consolidated Financial Statements included in this report.

As discussed above under "General Overview," BCBSTX terminated its services agreement with the Company. The termination of this services arrangement may have a significant impact on the Company's business. As discussed above, management is currently in discussions with HCSC, BCBSTX's parent, for other uses of RPNavigator; but HCSC has advised the Company that it must first develop its strategy for these other uses. Accordingly, at present it is uncertain whether the Company will obtain additional work from HCSC and if so, the timing and extent of any such additional work is also uncertain. The Company cannot make any assurances that it will enter into a new relationship with HCSC and its subsidiaries. If the Company does not replace the revenue that will be lost on account of the termination of the BCBSTX Agreement by establishing a new relationship with HCSC and its subsidiaries and/or obtaining other business from its pipeline of other prospective clients, the Company will need to pursue other alternatives to enable it to fund continuing operations, including, but not limited to, exploring strategic arrangements, which may include a merger, asset sale, joint venture or another comparable transaction, loans, salary deferrals, staff reductions or other cost cutting mechanisms, or raising additional capital by private placements of equity or debt securities or through the establishment of other funding facilities. None of these potential alternatives may be available to the Company, or may only be available on unfavorable terms. The Company does not currently have in place a credit facility with a bank or other financial institution.

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 June 30, 2011 and cash flow from operations based on a forecast prepared by management, which took into account executed contracts (including contracts with new customers as well as expanding business with current customers), and a pipeline of prospective clients, management has determined that the Company may not be able to meet its obligations as they become due during the next 12 months, unless it receives the proposed financing discussed in Part 1, Item 1, Note [A][5] to the Unaudited Condensed Consolidated Financial Statements included in this filing and/or other financing. In the event the Company receives the proposed financing, management expects that the Company's liquidity and financial condition will greatly improve. However, no assurance can be given that the Company will be able to secure such financing or, even if it does, that the Company will achieve the results anticipated by management. If the Company does not attain management's plans, the Company will have to curtail operations, which will have a material adverse effect on the Company's business prospects. If the Company is unable to fund continuing operations, the Company will continue to operate at a loss and will be required to wind up its operations, sell its assets, restructure the business, or liquidate, as a result of which there is substantial doubt about its ability to continue as a going concern. The Unaudited Condensed Consolidated Financial Statements do not include any adjustments that might result from the outcomes of this 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 4. 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 June 30, 2011, 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 June 30, 2011 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 the counterclaim defendant Integrated eCareSolutions, LLC in *Alan Fontes v. CareAdvantage, Inc.* (see Part I, Item 1, Note D to the Unaudited Condensed Consolidated Financial Statements, which is incorporated by reference herein), 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. This action is in the preliminary stages of discovery.

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, 2010. 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

August 15, 2011

/s/ Dennis J. Mouras

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

EXHIBIT INDEX

- 10.1 Memorandum of Understanding (“MOU”) between the Company, InterComponentWare AG and its subsidiary, InterComponentWare, Inc. dated April 15, 2011 (incorporated by reference to Exhibit 10.39 filed with the Company’s Form 10-K for the year ended December 31, 2010). 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).
- 10.2 License Agreement between the Company and InterComponentWare AG delivered on May 10, 2011 and effective as of April 21, 2011 (incorporated by reference to Exhibit 10.2 filed with the Company’s Form 10-Q for the quarter ended March 31, 2011).
- 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
**
- 101.INS XBRL Instance Document***
- 101.SCH XBRL Taxonomy Extension Schema Document***
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document***
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document***
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document***
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document***

*filed herewith

**furnished herewith

*** XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these Section.

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(f) 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: August 15, 2011

/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 June 30, 2011 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 15, 2011

/s/ Dennis J. Mouras

Dennis J. Mouras

Chief Executive Officer and acting Principal Financial Officer

Document and Entity Information

Document and Entity Information (USD \$)	6 Months Ended 06/30/2011	07/22/2011
Document Type	10-Q	
Amendment Flag	false	
Document Period End Date	2011-06-30	
Document Fiscal Year Focus	2,011	
Document Fiscal Period Focus	Q2	
Trading Symbol	CADV	
Entity Registrant Name	CAREADVANTAGE INC	
Entity Central Index Key	0000937252	
Current Fiscal Year End Date	--12-31	
Entity Filer Category	Smaller Reporting Company	
Entity Common Stock, Shares Outstanding		145,250,442

CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED CONSOLIDATED BALANCE SHEETS (USD \$)	06/30/2011	12/31/2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 109,000	\$ 457,000
Accounts receivable	98,000	125,000
Prepaid expenses and other current assets	106,000	86,000
Total current assets	<u>313,000</u>	<u>668,000</u>
Property and equipment, at cost net of accumulated depreciation	19,000	47,000
Other assets	75,000	
Total Assets	<u>407,000</u>	<u>715,000</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	52,000	70,000
Accrued compensation and related benefits	65,000	64,000
Accrued professional fees	50,000	50,000
Other current liabilities	1,000	1,000
Note payable - current	35,000	
Deferred revenue	89,000	227,000
Capital lease obligation - current	6,000	26,000
Total current liabilities	<u>298,000</u>	<u>438,000</u>
Long term liabilities:		
Note payable - long term	68,000	
Deferred rent	302,000	316,000
Total long term liabilities	<u>370,000</u>	<u>316,000</u>
Total Liabilities	<u>668,000</u>	<u>754,000</u>
Stockholders' deficit:		
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 shares issued and outstanding at June 30, 2011 and at December 31, 2010	145,000	145,000
Additional capital	24,446,000	24,446,000
Accumulated deficit	(24,852,000)	(24,630,000)
Total stockholders' deficit	<u>(261,000)</u>	<u>(39,000)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 407,000</u>	<u>\$ 715,000</u>

CONDENSED CONSOLIDATED BALANCE SHEETS (Parenthetical)

CONDENSED CONSOLIDATED BALANCE SHEETS (Parenthetical) (USD \$)	06/30/2011	12/31/2010
Preferred stock, par value	\$ 0.10	\$ 0.10
Preferred stock, authorized	10,000,000	10,000,000
Preferred stock, issued	0	0
Common stock, par value	\$ 0.001	\$ 0.001
Common stock, authorized	200,000,000	200,000,000
Common stock, shares issued	145,250,442	145,250,442
Common stock, shares outstanding	145,250,442	145,250,442

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (USD \$)	3 Months Ended 06/30/2011	3 Months Ended 06/30/2010	6 Months Ended 06/30/2011	6 Months Ended 06/30/2010
License fees and service revenue	\$ 760,000	\$ 1,116,000	\$ 1,216,000	\$ 1,976,000
Costs of services	221,000	323,000	453,000	671,000
Gross profit	<u>539,000</u>	<u>793,000</u>	<u>763,000</u>	<u>1,305,000</u>
Operating expenses:				
Selling, general and administrative	453,000	599,000	931,000	1,278,000
Depreciation and amortization	15,000	16,000	29,000	32,000
Loss on building lease	8,000		8,000	224,000
Total operating expenses	<u>476,000</u>	<u>615,000</u>	<u>968,000</u>	<u>1,534,000</u>
Operating income/(loss)	<u>63,000</u>	<u>178,000</u>	<u>(205,000)</u>	<u>(229,000)</u>
Interest expense	9,000	5,000	17,000	10,000
Net income/(loss)	<u>\$ 54,000</u>	<u>\$ 173,000</u>	<u>\$ (222,000)</u>	<u>\$ (239,000)</u>
Net income/(loss) per share of common stock	\$ 0	\$ 0	\$ 0	\$ 0
Weighted average number of common shares outstanding -				
Basic	145,250,000	145,250,000	145,250,000	1,443,540,000
Diluted	145,381,000	145,250,000	145,250,000	1,443,540,000

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (USD \$)	6 Months Ended 06/30/2011	6 Months Ended 06/30/2010
Cash flows from operating activities:		
Net loss	\$ (222,000)	\$ (239,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,000	32,000
Stock based compensation		5,000
Loss on building lease - security deposit		167,000
Loss on building lease - deferred rent	8,000	57,000
Change in:		
Deferred revenue	(138,000)	(195,000)
Accounts receivable	27,000	31,000
Prepaid expenses and other assets	(95,000)	19,000
Accounts payable	(18,000)	9,000
Accrued expenses and other current liabilities	1,000	22,000
Deferred rent	(22,000)	(63,000)
Net cash used in operating activities	<u>(430,000)</u>	<u>(155,000)</u>
Cash flows from investing activities:		
Capital expenditures	(1,000)	
Net cash used in investing activities	<u>(1,000)</u>	
Cash flows from financing activities:		
Proceeds from exercise of stock options, net of costs		23,000
Proceeds from note payable	116,000	
Repayment of note payable	(13,000)	
Repayment of capital leases	(20,000)	(30,000)
Net cash provided by/(used in) financing activities	<u>83,000</u>	<u>(7,000)</u>
Net decrease in cash and cash equivalents	<u>(348,000)</u>	<u>(162,000)</u>
Cash and cash equivalents - beginning of period	457,000	510,000
Cash and cash equivalents - end of period	\$ 109,000	\$ 348,000

Business **Note A—Business:****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.

Basis of Presentation and Going Concern:

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 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, 2010.

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 unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. 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 June 30, 2011 and a forecast prepared by management, which takes into account executed contracts and a pipeline of new business from existing and prospective clients, management has determined that the Company may not be able to meet its obligations as they become due during the next twelve months unless the Company obtains the proposed financing discussed in Note [A] below and/or other financing, and there can be no assurance that the Company will obtain such financing. For the three and six months ended June 30, 2011, the Company had net income/(loss) of \$54,000 and (\$222,000), respectively. Additionally, at June 30, 2011, the Company has an accumulated deficit of \$24,852,000, stockholders deficit of \$261,000 and cash and cash equivalents of \$109,000. These factors, combined with the termination of the BCBSTX Agreement as discussed in Note [A] below, raise doubt regarding the Company’s ability to continue as a going concern. If the Company does not attain management’s plans, the Company will have to curtail operations, which will have a material adverse effect on the Company’s business prospects. If the Company is unable to fund continuing operations, the Company will continue to operate at a loss and will be required to wind up its operations, sell its assets, restructure the business, or liquidate, as a result of which there is substantial doubt about its ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Termination of Blue Cross and Blue Shield of Texas Agreement:

As previously reported by the Company on the Form 8-K filed on September 2, 2010, Blue Cross and Blue Shield of Texas (“BCBSTX”), a division of Health Care Service Corporation (“HCSC”), terminated the Service and License Agreement between the Company and BCBSTX effective November 30, 2010. In so doing, HCSC nevertheless indicated a desire to continue to obtain ad hoc reports using the Company’s RPNavigator tool, as well as do business with the Company, and Mr. Mouras has proposed providing HCSC assistance regarding Accountable Care Organizations (“ACOs”) and “Medical Home” (wherein the health plan uses the physician’s office to manage care). An officer of HCSC has indicated to Mr. Mouras that HCSC continues to be interested in working with the Company regarding ACOs and Medical Home, but it must first develop its strategy for these initiatives. Accordingly, at present, it is uncertain whether the Company will obtain additional work from HCSC and if so, the timing and extent of any such additional work. The Company recognized approximately \$998,000 and \$1,835,000 of revenues for the six months ended June 30, 2010 and year ended December 31, 2010, respectively, from BCBSTX.

Recent Accounting Pronouncements:

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards" (ASU 2011-04), which amends ASC 820. ASU 2011-04 provides a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 is effective for the Company prospectively for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of ASU 2011-04 will have a material effect on its financial position or results of operations.

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. The adoption of this pronouncement did not have any impact on the Company's financial position and results of operations.

Agreements with InterComponentWare AG and InterComponentWare, Inc.:

As previously reported by the Company on the Form 8-K filed on April 15, 2011, the Company entered into a Memorandum of Understanding ("MOU") with InterComponentWare AG ("ICW AG") and its subsidiary, InterComponentWare, Inc. ("ICW") dated April 15, 2011. The MOU contained both binding and non-binding sections.

A summary of material binding sections is as follows:

The Company would enter into a Professional Services Agreement ("PS Agreement") and Statement of Work ("SOW") to provide two full time equivalent employees to perform care management business process and clinical process consulting services to ICW AG on an as needed basis for the remainder of April 2011, and in the months of May 2011 and June 2011. The fees to be paid to the Company would be \$40,000 due April 18, 2011, \$80,000 due May 1, 2011 and \$80,000 due June 1, 2011, plus applicable travel expenses. Upon mutual agreement of the parties, additional due diligence by ICW AG relating to the Company, and contingent upon the execution of a contract for RPNavigator by Geisinger Health Plan by June 30, 2011, the PS Agreement could be extended for an additional term of three months at the same rates and capacity as described above.

ICW AG would purchase a license to the Company's Care Management Specifications ("Specifications") and 12 of the Company's Care Management Plans under a worldwide perpetual, royalty free license for a payment of \$175,000, plus annual maintenance fees to update the Care Management Plans. Of the \$175,000, ICW AG paid \$125,000 upon the execution of the MOU and receipt of the Specifications and the remaining payment of \$50,000 payable 30 days from the execution of the MOU and receipt of the 12 Care Management Plans was paid on June 1, 2011. The remaining terms would be defined in a separate license agreement.

On May 10, 2011, the Company received delivery of a License Agreement with ICW AG, effective as of April 21, 2011 ("License Agreement") for the Specifications and 12 of the Company's Care Management Plans as described above, filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2011, and on April 19, 2011, ICW AG paid the Company \$165,000—\$125,000 for the execution of the MOU and receipt of the Specifications as discussed above and \$40,000 for professional services for the period April 18, 2011 until the end of April. Thereafter, for each of the months of May 2011 and June 2011, the Company provided professional services, and ICW AG paid the Company \$80,000 for professional services in accordance with the terms of the MOU. Notwithstanding the provision in the MOU providing that the parties would enter into a PS Agreement and SOW regarding these professional services, no such PS Agreement or SOW have been agreed upon to date.

The Company and ICW agreed they would enter into a Reseller Agreement to allow ICW to resell RPNavigator software. The Reseller Agreement will provide for a source code escrow, pursuant to which the Company will deposit with an intellectual property management company, at ICW's expense, the latest version of the Company's source code, its documentation and related materials for the RPNavigator software. The source code may be released to ICW in the event the Company (i) files a petition for bankruptcy, (ii) is forced into an involuntary bankruptcy, (iii) is acquired by another company, (iv) the Company ceases operations, and (v) the Company defaults on a loan from ICW during the period of the loan (as discussed below) (each of the foregoing events is a "Trigger Event"). Upon the occurrence of a Trigger Event, ICW will have a right to the release of the source code as follows:

- During the term of the Reseller Agreement and in the absence of any loan agreement entered into between the parties, ICW can receive the source code to install, support, maintain and allow customers to use RPNavigator for any executed license or subscription agreements entered into prior to the date of a Trigger Event or subsequent license or subscription agreements entered into after the Trigger Event with any active prospects that are memorialized in writing by the parties up to the date of the Trigger Event, and ICW will pay a monthly fee per unique member to the Company during the term of any such licenses or subscription agreements; and

- During the term of any loan agreement between the Company and ICW and thereafter, ICW will have the right to use the source code to install, support, maintain and allow customers to use RPNavigator for any executed license or subscription agreements entered into the date of a Trigger Event or subsequent license or subscription agreements entered into after the Trigger Event with any active prospects that are memorialized in writing by the parties up to the date of the Trigger Event, and no additional payments to the Company will be required to be made.

A summary of the material non-binding sections of the MOU is as follows:

ICW AG would consider a loan to the Company for up to \$700,000 for a period of 24 months, subject to the results of the SOW deliveries under the PS Agreement, market conditions and final approval of the supervisory board of ICW AG. The current discussion between the parties has included (i) monthly repayments beginning 13 months after the date of the loan, to be paid in 12 monthly installments of principal and interest through the 24th month, with interest beginning to accrue on the first day at a rate of prime plus one percent (1%), and (ii) warrants for no consideration to acquire at least 10% of the outstanding shares of the Company at the time of the loan.

If a loan agreement is entered into between the parties, and a Trigger Event occurs during the loan period, ICW AG will have the following options with the respect to the RPNavigator source code: (i) exercise its rights under the escrow agreement discussed above, or (ii) in lieu of exercising its rights under the escrow agreement, pay the Company the sum of the difference between \$1.5 million and the sum of all amounts paid or loaned to the Company during the SOW period or the loan period in exchange for a copy of the source code for RPNavigator and the remainder of the Company's Care Management Plans that were not previously licensed to ICW AG. Under the second option, ICW AG will have global, unlimited, nonexclusive rights to sell, license, distribute, maintain, modify, enhance and use the software, and the loan indebtedness will be cancelled.

Subsequent Event:

On July 28, 2011, ICW paid the Company \$100,000 for additional professional services. In so doing, it indicated that it desires to enter into a PS Agreement regarding such services.

Also, the parties are continuing the process of negotiating a Reseller Agreement, and ICW has informally advised the Company that it intends to loan the Company \$700,000.

No assurance can be given that the Company will obtain the loan from ICW AG on favorable terms, or at all, or, even if it does obtain the loan, that the Company's ability to continue as a going concern will improve.

Per share data

Per share data (USD \$)	6 Months Ended 06/30/2011
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Per share data **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 diluted income or loss because they had an anti-dilutive impact are as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Total Potential Dilutive Shares	<u>7,914,000</u>	<u>9,472,000</u>	<u>9,472,000</u>	<u>9,472,000</u>

Stock-Based Compensation

Stock-Based Compensation (USD \$)	6 Months Ended 06/30/2011
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Stock-Based Compensation **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 value at the date of the 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 six month periods ended June 30, 2011 and 2010, the Company included approximately \$0 and \$5,000, respectively, of equity-based compensation in its operating expenses (Selling, general and administrative) in the Company's statements of operations. For the six months ended June 30, 2010, the total equity-based compensation was related to an approximate \$5,000 one-time charge for 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 and six months ended June 30, 2011 and 2010.

As of June 30, 2011, there was no unrecognized compensation cost related to non-vested equity-based compensation arrangements granted under existing stock option plans.

Contingencies

Contingencies (USD \$)	6 Months Ended 06/30/2011
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Contingencies **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 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 being tried before a chancery judge; the evidentiary portion of the trial concluded in fall 2010; and the attorneys appeared before the court on May 5, 2011 arguing proposed findings of fact and conclusions of law. The chancery judge is currently considering his decision.

Concentration of Credit Risk/Fair Value of Financial Instruments

Concentration of Credit Risk/Fair Value of Financial Instruments
(USD \$)

6 Months Ended
06/30/2011

Concentration of Credit Risk/Fair Value of Financial Instruments

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.

Leased Space

Leased Space (USD \$)	6 Months Ended 06/30/2011
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Leased Space **Note F—Leased Space:**

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 previously maintained 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 did not require an initial security deposit; however, the Company was required to deliver to the landlord no later than January 15, 2011, the sum of \$10,000 to be held as a security deposit, which the Company timely delivered. Finally, the landlord performed, 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 with the Company 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 released 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 the Company had entered into with a subtenant subleasing the space under the old lease 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 six months ended June 30, 2010, the Company recorded a loss of approximately \$224,000, which included the forfeiture of the security deposit under the existing lease as described above. During the quarter ended June 30, 2011, the Company revised its estimated loss as a result of the New Lease and recorded an additional charge of approximately \$8,000.

At June 30, 2011, the Company had deferred rent of approximately \$302,000, representing the difference between the negotiated lease obligation and the rent expense on a straight-line basis over the term of the New Lease.

Note Payable and Prepaid Assets

Note Payable and Prepaid Assets
(USD \$)

6 Months Ended
06/30/2011

Note Payable and Prepaid Assets

Note G – Note Payable and Prepaid Assets:

The Company entered into a finance agreement with Somerset Leasing Corporation (“SLC”) to pay for an initial non-refundable fee plus an annual support fee for a software license agreement with Informatica Corporation. Under the finance agreement terms, monthly payments of \$4,030 are to be made for a period of 36 months starting February 1, 2011. The software will be utilized in connection with the Company’s RPNavigator software. Under the terms of the license agreement, the Company will have to pay Informatica an annual support fee and an “end user license and support services fee” based on covered lives throughout the term of this agreement.

As of June 30, 2011, the Company had approximately \$90,000 in prepaid assets relating to the license agreement with Informatica, representing the unamortized portion of the licensed software. The Company also had the related liability of approximately \$103,000 representing the unamortized amount of the note payable to SLC.

