



FORM 10KSB

CAREADVANTAGE INC – CADV

Filed: April 02, 2007 (period: December 31, 2006)

Annual report filed by small businesses

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

FORM 10-KSB
Annual Report pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2006
Commission File Number 0-26168

CAREADVANTAGE, INC.
(Name of Business)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-1849794
(I.R.S. Employer
Identification No.)

485-C Route 1 South, Iselin, New Jersey
(Address of principal executive office)

08830
(Zip Code)

Issuer's telephone number, including area code: (732) 362-5000
Securities registered pursuant to Section 12 (b) of the Exchange Act of 1934: NONE

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock \$.001 par value
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes No

The Registrant's revenues for its most recent fiscal year were \$ 4,402,000.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 07, 2007 (assuming solely for purposes of this calculation that all directors and executive officers of the Registrant are affiliates) was \$856,620.

The number of shares of common stock outstanding as of February 7, 2007 was 56,775,554.

Transitional Small Business Disclosure Format Yes No

PORTIONS OF THE FOLLOWING DOCUMENTS HAVE BEEN INCORPORATED BY REFERENCE
INTO THIS ANNUAL REPORT ON FORM 10-KSB: NONE

PART I

Item 1. Description of Business

Introduction and Background

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

CAI was incorporated in August 1994 as a wholly owned subsidiary of Primedex Health Systems, Inc. (“PMDX”), a publicly traded New York corporation. In October 1994, the Company acquired CAHS (under its prior corporate name, Advantage Health Systems, Inc., (“AHS”)), from PMDX. On June 12, 1995, a stock dividend of all of the issued and outstanding shares of common stock of the Company was declared effective by PMDX. As a result, the Company commenced trading as a publicly traded company on that date.

Initially, CAI relied on PMDX to provide the bulk of its working capital. In addition to transferring all of its AHS stock to the Company, PMDX made a total of \$9,700,059 in working capital advances to CAI (the last such advance being made in July 1995). Pursuant to a revised separation agreement between CAI and PMDX dated April 20, 1995, PMDX agreed to capitalize all such advances in connection with CAI's separation from PMDX.

On February 22, 1996, the Company completed a series of transactions with CW Ventures II, L.P. (“CW Ventures”) and with Horizon Blue Cross and Blue Shield of New Jersey, formerly known as Blue Cross Blue Shield of New Jersey, Inc. (“Horizon BCBSNJ”).

Concurrently with the February 22, 1996 closing of the transaction with CW Ventures, CAHS purchased all of the outstanding capital stock of CHCM from a wholly owned Horizon BCBSNJ subsidiary, Enterprise Holding Company, Inc. (“EHC”). Although this acquisition was consummated on February 22, 1996, results of operations of CHCM have been reflected in the Company's financial statements since April 30, 1995 pursuant to an Interim Services Agreement between the Company and Horizon BCBSNJ (as amended from time to time, the “Services Agreement”) whereby the Company had effective control and responsibility of the day-to-day operations of CHCM pending a sale of CHCM to the Company.

On August 16, 2001, pursuant to a Satisfaction of Debt Agreement dated November 1, 2000, among the Company, Horizon BCBSNJ and one of Horizon BCBSNJ's subsidiaries, Horizon Healthcare of New Jersey, Inc., the Company issued 15,777,400 shares of its Common Stock in exchange for the cancellation of approximately \$1.6 million owed by it.

The foregoing transactions with CW Ventures and Horizon BCBS resulted in CW Ventures owning approximately 38% of the outstanding shares of the Company's common stock, par value \$.001 per share (“Common Stock”) and Horizon BCBSNJ owning approximately 54% of outstanding shares of the Company's Common Stock.

Prior to January 1, 2003, the Company provided, principally to Horizon BCBSNJ and another Blue Cross Blue Shield organization, certain health care cost containment services, including utilization review, case management and disease management and independent reviews. During 2002, the Company ceased providing these services to the other Blue Cross Blue Shield organization, and as of December 31, 2002, to Horizon BCBSNJ on account of Horizon BCBSNJ's termination of the Services Agreement as of that date. As a result, beginning January 1, 2003, the Company ceased offering these services to new customers, since it no longer maintained the employees and infrastructure necessary to support their delivery.

On October 1, 2004, as partial settlement of litigation between the Company and Horizon BCBSNJ, Horizon BCBSNJ transferred to the Company all of the Company's common stock then held by it (i.e., 53,394,820 shares). On October 6, 2004, CW Ventures made a pro rata distribution of all of the 37,617,420 shares of common stock of the Company that it owned to the partners of CW Ventures.

The Company's executive offices are located at 485-C Route 1 South, Metropolitan Corporate Plaza, Iselin, New Jersey 08830 and its telephone number is (732) 362-5000.

Industry Overview: Consumerism, Health Care Expenditures and Managed Care

The American health care market continues to evolve within the environmental emphases on consumer choice and confidentiality protections, and still battling the double challenge of accelerating costs and an aging population. Employer groups are still trying to find a balance, providing health insurance to employees in order to attract the highest quality human capital, while developing strategies to control escalating costs. In addition to the previous considerations, the latest emphasis is shifting towards the principle of data transparency on the part of insurers, HMOs and providers.

Data transparency has several key characteristics, which include easy accessibility, standardized performance metrics, nationally recognized/MD-approved set of rules governing claim coding/grouping procedures, automated data sharing/integration availability via the Internet, an underlying reward system using chronic disease in lieu of episodic management/efficiency and demonstration of intervention benefits in a credible way. So crucial is this factor that all of the major forces within the business, labor and health care community have come together in an attempt to provide the elements of structure and process that are the underpinnings of data transparency. The Consumer-Purchaser Disclosure Project, underwritten by the Robert Wood Johnson Foundation has as its goal, "to provide all Americans with publicly reported health care performance information by January 1, 2007." The "shared vision [of this project] is that Americans will be able to select hospitals, physicians, and treatments based on nationally standardized measures for clinical quality, consumer experience, equity, and efficiency."¹

The above focus of the marketplace points to an increased emphasis on health care quality and cost-benefit. Tools that provide clear and defensible information that is based on best practice and express results based on the relative severity of disease of the underlying population provide full and accurate disclosure. The Gartner Group has stated, "Without severity adjusted data, no comparison can be made between entities within any stakeholder category (e.g. hospital vs. hospital or MCO vs. MCO) because all differences may be completely attributable to variations among the types and intensities of diseases underlying the data."² The Gartner Report - The Gartner Group - 1999 Increasingly consumers, purchasers, insurers and providers will need tools that provide severity-adjusted data in order to provide a clear and accurate picture of health care quality attributable to different health plans and groups.

Services and Products

The Company is a management consulting firm specializing in the improvement of health care delivery and quality while reducing unnecessary cost. The Company has a proven track record for detecting and reducing unnecessary utilization while optimizing program performance and quality of care. Program performance and quality of care are measured not only on the basis of reduced costs but also using the context of a population's relative disease burden/severity and the rate at which the interventions of particular provider and programs have an impact on the rate of progression.

CareAdvantage clients include health plans, employer, hospital systems, providers and other purchaser groups. For the past ten years, the Company has worked with many leading health plans to develop effective, affordable and timely data-driven strategies that improve case, disease and utilization, as well as operations and network management. These strategies have helped CareAdvantage clients to more effectively:

- Identify and quantify disease burden and associated risk for their entire population and sub-populations
- Improve member care quality through the defensible evaluation of health care providers and facilities
- Facilitate provider cooperation and collaboration based on case mix and severity-adjusted data
- Forecast resource consumption based on disease burden
- Optimize allocation of resource

Recently, the Company has also assisted health plan clients with respect to further validating the value that they bring to purchasers and have had a demonstrable impact on sales retention and attraction of new sales.

¹ www.healthcaredisclosure.org

² The Gartner Report - The Gartner Group - 1999

In addition, this expertise has been applied to help employers assess the efficiency and effectiveness of their present health care insurers, carriers and supporting vendors. CareAdvantage achieves this by empowering employers with the information, skills and guidance necessary to facilitate future purchasing decisions and optimize managerial and administrative practices.

In order to deliver these solutions, CareAdvantage utilizes experienced health plan executives and medical directors as well as a wide range of care management operations, clinical data analysis and information technology (IT) subject-matter experts. It is this vast array of experience that enables CareAdvantage to benefit clients with objective and quantifiable insight to develop the strategies and tactical initiatives that combine care management processes with a deep understanding of medical and health care insurance-related best practices.

Operations

The Company utilizes a multi-disciplinary team approach in providing its management, data analysis and consulting services. The Company, through its employees and independent contractors, assesses care management operations, systems resources, integration and outcomes. Typically, assessment occurs on the client's site, through interviews and data analysis. At the center of CareAdvantage's data-driven analyses is RightPath[®] Navigator (RPNavigator), the next generation software solution and an element of the Company's RightPath[®] Care Management product suite. RPNavigator categorizes and quantifies a population's disease burden and provides a clear picture of the health status and severity associated with its clients' member populations. RPNavigator's underlying infrastructure incorporates classification methodologies from 3M Health Information Systems along with various analytical techniques to stratify the population and describe the individual member's associated risks in intuitive ways. It also enables the valid assessment of existing health care quality and cost as well as projection of future risk from a resource consumption, disease progression and mortality perspective.

RPNavigator utilizes this information to stratify its clients' members, groups and providers through the use of a wide range of clinical and demographic descriptors to quantify their risk as well as evaluate the impact of key interventions and programs. These descriptors and the underlying logic increase the associated transparency of the resulting analyses and support the new direction of the industry. Among the benefits of this solution is the ability of CareAdvantage clients to:

- Access meaningful information via an Internet-based portal
- Track population and member-related changes in disease status and severity over time
- Compare client sub-populations
- Profile provider using case mix and severity-adjusted techniques
- Select and prioritize members who would best benefit from care management interventions
- Understand adverse selection associated with existing and/or newly-obtained business as well as understand the impact of a plan's overall turnover in terms of stayers and leavers
- Reduce the dependence on internal resources to develop and produce required reports to accomplish these tasks

There are several related efforts that result in additional sources of income for CareAdvantage, including:

- Development of new standardized analyses on a client-specific basis to meet a particular need for that client
- Undertaking of broader analytic consulting projects, using the methodology and logic within RPNavigator, on behalf of clients that need CareAdvantage's expertise in analyzing and interpreting the data.

CareAdvantage also supports its clients through the provision of a wide range of consulting services to develop and implement the right solutions. These solutions provide the health care industry with strategies and tactical initiatives for effectively managing health care consumption, reducing costs and improving the quality and cost benefit of care.

For its services, the Company seeks to be compensated either (i) on a fee-for-service basis; (ii) per member per month (PMPM); or (iii) on the basis of a combination of both fee-for-service and PMPM.

Customers and Marketing

The Company currently provides its services to Blue Cross Blue Shield ("BCBS") organizations, employers and other health care purchasers pursuant to one or a combination of the compensation arrangements described above.

The Company markets its services to the health insurance industry, health service organizations, hospitals, insurance carriers, employers and unions.

Competition

The Company faces intense competition in a highly fragmented market of managed care services firms. Several managed care service firms currently provide and aggressively market services, which are in some respects similar to the Company's services. There are also a number of organizations developing a variety of approaches that are in competition with the Company's products and services. Some of the Company's competitors have substantially greater financial resources and employ substantially greater numbers of personnel.

The Company intends to compete by offering what it believes to be the most comprehensive approach in the marketplace to address the medical cost and quality of care issues. Further, it believes that its competitive position is enhanced by its ability to develop tailored programs for large clients.

Government Regulation

Health Care Regulation

Government regulation of health care cost containment services, such as those provided by the Company, is a changing area of law that varies from jurisdiction to jurisdiction and generally gives responsible administrative agencies broad discretion. The Company is subject to extensive and frequently changing federal, state and local laws and regulations concerning company licensure, conduct of operations, acquisitions of businesses operating within its industry, the employment of physicians and other licensed professionals by business corporations and the reimbursement for services. Regulatory compliance could have an adverse effect on the Company's present business and future growth by restricting or limiting the manner in which it can acquire businesses, market its services, and contract for services with other health care providers by limiting or denying licensure or by limiting its reimbursement for services provided.

It should be noted that in providing utilization review and case management services, the Company made recommendations regarding what is considered appropriate medical care based upon professional judgments and established protocols. However, the ultimate responsibility for all health care decisions is with the health care provider. Furthermore, the Company is not an insurer, and the ultimate responsibility for the payment of medical claims is with the insurer.

Although the Company is not a health care provider, it could have potential liability for adverse medical consequences. The Company could also become subject to claims based upon the denial of health care services and claims such as malpractice arising from the acts or omissions of health care professionals. Its exposure in this regard is substantially reduced since it ceased providing utilization review and case management services as of December 31, 2002. Nonetheless, until the applicable statutes of limitations have run, the Company retains exposure for past activities as well as on account of its continued internal physician review services offered as part of its Executive and Clinical Management Services.

The Company's operations in a particular state are typically subject to certification by the appropriate state agency. The Company has received or has filed the necessary application for such certification where required. In addition, various state and federal laws regulate the relationships between providers of health care services and physicians and other clinicians, including employment or service contracts, investment relationships and referrals for certain designated health services. These laws include the fraud and abuse provisions of the Medicare or Medicaid statutes, which prohibit the solicitation, payment, receipt or offering of any direct or indirect remuneration for the referral of Medicare or Medicaid patients or for the ordering or providing of Medicare or Medicaid covered services, items or equipment. Violations of these provisions may result in civil or criminal penalties for individuals or entities including exclusion from participation in the Medicare and Medicaid programs. Several states have adopted similar laws that cover patients in private programs as well as government programs. Because the anti-fraud and abuse laws have been broadly interpreted, they may limit the manner in which the Company can acquire businesses and market its services to, and contract for services with, other health care providers.

The Company's management believes that its present operations are in compliance with all applicable laws and regulations and that it maintains sufficient comprehensive general liability and professional liability insurance coverage to mitigate claims to which the Company may be subject in the future. The Company is unable to predict what, if any, government regulations affecting its business may be enacted in the future or how existing or future regulations may be interpreted. To maintain future compliance, it may be necessary for the Company to modify its services, products, structure or marketing methods. This could increase the cost of compliance or otherwise adversely affect the Company's operations, products, profitability or business prospects.

Proposed Health Care Reform

If proposed federal and state health care reform initiatives are enacted, the payments for and the availability of health care services may be affected. Aspects of certain proposals, such as reductions in Medicare and Medicaid payments, could adversely affect the Company. The Company is unable to predict what impact, if any, future enacted health care reform legislation may have on its current and future business, and no assurance can be given that any such reforms will not have an adverse impact on its business operations or potential profitability.

Employees

At December 31, 2006 the Company employed a total of 17 full-time employees. Of this total, 13 employees are engaged in servicing its clients. The 4 remaining employees include administrative support, finance, information systems and human resources personnel. None of the Company's employees are party to any collective bargaining agreements.

Item 2. Description of Property

The Company's executive offices and operations, comprising approximately 28,000 square feet of office space, are located in the Metropolitan Corporate Plaza in Iselin, New Jersey. The Company had executed a six-year lease for this facility commencing June 15, 1995, which was extended during 2000 for ten additional years. The extended lease provides for an annual base rent of approximately \$668,000 with annual escalations based on increases in real estate taxes and operating expenses. As a result of the Company's ceasing to provide services to Horizon BCBSNJ, the Company no longer needed 20,500 square feet of this space.

On January 10, 2005, the Company entered into a Lease Amendment commencing January 1, 2005 to provide for the reduction in base rent and the waiver of escalations based on increases in real estate taxes and operating expenses, and to provide the landlord with the option to recapture up to 50% of the leased premises at any time. The expiration date of the Lease, March 31, 2011, remains unchanged by the Lease Amendment.

Under the Lease Amendment, the Company is required to meet the following conditions: (1) the Company cannot assign the lease except for an assignment of the lease or a sublet provided under the original lease; (2) the Company is not in default under any terms and conditions of the original lease. In the event the Company fails to meet these conditions, the reduction in base rent, real estate taxes and operating expenses will be nullified and entirely forfeited, and the Company will be immediately required to pay the landlord additional rent for the difference in the base rent, and additional rent for all escalations provided in the Lease Amendment and the original lease.

At December 31, 2006, this additional rent that would be due if the Company failed to meet the conditions of the amendment would be \$ 713,000. Additional minimum lease payments for each of the next four years ended December 31 and thereafter that would be due if the Company failed to meet the conditions of the amendment are as follows:

<u>Year Ending</u>	<u>Office Space</u>
2007	274,000
2008	174,000
2009	95,000
2010	1,000
Thereafter	0
	<u>\$ 544,000</u>

The Company maintains rent-free operation offices in Vermont pursuant to an informal arrangement with its customer there, Blue Cross Blue Shield of Vermont.

Item 3. Legal Proceedings

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

Alan Fontes v. CareAdvantage, Inc., pending in Superior Court of New Jersey, was commenced in June 2004 by a former employee of the Company seeking compensation under various legal theories. In October 2005, the court dismissed the claim under all theories except express contract. The Company believes that Mr. Fontes's claim is without merit and is contesting the matter vigorously. Moreover, the Company filed a counterclaim for damages against Mr. Fontes claiming Mr. Fontes induced another employee to quit his employment with the Company and in October 2005, pursuant to court order, amended its counterclaim to seek equitable relief and damages against Mr. Fontes and Integrated eCare Solutions, LLC, claiming Mr. Fontes misappropriated and used certain Company property. This matter is presently scheduled to be tried in May 2007.

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

- (a) *Market Information:* Since the Company's effective registration date of June 12, 1995, the Company's Common Stock has traded in the over-the-counter market and is currently quoted on the Electronic Bulletin Board under the symbol CADV. The following table shows the range of closing bid prices for each quarter of the Company's two most recent calendar years. The prices reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

Quarter Ended	2006		2005	
	High	Low	High	Low
March 31,	\$.02	\$.02	\$.02	\$.01
June 30,	\$.02	\$.02	\$.03	\$.01
September 30,	\$.02	\$.02	\$.03	\$.01
December 31,	\$.02	\$.02	\$.02	\$.01

- (b) *Holder:* As of February 7, 2007 there were approximately 2,564 holders of record of the Company's Common Stock. No shares of the Company's preferred stock have been issued.
- (c) *Dividends:* During the two most recent fiscal years, the Company paid no cash dividends on its Common Stock. The payment of future dividends on its Common Stock is subject to the discretion of the Board of Directors and is dependent on several factors, including the Company's earnings and capital needs.
- (d) *Equity Compensation Plans:* For information regarding the Company's equity compensation plans, please refer to the table captioned "Equity Compensation Plans" in Item 11 of this Form 10-KSB.
- (e) *Issuer Purchases of Equity Securities:* None

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statements

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

The following discussion contains cautionary statements regarding our business that investors and others should consider. This discussion is intended to take advantage of the "safe harbor" provisions of the PSLRA. In making these cautionary statements, we are not committed to addressing or updating each factor in future filings or communications regarding the our business or results, or addressing how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. In addition, any of the matters discussed below may have affected or may affect our past, as well as current, forward-looking statements about future results.

Risk Factors

Company Risk

We have had a history of losses. Although our Company was profitable for 2001 and 2002, we have experienced a history of significant operating losses on a consolidated basis. At December 31, 2006 we had working capital of approximately \$495,000, stockholders' equity of approximately \$400,000 and an accumulated deficit of approximately \$23,455,000.

We face aggressive competition because new competitors can enter our field easily. The Company faces intense competition in a highly fragmented market of managed care services and new competitors can enter our field easily. We believe our ability to compete will depend in part upon our ability to:

- enhance our current technology and services;
- respond effectively to technological changes;
- introduce new technologies; and
- meet the increasingly sophisticated needs of our customers.

Increased competition may result in price reductions, reduced gross margins, and loss of market share, any of which could have a material adverse effect on our results of operations. In addition, pricing, gross margin, and market share could be negatively impacted further as a greater number of available products in the marketplace increases the likelihood that product and service offerings in our markets become more fungible and price sensitive.

Due to increased merger and acquisition activity, we may face stronger competition in the future. Our industry, as well as many of our customers' industries (*i.e.*, health insurers and HMOs) have experienced significant merger and acquisition activity. Merger and acquisition activity may result in decreased opportunities to provide our services. The acquisition of a customer could reduce our revenue and have a negative impact on our results of operation and financial condition. A smaller overall market for our products and services could also result in lower revenue and margins.

Significant contracts with the Company have been terminated. Since 2002, when the Company's contracts were terminated with Blue Cross Blue Shield of Rhode Island ("BCBSRI") and Horizon Blue Cross Blue Shield of New Jersey ("Horizon BCBSNJ") (accounting respectively for 4% and 82% of net revenues for the year ended December 31, 2002), the Company has had to significantly reduce its operations to match its remaining revenues and focus on alternate sources of revenues to continue to build its business. As a response to these contract terminations, the Company has significantly reduced its employee base (down to 17 employees from 191 in 2002) and has terminated or renegotiated a variety of information systems and communications agreements. The Company has ceased offering certain health care cost containment services due to the lack of the infrastructure necessary to support the provision of these services, and the Company is now focusing on selling its management and consulting services. There is no guarantee that the Company, through these measures, will be successful in mitigating the effects of the loss of these contracts and to continue to maintain its business operations.

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

Although the Agreement has accounted for revenues for the year, including \$848,000 for 2006, the Company does not believe that the termination will materially adversely impact the Company's ongoing business and operations. The Company is continuing to assess the impact of the termination of the Agreement on the Company's business. The Company will attempt to compensate for the terminated Agreement by using its resources to expand its current service to existing customers, market its services to and enter into contracts with new customers, and, if necessary, implement cost reductions measures until the revenues are replaced. There is no assurance, however, that any of these measures will be successful.

Revenue from a limited number of customers comprises a significant portion of our total revenue. Two customers, BCBS organizations, accounted for approximately 53% and 22% of license fees and service revenue for the year ended December 31, 2006. As discussed above, Kaiser, another major customer that accounted for approximately 19% of license fees and service revenue for the year ended December 31, 2006, terminated its service agreement effective December 31, 2006 due to budget issues. If the BCBS customers terminate or modify existing contracts or experience business difficulties, it could adversely affect our earnings.

We could incur significant additional costs as a result of litigation based on the adverse medical consequences of our recommendations. Until December 31, 2002, we provided cost containment services for health care organizations. These services included:

- utilization review, which is the review of the appropriateness of a particular medical event, such as a hospital admission, a particular medical procedure or an additional day of inpatient care;
- case management services, which provide alternative plans for patient treatment and examine how the attending physician is managing the care of patients with chronic diseases on an ongoing basis;
- outpatient care coordination, which allows patients to access services such as home health care, rehabilitation and infusion therapy services; and
- disease management services, which provide patients with expert consensus on the most appropriate treatment alternatives for patients at different disease stages.

We based our recommendations for patient benefit plan coverage on judgments and established protocols as to the appropriateness of the proposed medical treatment. Our judgments and established protocols were based on data gathered through case studies on the treatment and care of patients over a number of years. As a result, we may be liable for adverse medical consequences of our recommendations. We could become subject to claims for the costs of services denied and malpractice claims arising from the acts or omissions of health care professionals. Although we do not believe that we engaged in the practice of medicine or that we delivered medical services directly, we may become subject to litigation or liability. Although we maintain comprehensive general liability and professional liability insurance coverage, including coverage for liability in connection with the performance of medical utilization review services, we cannot be certain that coverage will be adequate in the event we become subject to a claim. The Company's exposure for these activities is substantially reduced since it stopped providing utilization review and case management services as of December 31, 2002. Nonetheless, until all the applicable statutes of limitations have run, the Company retains exposure for past activities as well as on account of its continued internal physician review services offered as part of its Executive and Clinical Management Services.

We depend on effective information systems to deliver products and services to customers. We depend on effective information systems and have linked our computer systems with our customers' computer systems in order to conduct and deliver our products and services. Our information systems require an ongoing commitment of resources to maintain and enhance existing systems and develop new systems in order to keep pace with continuing changes in information processing technology, evolving industry standards, and changing customer preferences. Our failure to maintain effective and efficient information systems could cause loss of existing customers, difficulty in attracting new customers, customer disputes, regulatory problems and increases in administrative expenses.

Our RPNavigator tool is dependent upon third-party risk stratification software. The Company currently has a license from Minnesota Mining and Manufacturing Company ("3M") to use 3M's Clinical Risk Grouping Software™, which license expires in April 2007 and renews automatically thereafter for successive one-year terms unless terminated by either party by written notice at least one year in advance. In the event that 3M terminated its license at the end of the term, the Company would be required to license other third-party risk stratification software and would be required to reconfigure RPNavigator to accommodate such other software. Moreover, although risk stratification software is available from other third parties, including Johns Hopkins University and/or its affiliates, the Company believes that the 3M software is more robust than its competitors because it considers the severity of illnesses and diseases. Because our RPNavigator tool depends on the integrity of third-party-risk stratification software, if the information contained in that software was found or perceived to be inaccurate, or if the information is generally perceived to be unreliable, we may not be able to maintain commercial acceptance.

The introduction of software products incorporating new technologies and the emergence of new industry standards could render the Company's existing software products less competitive, obsolete or unmarketable. There can be no assurance that the Company will be successful in developing and marketing new software products that respond to technological changes or evolving industry standards. If the Company is unable, for technological or other reasons, to develop and introduce new software products cost-effectively in a timely manner in response to changing market conditions or customer requirements, the Company's business, results of operations and financial condition may be adversely affected.

Developing or implementing new or updated software products and services may take longer and cost more than expected. The Company relies on a combination of internal development, strategic relationships, and licensing to develop its software products and services. The cost of developing new healthcare information services and technology solutions is inherently difficult to estimate. If the Company is unable to develop new or updated software products and services cost-effectively on a timely basis and implement them without significant disruptions to the existing systems and processes of the Company's customers, the Company may lose potential sales and harm its relationships with current or potential customers.

To succeed, we must maintain the confidential nature of criteria that we have acquired or developed for the delivery of health care services in medical specialty areas. The success of our knowledge and information-related business depends on our ability to maintain the ownership rights to our products. We rely on agreements with customers, confidentiality agreements with employees, trade secrets, trademarks and patents to protect our ownership rights. These legal protections and precautions may prevent misappropriation of our intellectual property. In addition, substantial litigation regarding intellectual property rights exists in the software industry, and we expect software products to be increasingly subject to third-party infringement claims as the number of products and competitors in our industry segment grows.

Federal and state laws that protect patient health information may increase our costs and limit our ability to collect and use that information. There is substantial state and federal regulation of the confidentiality of patient health information and the circumstances under which such information may be used by, disclosed to, or processed by us as a consequence of our contacts with various health plans and healthcare providers. Although compliance with these laws and regulations is presently the principal responsibility of the health plan, hospital, physician or other healthcare provider, regulations governing patient confidentiality rights are dynamic and rapidly evolving. As such, laws and regulations could be modified so that they could directly apply to us. Also, changes to the laws and regulations that would require us to change our systems and our methods may be made in the future, which could require significant expenditure of capital and decrease future business prospects. Furthermore, additional federal and state legislation governing the dissemination of patient health information may be proposed and adopted, which may also significantly affect our business. Finally, certain existing laws and regulations require healthcare entities to contractually pass on their obligations to other entities with which they do business; as such, we are indirectly impacted by various additional laws and regulations.

The Company and the healthcare industry generally are impacted by the Health Insurance Portability and Accountability Act of 1996, or HIPAA, which mandates, among other things, the adoption of standards to enhance the efficiency and simplify the administration of the healthcare system. HIPAA is a federal law that affects the use, disclosure, transmission and storage of individually identifiable health information referred to as "protected health information." As directed by HIPAA, the United States Department of Health and Human Services ("DHHS") must promulgate standards or rules for certain electronic health transactions, code sets, data security, unique identification numbers, and privacy of protected health information. DHHS has issued some of these rules in final form, while others remain in development. In general, under these rules, we function as a "business associate" to some of our customers (who are considered to be "covered entities" under HIPAA). The two rules relevant to us and our customers—the Privacy Rule, and the Security Rule—are discussed below. It is important to note that DHHS could, at any time in the future, modify any existing final rule in a manner that could require us to change our systems or operations.

First, DHHS has published a final HIPAA privacy rule ("Privacy Rule") which had a compliance date of April 14, 2003. The Privacy Rule is complex and far reaching. The Privacy Rule directly applies to covered entities which, in most instances, are required to execute a contract with any business associate that performs certain services on the covered entity's behalf involving the exchange or creation of protected health information. Our health plan customers are covered entities, and to the extent that we are required by our customer contracts to ensure that we comply with various aspects of the Privacy Rule, we believe that we meet the requirements of the Privacy Rule. The Privacy Rule and other similar state healthcare privacy regulations could materially restrict the ability of healthcare providers and health plans to disclose protected health information from patient records using our products and services, or it could require us to make additional capital expenditures to be in compliance. Accordingly, the Privacy Rule and state privacy laws may significantly impact our products' use in the healthcare delivery system and, therefore, decrease our revenue, increase working capital requirements and decrease future business prospects.

Second, DHHS has published the final HIPAA security rule ("Security Rule") with a compliance date of April 20, 2005. The Security Rule applies to the use, disclosure, transmission, storage and destruction of electronic protected health information by covered entities. The Security Rule requires that covered entities must implement administrative, technical and physical security measures to safeguard electronic protected health information. Also, as with the Privacy Rule, under the Security Rule, covered entities are required to contractually bind their business associates to certain aspects of the Security Rule. As such, where we function as a business associate to a customer that is a covered entity, we are required to enter into a business associate contract with that customer. Implementing such measures may require us to expend substantial capital due to required product, service, and procedure changes.

We believe our business practices and software offerings are consistent with the Privacy Rule and Security Rule. However, DHHS continues to publish change notices to the existing rules and propose new rules. There is no certainty that we will be able to respond to all such rules in a timely manner and our inability to do so could adversely affect our business.

A breach of security may cause the Company's customers to curtail or stop using the Company's services. Accidental or willful security breaches or other unauthorized access by third parties to the Company's information systems, the existence of computer viruses in the Company's data or software and misappropriation of the Company's proprietary information could expose the Company to a risk of information loss, litigation and other possible liabilities which may have a material adverse effect on the Company's business, financial condition and results of operations. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in the Company's software are exposed and exploited, and, as a result, a third party obtains unauthorized access to any customer data, the Company's relationships with its customers and its reputation will be damaged, the Company's business may suffer and the Company could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, the Company may be unable to anticipate these techniques or to implement adequate preventative measures.

Investment Risk

The market price of our shares has been extremely volatile. The market price of our securities has shown volatility and sensitivity in response to many factors, including general market trends, public communications regarding managed care, legislative or regulatory actions, health care cost trends, pricing trends, competition, earnings or membership reports of particular industry participants, and acquisition activity.

Because our common stock is traded in the over-the-counter market in "pink sheets" or the "OTC Bulletin Board," our stock is illiquid. Our common stock is traded in the over-the-counter market in so-called "pink sheets" or, if available, the "OTC Bulletin Board." The OTC Bulletin Board is a regulated quotation service that displays real-time quotes, last-sale prices and volume information in over-the-counter equity securities. As a result, an investor may find it more difficult to dispose, of or to obtain accurate quotations as to the value, of our common stock. Because our common stock is subject to federal securities rules affecting "penny stock", the market liquidity for our common stock is adversely affected.

Our common stock is subject to additional sales practice requirements for low priced securities. Our common stock is currently subject to Rule 15c-9 under the Securities Exchange Act of 1934, which imposes additional sales practice requirements on broker-dealers that sell our shares of common stock to persons other than established customers and "accredited investors" or individuals with net worth in excess of \$1,000,000 or annual incomes exceeding \$200,000 or \$300,000 together with their spouses.

The rule:

- requires a broker-dealer to make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities and may affect the ability of our shareholders to sell any of our securities in the secondary market;
- generally defines a "penny stock" to be any non-NASDAQ equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions;
- requires broker dealers to deliver, prior to a transaction in a "penny stock", a risk disclosure document relating to the "penny stock" market.

Disclosure is also required to be made about compensation payable to both the broker-dealer and the registered representative and current quotations for the securities. In addition, the rule requires that broker dealers deliver to customers monthly statements that disclose recent price information for the "penny stock" held in the account and information on the limited market in penny stocks. Because of these regulations, broker-dealers may encounter difficulties in their attempt to sell shares of common stock, which may affect the ability of selling shareholders or other holders to sell their shares in the secondary market and have the effect of reducing the level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities. In addition, the liquidity for our securities may be decreased, with a corresponding decrease in the price of our securities.

Executive Overview

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

Prior to January 1, 2003, the Company provided, principally to Horizon BCBSNJ, certain health care cost containment services, including utilization review, case management and disease management and independent reviews. As of December 31, 2002, Horizon BCBSNJ ceased purchasing the Company's services. As a result, beginning January 1, 2003, the Company ceased offering these services, since it no longer maintained the employees and infrastructure necessary to support their delivery. Horizon BCBSNJ accounted for 82% of net revenues for the year ended December 31, 2002.

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

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

On January 10, 2005, the Company entered into a Lease Amendment commencing January 1, 2005, that amends the original lease to provide for a reduction in base rent and a waiver of escalations based on increases in real estate taxes and operating expenses, and to provide the landlord with the option to recapture up to 50% of the leased premises.

Results of Operations—12 Months Ended December 31, 2006 Compared to 12 Months Ended December 31, 2005

The following discussion compares the Company's results of operations for the 12 months ended December 31, 2006, with those for the 12 months ended December 31, 2005. The Company's consolidated financial statements and notes thereto included elsewhere in this report contains detailed information that should be referred to in conjunction with the following discussion.

Total revenues for the years ended December 31, 2006 and 2005 were approximately \$4,402,000 and \$2,844,000, respectively. The increase in revenues of approximately \$1,558,000 was primarily attributable to increased revenue of approximately \$1,250,000 in current customer business due to increased services, approximately \$106,000 in new business and approximately \$242,000 in related consulting business, offset by decreased revenue of approximately \$40,000 due to termination of consulting arrangements in 2005.

Cost of services:

Cost of services for the years ended December 31, 2006 and 2005 were approximately \$1,745,000 and \$1,433,000, respectively. The increase in the cost of services of approximately \$312,000 was primarily due to increases in personnel costs of approximately \$217,000, travel costs of approximately \$1,000 and professional costs of approximately \$94,000, which includes an increase in licensing fees of approximately \$102,000. The Company's direct costs are mostly fixed with the exception of its costs associated with licensing fees. Any variation in direct costs is largely due to increased licensing fees related to increased revenue. As a result of this, for the twelve months ended December 31, 2006 compared to the twelve months ended December 31, 2005, the Company has experienced revenue growth and its margins have improved favorably, resulting in a 60% gross profit margin and 50% gross profit margin, respectively. Other direct costs, such as personnel costs, may increase only if a large volume of increased business occurs where additional staffing would be required.

Operating Cost and Expenses

Selling, general and administrative:

Selling, general and administrative costs for the years ended December 31, 2006 and 2005 were \$2,676,000 compared to \$2,862,000, respectively. The decrease in selling, general and administrative costs of approximately \$186,000 is due to decreases in personnel costs of approximately \$185,000, decreased professional costs of approximately \$38,000, decreased facility costs of approximately \$10,000 and decreased information and communication costs of approximately \$1,000, offset by increases in travel costs of approximately \$20,000 and increases in other general and administrative costs of approximately \$28,000.

Depreciation and amortization:

Depreciation and amortization for the years ended December 31, 2006 aggregated \$125,000 compared to \$187,000 for the year ended December 31, 2005. The decrease in depreciation and amortization costs of approximately \$62,000 is largely due to fully amortized assets.

Interest (expense)/income:

Interest (expense)/income for the years ended December 31, 2006 and 2005 was (\$4,000) and \$8,000, respectively. The increase in interest expense of approximately \$12,000 is largely due to interest expense of approximately \$5,000 relating to capital leases and a decrease in interest income due to a decrease in interest rates.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital resources or capital reserves.

Critical Accounting Policies

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

Certain accounting policies have a significant impact on amounts reported in financial statements. A summary of those significant accounting policies can be found in Note B to the Company's financial statements.

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

Revenue recognition

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

Accounting for stock-based compensation

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

effective date of the adoption and that remain unvested or modified on the date of the adoption.

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

For the year ended December 31, 2006, the Company included approximately \$55,000 of share-based compensation in its operating expenses in the Company's statement of operations. For the year ended December 31, 2005, the Company included approximately \$48,000 of share-based compensation in the statement of operations.

Prior to the adoption of FAS 123R, the Company presented cash flows resulting from the tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. FAS 123R requires cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The Company did not realize any tax benefits from stock options during the year ended December 31, 2006.

For the purposes of determining estimated fair value under FAS 123R, the Company has computed the fair values of all share-based compensation using the Black-Scholes option pricing model. This model requires the Company to make certain estimates and assumptions. The Company calculated expected volatility based on the Company's historical stock volatility. The computation of expected life is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Under FAS 123R, forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which the actual forfeitures differ, or are expected to differ, from the previous estimate. Under FAS 123 and APB 25, the Company elected to account for forfeitures when awards were actually forfeited, at which time all previous pro forma expense was reversed to reduce pro forma expense for that period.

Recent Accounting Pronouncements

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

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

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

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects on Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 requires registrants to quantify errors using both the income statement method and the rollover method and requires adjustment if either method indicates a material error. If a correction to the current year relating to prior year errors is material to the current year, then the prior year financial information needs to be corrected. A correction to prior year results that are not material to those years would not require a "restatement process" where prior financials would be amended. The Company's adoption of SAB 108 did not have a material impact on its financial statements.

Liquidity, Financial Condition and Capital Resources

General Overview:

At December 31, 2006 the Company had cash of \$371,000 and working capital of approximately \$495,000. At December 31, 2005 the Company's cash balance was \$114,000 and working capital was approximately \$323,000.

Financial Condition:

Net cash provided by/(used in) operating activities amounted to approximately \$280,000 and (\$1,505,000) for the years ended December 31, 2006 and 2005, respectively. This decrease in cash used by operating activities is largely due to changes in operating assets and liabilities relating primarily to the collection of accounts receivable and non cash charges, offset by Company's twelve-month loss of approximately \$151,000.

Net cash used in investing activities amounted to approximately \$5,000 and \$39,000 for the years ended December 31, 2006 and 2005, respectively. This decrease in cash used of approximately \$34,000 is due to a decrease in cash used for capital expenditures. During 2006, the Company entered into capital leases to acquire fixed assets.

Net cash (used in)/provided by financing activities amounted to approximately (\$18,000) and \$170,000 for the years ended December 31, 2006 and 2005, respectively. This decrease in cash provided of approximately \$188,000 is largely due to \$100,000 transfer from restricted cash in 2005, payments on a capital lease for equipment of approximately \$31,000 and a decrease of approximately \$57,000 in proceeds from exercise of stock options.

The Company has changed its business model over the past 4 years whereby it now generates most of its revenue from the licensing of RPNavigator and providing consulting services in connection with that licensing. Revenue has grown from \$2,844,000 in 2005 to \$4,402,000 in 2006. The Company plans to increase cash flows from operations through increases in revenue generated from the licensing and related consulting services. Based on a forecast prepared by management of revenue anticipated by the Company during 2007 and cash on hand at December 31, 2006, management expects the Company to be able to meet its obligations as they become due during 2007. However, there can be no assurances that management's plans and the projected increase in revenue will be attained.

Item 7. Financial Statements and Supplementary Data

The Financial Statements and supplementary data required by this item appear under the caption “Index to Consolidated Financial Statements” and are included elsewhere herein.

Item 8. Changes in and Disagreements with Accountants On Accounting and Financial Disclosure

None.

Item 8A. Controls and Procedures

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

In accordance with Rule 13a–15(b) of the Exchange Act, as of the end of the fiscal year ended December 31, 2006, we carried out an evaluation under the supervisions and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a–15(e) and 15d–15(e) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and acting Chief Financial Officer has concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

During the quarter ended December 31, 2006, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect these controls.

Item 8B. Other Information

On February 27, 2007, the Board of Directors of the Company amended the Bylaws to amend Section 4 of Article II to define, in the case of a committee of the Board of Directors consisting of only two members, a quorum to consist of one member.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act

The Company's directors, executive officers and control persons as of December 31, 2006 are as follows:

<u>Name</u>	<u>Age</u>	<u>Positions with the Company</u>
David G. Noone ^(1, 2)	53	Chairman of the Board of Directors
Dennis J. Mouras	50	Chief Executive Officer, President and Director
David J. McDonnell ^(1,2)	64	Director

(1) Member of Compensation Committee.

(2) Member of Audit Committee.

There is no family relationship between any director or executive officer of the Company.

All directors of the Company are elected by the stockholders of the Company or, in the case of a vacancy, are elected by the directors then in office to hold office until the next annual meeting of stockholders of the Company and until their successors are elected and qualify or until their earlier resignation or removal.

The following sets forth certain information with respect to each director and executive officer of the Company as of December 31, 2006:

David G. Noone has been a director of the Company since January 1999 and Chairman of the Board since July 30, 2002, CEO from January 1999 until February 15, 2001, and an employee engaged in identifying and pursuing strategic business combinations from February 15, 2001 to September 2001. Prior to his service with the Company, Mr. Noone served from September 1995 to February 1997 as the President and Chief Executive Officer of Value Health International, a subsidiary of Value Health, Inc., where he was responsible for the migration of Managed Health Care strategies to emerging opportunity markets in Europe, Latin America and Asia.

Dennis J. Mouras has served as the Chief Executive Officer and a director of the Company since February 15, 2001. He has served as President and Chief Operating Officer of the Company since October 30, 2000, and as the Executive Vice President of Marketing and Sales of the Company from April 1999 to October 30, 2000. Prior to that, Mr. Mouras served as President of Intracorp, Inc. from January 1997 to January 1999, and as President and General Manager of CIGNA Healthcare of Colorado from October 1994 to January 1997.

David J. McDonnell has been a director of the Company since January 1997. He served from December 1993 to February 1997 as a director of Value Health, Inc., a company engaged in the health care service business. Prior to that, he was employed by Preferred Health Care Ltd., a behavioral managed care company, where he served as that company's Chief Executive Officer from 1988 to 1993, and its President from 1988 to 1992. Mr. McDonnell also served as Chairman of Preferred Health Care Ltd.'s Board of Directors from 1991 to 1993.

Audit Committee Financial Expert

The Company does not have a financial expert on its audit committee because the Company's extremely small size, limited financial resources and limited activity make such a position unnecessary.

Compliance with Section 16(a) of the Securities Exchange Act of 1934:

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and NASDAQ, copies of which are required by regulation to be furnished to the Company. Based solely on review of the copies of such reports furnished to the Company, the Company believes that during fiscal year ended December 31, 2006, its officers, directors and ten percent (10%) beneficial owners complied with all the Section 16(a) filing requirements.

Code of Ethics

During the past several years, the Company's resources and operations were substantially curtailed. The Company currently has approximately 17 full-time employees, of which only one is a principal executive and financial officer, and has reduced its overhead expenses in order to operate within the constraints of its limited revenues. Because of the small staff, the involvement of management and the Board of Directors in the business and operations of the Company, and the internal policies of the Company, the Company has not adopted a separate code of ethics for principal executive and financial officers. We experience a limited number of financial transactions in our present operations, all of which are approved and executed by our chief executive officer, who is also currently acting as our principal financial officer. The Board of Directors and Management have unequivocally set the tone for integrity and credibility in all aspects of the Company's operations. In view of the Company's very small size and the limited number of personnel who are responsible for its operations, a formal code of ethics is not necessary. Our Board of Directors will revisit this issue in the future to determine if adoption of a code of ethics is appropriate. In the meantime, our management intends to promote honest and ethical conduct, full and fair disclosure in our reports to the SEC, and compliance with applicable governmental laws and regulations.

Item 10. Executive Compensation

EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation paid by the Company for the calendar year ended December 31, 2006 to the individual performing the function of Chief Executive Officer and each of the next four most highly compensated executive officers with compensation in excess of \$100,000, during such periods.

Summary Compensation Table

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽²⁾	Non-equity	Change in	All other Compensation (\$) ⁽³⁾	Total (\$)
					Incentive plan Compensation (\$)	pension value and non-qualified deferred compensation earnings (\$)		
Dennis J. Mouras <i>Chief Executive Officer & President⁽¹⁾</i>	2006	285,000	0	30,000	0	0	67,380	382,380

(1) Mr. Mouras also serves on the Board of Directors but receives no separate remuneration for such service.

(2) Amounts calculated using the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-based Payments," based on a grant of 2,000,000 shares of common stock on May 16, 2006. See Note B[10] of the financial statements contained in this 10-KSB for the year ended December 31, 2006 regarding assumptions underlying valuation of equity awards.

(3) Represents Company matching contributions to a 401(k) profit sharing/savings plan in the amount of \$6,600 and \$60,780 in taxable fringe benefits which represents a commuting allowance, grossed up for federal and state income tax liability.

Mouras Employment Agreement

As of October 25, 2000, the Company entered into an Employment Agreement with Dennis Mouras (the "Mouras Employment Agreement"), the current Chief Executive Officer and President. The Mouras Employment Agreement replaces an earlier agreement between Mr. Mouras and the Company during the time that Mr. Mouras served as the Company's Executive Vice President of Marketing and Sales. The Mouras Employment Agreement continues for a one-year term, after which it renews automatically for successive one-year terms unless terminated by either party on at least sixty days notice prior to an anniversary date. Under the Mouras Employment Agreement, Mr. Mouras is entitled to (a) an annual salary of \$285,000, (b) a grant of incentive stock options on October 26, 2000 pursuant to the Company's Stock Option Plan for 2,500,000 shares, and (c) other benefits, including participating in the Company's 401(k) plan, life insurance coverage, and medical insurance coverage available to all eligible employees. Under the Mouras Employment Agreement, Mr. Mouras waived unpaid sales commissions to which he was otherwise entitled under his prior agreement. The Mouras Employment Agreement also contains a non-solicitation restriction for one year after Mr. Mouras' employment. On October 30, 2002, the Company amended the Mouras Employment Agreement by agreeing to increase to one year (from six months) the severance that Mr. Mouras would be entitled to receive upon his termination from the Company without cause, and on November 11, 2005, the Company further amended the Mouras Employment Agreement by agreeing to increase the allowance for commuting paid Mr. Mouras to \$3,000 per month from \$1,500 per month grossed-up in each case for federal and state income tax liability.

Compensation Plans

Outstanding Equity Awards at Fiscal Year End Table

Option Awards

<u>Name</u>	<u>Number of securities underlying unexercised options (#) exercisable</u>	<u>Number of securities underlying unexercised options (#) unexercisable</u>	<u>Option Exercise Price (\$)</u>	<u>Option expiration date</u>
Dennis J. Mouras	2,263,889	666,667 (1)	\$.008	08/17/2014
<i>Chief Executive Officer & President</i>	55,555	0 (2)	\$.010	10/30/2012

- (1) Options vest as follows: One third of the option becomes exercisable on August 17, 2005; 2/3 of the option becomes exercisable in 24 equal monthly amounts beginning September 17, 2005 and on the 17th day on the following 23 months.
- (2) Options vest as follows: One third of the option becomes exercisable on October 30, 2003; 2/3 of the option becomes exercisable in 24 equal monthly amounts beginning November 30, 2003 and on the 30th day on the following 23 months.

Stock Option Plan:

The Board of Directors initially adopted the Stock Option Plan ("Plan") on June 6, 1996, and the stockholders approved the plan on August 23, 1996. Effective January 8, 1999 and January 26, 1999, the Board of Directors approved amendments to the Plan to update the Plan and to increase the number of shares and certain other benefits available under the Plan. The stockholders approved the amendments to the Plan on July 7, 1999. Additionally, effective November 30, 2000, the Board of Directors and a majority of the stockholders acting by written consent, approved amendments to the Plan to increase the number of shares available under the Plan. On June 6, 2006, pursuant to its terms, the Plan terminated.

The Plan was administered by a Committee of the Board of Directors consisting of at least two members who were "outside directors" as defined in Section 162(m) of the Internal Revenue Code who were also "disinterested persons" as defined in regulations under the Securities and Exchange Act of 1934. Employees, officers, and other persons selected by the Committee were eligible to receive options under the Plan.

Under the Plan, as amended, the Company reserved an aggregate of 22,648,000 shares of Common Stock for issuance pursuant to options granted under the Plan. Beginning on January 1, 2002, and on each subsequent January 1, the number of shares reserved for issuance under the Plan was increased by three percent (3%), provided, however, that no shares authorized pursuant to such annual increase were to be issued with respect to incentive stock options. Pursuant to the terms of the Plan, the Committee selected the persons to be granted options and determined: (i) whether to grant a non-qualified stock option and/or an incentive stock option; (ii) the number of shares of the Company's Common Stock that could be purchased upon the exercise of such option; (iii) the time or times when the option was to become exercisable; (iv) the exercise price, which could be less than 100% of the fair market value of the Common Stock on the date of grant for incentive stock options (110% of such fair market value for incentive options granted to a person who owns or who is considered to own stock possessing more than 10% of the total combined voting power of all classes of stock of the Company); (v) the duration of the option, which could not exceed ten (10) years; and (vi) the terms and provisions of option agreements, which could differ among recipients, and which, unless the Committee otherwise determined, were to be substantially in the forms attached as exhibits to the Plan. Incentive stock options could only be granted to employees (including officers) of the Company and/or any of its subsidiaries. Non-qualified stock options could be granted to any employees (including employees who have been granted incentive stock options) and other persons who the Committee selected. The Committee could issue non-qualified stock options with an exercise price less than 100% of fair market value of the Common Stock.

All options granted under the Plan are exercisable during the option grantee's lifetime only by the option holder (or his or her legal representative) and generally only while such option grantee is in the Company's employ. Unless the Committee otherwise provided, in the event an option grantee's employment is terminated other than by death or disability, such person would have three months from the date of termination to exercise such option to the extent the option was exercisable at such date, but in no event subsequent to the option's expiration date. Unless the Committee otherwise provided, in the event of termination of employment due to death or disability of the option grantee, such person (or such person's legal representative) would have 12 months from such date to exercise such option to the extent the option was exercisable at the date of termination, but in no event subsequent to the option's expiration date. A grantee may exercise an option by payment of the exercise price via any lawful method authorized by the Committee.

If at any time after the date of grant of an Option, the Company shall, by stock dividend, split-up, combination, reclassification or exchange, or through merger or consolidation or otherwise, change its shares of Common Stock into a different number or kind or class of shares or other securities or property, then the number of shares covered by such Option and the price per share thereof shall be proportionately adjusted for any such change by the Committee or the Board whose determination thereon shall be conclusive.

The Board of Directors had the authority to terminate the Plan as well as to make changes in and additions to such Plan. However, unless approved by the stockholders of the Company, the Board of Directors could not change the aggregate number of shares subject to the Plan, materially modify the requirements of eligibility to such Plan or materially increase the benefits accruing to participants under such Plan.

No grant under the Plan was made to Mr. Mouras in 2006; however, on May 16, 2006, he was granted as a bonus outside of the Plan 2,000,000 shares of Common Stock of the Company.

401(k) Plan

The Company maintains a 401(k) plan for employees who meet the eligibility requirements set forth in the plan. Pursuant to the plan, the Company provides a 50% matching contribution of the first 6% of each participant's contribution. All contributions by the Company must comply with the federal pension laws' non-discrimination requirements and the terms of the plan.

Compensation of Directors

The following table provides information about compensation paid to or earned by the Company's Directors during 2006 who were not named executive officers. Mr. Mouras does not receive director compensation.

Name	Fees earned or paid in cash (\$)	Option awards⁽¹⁾	All other compensation (\$)	Total (\$)
David J. McDonnell	\$ 6,000	–	\$ 0	\$ 6,000
David G. Noone	\$ 4,800	–	\$ 0	\$ 4,800

⁽¹⁾ The amount of options outstanding as of December 31, 2006 for both Directors, McDonnell and Noone, were 1,250,000 options each.

Generally

No member of the Board of Directors of the Company presently receives annual remuneration for acting in that capacity, except directors who are not officers. Directors are paid \$1,200 for each meeting of the Board of Directors they attend. Such directors are also eligible for the grants of options under the Directors Stock Option Plan. Directors are also reimbursed their reasonable out-of-pocket expenses for each attended meeting of the Board or any committee thereof. On May 27, 2005, the Company amended all outstanding stock options with an exercise price greater than \$.01 per share previously granted to the non-employee directors pursuant to the Company's Directors' Stock Option Plan, and reduced the exercise price of such options to \$.01, effective as of May 25, 2005. The amendments resulted in the re-pricing of options to purchase 300,000 shares previously granted to David J. McDonnell at an exercise price of \$.08 per share, with a new exercise price of \$.01 per share.

Directors Stock Option Plan

The Company adopted the Director Stock Option Plan (the "Director Plan") on June 6, 1996, and amended it on July 24, 1996 and the stockholders approved the amended plan on August 23, 1996. Effective January 26, 1999, the Board of Directors approved amendments to the Director Plan to update the plan and to increase the number of shares and certain other benefits available under the Director Plan. The stockholders approved the amendments to the Director Plan on July 7, 1999.

Pursuant to the terms of the Director Plan, the Board of Directors may grant non-qualified stock options to non-employee directors and will determine: (i) the number of shares of the Company's Common Stock that may be purchased upon the exercise of such option; (ii) the time or times when the option becomes exercisable; (iii) the exercise price; and (iv) the duration of the option, which cannot exceed ten (10) years. Under the Director Plan, an aggregate of 2% of the Company's authorized number of shares of Common Stock is reserved for issuance. On January 19, 2001, the Company increased its authorized shares of common stock from 103,600,000 to 200,000,000 shares. As a result, the number of shares reserved for issuance under the Director Plan is 4,000,000 shares, and on account of the grants made in 1999 and 2005, no further shares were available for issuance under the Directors Plan. The plan terminated on June 6, 2006 in accordance with its terms.

All options granted under the Director Plan are exercisable during the option grantee's lifetime only by the option grantee (or his or her legal representative). In the event of termination of an option grantee's directorship, such person shall have three months from such date to exercise such option to the extent the option was exercisable as at the date of termination, but in no event subsequent to the option's expiration date. In the event of termination of an option grantee's directorship due to death, such person's legal representative shall have 12 months from such date to exercise such option to the extent the option was exercisable at the date of death, but in no event subsequent to the option's expiration date.

The Directors Stock Option Plan contains anti-dilution provisions which provide that in the event of any change in the Company's outstanding capital stock by reason of stock dividend, recapitalization, stock split, combination, exchange of shares or merger or consolidation, the Board shall equitably adjust the aggregate number and kind of shares reserved for issuance, and for outstanding options, the number of shares covered by each option and the exercise prices per share.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth as of February 7, 2007 certain information regarding the beneficial ownership of the Company's Common Stock by (i) all persons known to the Company who own more than 5% of the outstanding Common Stock, (ii) each director, (iii) each of the executive officers named in the Summary Compensation Table, and (iv) all executive officers and directors as a group. Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them.

**Beneficial Ownership of Common Stock by
Certain Stockholders and Management**

Name of Beneficial Owner	Number of Shares Beneficially Owned ⁽¹⁾	Percent of Ownership ⁽²⁾
Principal Holders:		
Credit Suisse Asset Management, LLC (3) (4)	7,536,204	13.27%
Directors:		
David J. McDonnell (5)	1,430,556	2.46%
David G. Noone (6)	3,430,556	5.70%
Management:		
Dennis J. Mouras (7) (8)	9,083,433	13.79%
All directors and executive officers as a group (3 persons) (8)	13,944,545	20.15%

* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, which generally attribute beneficial ownership of securities to persons who possess sole or shared voting or investment power with respect to those securities. Beneficial ownership includes outstanding shares and shares subject to options exercisable within 60 days.

(2) The percent beneficially owned by any person or group who held options exercisable within 60 days has been calculated assuming all such options have been exercised in full and adding the number of shares subject to such options to the total number of shares issued and outstanding.

(3) The principal business address of Credit Suisse Asset Management, LLC, is 466 Lexington Avenue, New York, New York 10017.

(4) Information based on Schedule 13G filed by Credit Suisse Asset Management, LLC on December 22, 2004, with the Securities and Exchange Commission ("SEC").

(5) The business address of Mr. McDonnell, a director of the Company, is 301 Aqua Court, Naples, Florida 34102.

(6) The business address of Mr. Noone, a director of the Company, is 34 Sunset Hill Road, Redding, Connecticut, 06896.

(7) The business address of Mr. Mouras, Chief Executive Officer and director, is 485-C Route 1 South, Iselin, New Jersey 08830.

(8) 530,556 shares of Mr. McDonnell's of Common Stock, 530,556 shares of Mr. Noone's of Common Stock, 2,569,544 shares of Mr. Mouras's of Common Stock, and 3,630,656 shares of the Common Stock of all directors and executive officers as a group are issuable upon the exercise of stock options to purchase shares of Common Stock that were exercisable on February 7, 2007 or that will become exercisable within 60 days of such date.

Equity Compensation Plans

The following table sets forth the securities authorized for issuance under the Company's equity compensation plans as of December 31, 2006:

<u>Plan category</u>	<u>(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>(B) Weighted-average exercise price of, outstanding options, warrants and rights</u>	<u>(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))</u>
Equity compensation plans approved by security holders	19,852,149	\$ 0.012	—
Equity compensation plans not approved by security holders	—	\$ —	—
Total	19,852,149	\$ 0.012	—

Item 12. Certain Relationships and Related Transactions and Director Independence

Related Transactions

None.

Director Independence

Our board of directors has determined that the following directors are “independent directors”, as defined in Rule 4200(a)(15) of the Nasdaq Stock Market: David G. Noone and David J. McDonnell.

Item 13. Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	Deposit Agreement dated October 31, 1994 among Midlantic Bank, N.A., PMDX and the Registrant incorporated by reference to Exhibit 2.1 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
2.2	Certificate of Merger of Care Advantage Health Systems (f/k/a Advantage Health Systems, Inc.), a Georgia corporation into CareAdvantage Health Systems, Inc., a Delaware corporation incorporated by reference to Exhibit 2.2 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
3.1	Registrant's Certificate of Incorporation incorporated by reference to Exhibit 3.1 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
3.1(a)	Amended and Restated Certificate of Incorporation incorporated by reference to the Company's Information Statement dated September 1996.
3.2	Registrant's By-Laws incorporated by reference to Exhibit 3.2 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).

- 3.2(a) Amendment to Registrant's Bylaws*
- 10.1 Lease Agreement dated April 14, 1995 between the Registrant and Metropolitan Life Insurance Company incorporated by reference to Exhibit 10.13 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
- 10.2 Registrant's 1996 Stock Option Plan incorporated by reference to the Company's Information Statement dated September 1996.
- 10.3 Registrant's 1996 Director Stock Option Plan incorporated by reference to the Company's Information Statement dated September 1996.
- 10.4 Confidentiality, Invention, and Non-Compete Agreement between the Company and David Noone, dated as of January 8, 1999, incorporated by reference to Exhibit 10.33 filed with the Company's Form 10KSB for the year ended September 30, 1998.
- 10.5 Employment Agreement, effective as of April 19, 1999, between Dennis M. Mouras, and the Company, incorporated by reference to Exhibit 10.40 filed with the Company's Form 10KSB for the year ended December 31, 1999.
- 10.6 Second Amendment to Lease Agreement between CareAdvantage Health Systems, Inc. and Corporate Plaza Associates, L.L.C., incorporated by reference to Exhibit 10.1 filed on the Company's Form 8-K filed on January 11, 2005.
- 10.7 Services and License Agreement between the Company and Kaiser Foundation Health Plan of the Northwest ("Kaiser"), effective as of January 1, 2005, incorporated by reference to Exhibit 10.49 filed with the Company's Form 10KSB for the year ended December 31, 2005. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.8 Amendment to Employment Agreement between the Company and Dennis J. Mouras, dated as of November 11, 2005, and Employment Agreement between the Company and Dennis J. Mouras, dated as of October 25, 2000, incorporated by reference to Exhibit 10.50 filed with the Company's Form 10-QSB for the quarter ended September 30, 2005.
- 10.9 First Amendment to Services and License Agreement between the Company and Kaiser Foundation Health Plan of the Northwest ("Kaiser"), effective as of January 1, 2006, incorporated by reference to Exhibit 10.51 filed with the Company's Form 10KSB for the year ended December 31, 2005. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.10 Second Amendment to Services and License Agreement between the Company and Kaiser, effective as of April 1, 2006, incorporated by reference to Exhibit 10.52 filed with the Company's Form 10KSB for the year ended December 31, 2005. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.11 Services and License Agreement between the Company and Blue Cross Blue Shield of Texas ("BCBSTX"), effective as of August 18, 2003, incorporated by reference to Exhibit 10.53 filed with the Company's Form 10-QSB for the quarter ended June 30, 2006. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.12 Amendment to Services and License Agreement between the Company and BCBSTX, effective as of June 1, 2006, incorporated by reference to Exhibit 10.54 filed with the Company's Form 10-QSB for the quarter ended June 30, 2006. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.13 Letter from Kaiser Foundation Health Plan of the Northwest terminating Services and License Agreement, incorporated by reference to Exhibit 10.1 filed on the Company's Form 8-K filed on October 3, 2006.

- 16.1 Letter regarding change in accountants, incorporated by reference to Exhibit 16.1 filed on the Company's Form 8-K dated June 6, 1996.
- 16.2 Letter regarding change in accountants, incorporated by reference to Exhibit 16 filed on the Company's Form 8-K dated July 31, 2001.
- 16.3 Letter regarding change in accountants, incorporated by reference to Exhibit 16.1 filed on the Company's Form 8-K dated June 6, 2002.
- 21 Subsidiaries of the Registrant*
- 23.1 Consent of Independent Registered Public Accounting Firm*
- 31 Certifications pursuant to Rule 13a-14(a), promulgated under the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002*
- 32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **

*filed herewith

** furnished herewith

Item 14. Principal Accountant Fees and Services

Audit and Non–Audit Fees

The following table shows the fees billed to the Company for the audit and other services provided by Eisner, LLP in 2005 and 2006:

<u>Services Performed</u>	<u>2006</u>	<u>2005</u>
Audit Fees (1)	90,500	62,000
Audit–Related Fees (2)	–	6,200
Tax Fees (3)	14,000	14,256
All Other Fees (4)	–	4,300
Total Fees	104,500	86,756

(1) Audit fees represent fees for professional services provided in connection with the audit of the Company's financial statements and review of the financial statements included in the Company's 10–Q and 10–K filings, and services that are normally provided in connections with statutory and regulatory filings or engagements.

(2) Audit–related fees are fees for services performed by Eisner, LLP that are reasonably related to the performance of the audit or review of the Company's financial statements.

(3) Tax fees are fees for professional services performed by Eisner, LLP with respect to tax compliance, tax preparation, tax advice and tax planning in 2005 and 2006.

(4) All other fees include work performed by Eisner, LLP relating to 401k audit and benefit plan filings that does not meet the above category descriptions.

Pre–Approval of Audit and Non–Audit Services

The audit committee currently pre–approves all services provided by our independent registered public accounting firm. All of the above fees for 2005 and 2006 were pre–approved by the audit committee. No fees in 2005 or 2006 were paid to the independent registered public account firm pursuant to the “de minimis” exception to the foregoing pre–approval policy.

The audit committee has considered the nature and amount of fees billed by Eisner, LLP and believes that the provision of services for activities unrelated to the audit is compatible with maintaining Eisner LLP's independence.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

Date: April 2, 2007

By: /s/ Dennis J. Mouras

Dennis J. Mouras, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Date: April 2, 2007

By: /s/ Dennis J. Mouras

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

Date: April 2, 2007

By: /s/ David J. McDonnell

David J. McDonnell, Director

Date: April 2, 2007

By: /s/ David G. Noone

David G. Noone, Director

CAREADVANTAGE, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL
STATEMENTS

DECEMBER 31, 2006 AND 2005

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
CareAdvantage, Inc.

We have audited the accompanying consolidated balance sheet of CareAdvantage, Inc. and subsidiaries (the "Company") as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of CareAdvantage, Inc. and subsidiaries as of December 31, 2006, and the consolidated results of their operations and their consolidated cash flows for the years ended December 31, 2006 and 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note B[10] to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective January 1, 2006.

Eisner, LLP
New York, New York
March 29, 2007

Consolidated Balance Sheet

December 31,
2006

ASSETS

Current assets:	
Cash and cash equivalents	\$ 371,000
Accounts receivable	529,000
Other current assets	<u>92,000</u>
Total current assets	992,000
Property and equipment, at cost, less accumulated depreciation	232,000
Intangible assets, net of accumulated amortization	1,000
Security deposits	<u>167,000</u>
Total Assets	<u>\$ 1,392,000</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	146,000
Accrued compensation and related benefits	110,000
Accrued expenses and other current liabilities	127,000
Deferred revenue	74,000
Capital lease obligation – current	<u>40,000</u>
Total current liabilities	497,000
Long Term Liabilities:	
Capital Lease Obligation – Long Term	143,000
Deferred rent	<u>352,000</u>
Total long term liabilities	495,000
Total Liabilities	992,000
Commitments and contingencies	
Stockholders' equity:	
Preferred stock – par value \$.10 per share; authorized 10,000,000 shares; none issued	
Common stock – par value \$.001 per share, authorized 200,000,000 shares; issued 110,170,374 shares and outstanding 56,775,554	110,000
Additional paid in capital	24,007,000
Accumulated deficit	(23,455,000)
Treasury Stock at cost, 53,394,820 shares	<u>(262,000)</u>
Total stockholders' equity	<u>400,000</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,392,000</u>

See notes to consolidated financial statements

Consolidated Statements of Operations

	Year Ended December 31,	
	<u>2006</u>	<u>2005</u>
License fees and service revenue	\$ 4,402,000	\$ 2,844,000
Cost of services	<u>1,745,000</u>	<u>1,433,000</u>
Gross profit	<u>2,657,000</u>	1,411,000
Operating expenses:		
Selling, general and administrative	2,676,000	2,862,000
Depreciation and amortization	<u>125,000</u>	<u>187,000</u>
Total operating expenses	<u>2,801,000</u>	<u>3,049,000</u>
Operating (loss)	(144,000)	(1,638,000)
Interest (expense)/income, net	<u>(4,000)</u>	<u>8,000</u>
(Loss) before provision for income taxes	(148,000)	(1,630,000)
Provision for income taxes	<u>3,000</u>	<u>5,000</u>
Net (loss)	<u><u>\$ (151,000)</u></u>	<u><u>\$ (1,635,000)</u></u>
Net (loss) per share of common stock –		
Basic and diluted	<u><u>(\$.00)</u></u>	<u><u>(\$.03)</u></u>
Weighted average number of common shares outstanding –		
Basic and diluted	<u><u>55,754,000</u></u>	<u><u>48,802,000</u></u>

See notes to consolidated financial statements

Consolidated Statements of Stockholders' Equity

	<u>Common Stock</u>			<u>Accumulated Deficit</u>	<u>Deferred Compensation</u>	<u>Treasury Stock</u>		<u>Stockholder's Equity</u>
	<u>Number of Shares</u>	<u>Par Value Amount</u>	<u>Additional Paid In Capital</u>			<u>Number of Shares</u>	<u>Par Value Amount</u>	
Balance as of January 1, 2005	99,794,152	\$ 100,000	\$ 23,801,000	\$ (21,669,000)		(53,394,820)	(262,000)	\$ 1,970,000
Exercise of stock options	7,017,889	7,000	63,000					70,000
Deferred compensation cost			50,000		(50,000)			-
Employee stock option			38,000		10,000			48,000
Net loss for the year ended December 31, 2005				(1,635,000)				(1,635,000)
Balance as of December 31, 2005	106,812,041	\$ 107,000	\$ 23,952,000	\$ (23,304,000)	(40,000)	(53,394,820)	(262,000)	\$ 453,000
Exercise of stock options	1,358,333	1,000	12,000					13,000
Grant of stock bonus award	2,000,000	2,000	28,000					30,000
Deferred compensation cost			(40,000)		40,000			-
Employee stock option			55,000					55,000
Net loss for the year ended December 31, 2006				(151,000)				(151,000)
Balance as of December 31, 2006	<u>110,170,374</u>	<u>\$ 110,000</u>	<u>\$ 24,007,000</u>	<u>\$ (23,455,000)</u>	<u>\$ 0</u>	<u>(53,394,820)</u>	<u>\$ (262,000)</u>	<u>\$ 400,000</u>

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2006	2005
Cash flows from operating activities:		
Net loss	\$ (151,000)	\$ (1,635,000)
Adjustments to reconcile net loss to net cash provided by/ (used in) operating activities:		
Depreciation and amortization	125,000	187,000
Stock based compensation	85,000	48,000
Deferred revenue	74,000	–
Changes in:		
Accounts receivable	(72,000)	(310,000)
Other assets	16,000	(38,000)
Accounts payable	7,000	77,000
Accrued expenses and other current liabilities	20,000	(10,000)
Deferred rent	176,000	176,000
Net cash provided by/(used in) operating activities	280,000	(1,505,000)
Cash flows from investing activity:		
Capital expenditures	(5,000)	(39,000)
Net cash used in investing activity	(5,000)	(39,000)
Cash flows from financing activity:		
Repayment of capital leases	(31,000)	–
Transfer from restricted cash	–	100,000
Proceeds from exercise of stock options	13,000	70,000
Net cash (used in)/provided by financing activity	(18,000)	170,000
Net increase/(decrease) in cash and cash equivalents	257,000	(1,374,000)
Cash and cash equivalents – beginning of year	114,000	1,488,000
Cash and cash equivalents – end of year	\$ 371,000	\$ 114,000
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 3,000	\$ 5,000
Interest paid	\$ 5,000	\$ –
Non-cash transactions:		
Equipment acquired through capital leases	\$ 214,000	\$ –

See notes to consolidated financial statements

NOTE A – BUSINESS AND BASIS OF PRESENTATION

[1] Business:

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

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

[2] Basis of presentation:

For the years ended December 31, 2006 and 2005, the Company has incurred net losses of (\$151,000) and (\$1,635,000), respectively and has an accumulated deficit of (\$23,455,000) as of December 31, 2006. Additionally, the Company has \$371,000 of cash and cash equivalents at December 31, 2006 and has been provided cash from operations of \$463,000 during the year then ended. The Company generates most of its revenue from the licensing of RPNavigator and providing consulting services in connection with that licensing. Based on cash at hand at December 31, 2006 and a forecast prepared by management based on executed contracts, management expects the Company to be able to meet its obligations as they become due during 2007. However, there can be no assurances that management's plans, including projected revenue, will be attained.

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

Although the Agreement has accounted for revenues for the year, including \$848,000 for 2006, the Company does not believe that the termination will materially adversely impact the Company's ongoing business and operations. The Company is continuing to assess the impact of the termination of the Agreement on the Company's business. The Company will attempt to compensate for the terminated Agreement by using its resources to expand its current service to existing customers, market its services to and enter into contracts with new customers, and, if necessary, implement cost reductions measures until the revenues are replaced. There is no assurance, however, that any of these measures will be successful.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Principles of consolidation:

The consolidated financial statements include the accounts of CAI, and its wholly owned subsidiary, CAHS and CAHS's wholly owned subsidiary, CHCM. Intercompany accounts and transactions have been eliminated in consolidation.

[2] Revenue recognition:

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Depreciation and amortization:

Depreciation is computed by the straight–line method, over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized using the straight–line method over the remaining term of the related lease or the estimated useful life, whichever is shorter. Amortization of assets recorded under a capital lease is computed using the straight–line method and is included in depreciation expense. The cost and accumulated depreciation of assets recorded under capital leases was approximately \$214,000 and \$11,000, respectively. Depreciation expense amounted to \$123,000 and \$128,000 for the years ended December 31, 2006 and 2005, respectively.

Intangible assets, principally software development costs, are amortized over the expected useful lives of five to seven years on the straight–line method (see Note C). Amortization expense was \$2,000 and \$59,000 for the years ended December 31, 2006 and 2005, respectively.

[4] Per share data:

Basic and diluted net loss per share has been computed based on the weighted average number of outstanding shares of common stock. Potentially dilutive securities, which were excluded from the computation of basic loss per share because they had an anti–dilutive impact, are as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Options	<u>19,852,000</u>	<u>12,832,000</u>
Total Potential Dilutive shares	<u>19,852,000</u>	<u>12,832,000</u>

[5] Concentration of credit risk:

Financial instruments that potentially subject the Company to credit risk consist of cash and accounts receivable. The Company maintains its cash balances in high quality financial institutions. At December 31, 2006, the Company had deposited approximately \$371,000 in one commercial bank.

[6] Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as those estimates pertaining to FAS 123R, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[7] Fair value of financial instruments:

The fair value of financial instruments approximates their carrying amount due to the short–term nature of such instruments.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**[8] Cash and cash equivalents:**

The Company considers all highly liquid investments which have maturities of three months or less when acquired, to be cash equivalents.

[9] Major customers:

Two customers, BCBS organizations, accounted for approximately 53% and 22%, respectively, of license fees and service revenue for the year ended December 31, 2006. Another major customer, Kaiser Foundation Health Plan of the Northwest, which accounted for approximately 19% of license fees and service revenue for the year ended December 31, 2006, terminated its service agreement effective December 31, 2006. Two customers, BCBS organizations, accounted for approximately 39% and 32%, respectively, of license fees and service revenue for the year ended December 31, 2005. Another major customer, Kaiser Foundation Health Plan of the Northwest, accounted for approximately 22% of license fees and service revenue for the year ended December 31, 2005. If the BCBS customers terminate or modify existing contracts or experience business difficulties, it would adversely affect our results of operations.

[10] Stock-based compensation:

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

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

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

	Year Ended December 31, 2005
Reported net loss	(1,635,000)
Stock-based employee compensation included in reported net loss	48,000
Stock-based employee compensation determined under the fair value based method	(73,000)
Pro forma net loss	<u>(1,660,000)</u>
Basic and diluted loss per share:	
As reported	(.03)
Pro forma	(.03)

For the year ended December 31, 2006, the Company included approximately \$55,000 of share-based compensation in its operating expenses in the Company's statement of operations. For the year ended December 31, 2005, the Company included approximately \$48,000 of share-based compensation in the statement of operations.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior to the adoption of FAS 123R, the Company presented cash flows resulting from the tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. FAS 123R requires cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The Company did not realize any tax benefits from stock options during the year ended December 31, 2006.

The following table summarizes the activity of the Company's stock options for the years ended December 31, 2006 and December 31, 2005:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Number of shares under option:				
Outstanding at December 31, 2006	12,832,000	\$ 0.009		
Granted	8,578,000	\$ 0.015		
Exercised	(1,358,000)	\$ 0.010		
Canceled or expired	(200,000)	\$ 0.012		
Outstanding as of December 31, 2006	19,852,000	\$ 0.012	8.37	\$ 162,000
Exercisable at December 31, 2006	7,394,000	\$ 0.010	7.35	\$ 77,000
Expected to vest after December 31, 2006	12,458,000	\$ 0.013	8.97	\$ 85,000
Number of shares under option:				
Outstanding at December 31, 2005	16,122,000	\$ 0.130		
Granted	5,200,000	\$ 0.010		
Exercised	(7,018,000)	\$ 0.010		
Canceled or expired	(1,472,000)	\$ 0.810		
Outstanding as of December 31, 2005	12,832,000	\$ 0.009	8.69	\$ 70,000
Exercisable at December 31, 2005	3,677,000	\$ 0.009	7.78	\$ 17,000
Expected to vest after December 31, 2005	9,155,000	\$ 0.010	9.05	\$ 53,000

The following summarizes the activity of the Company's non-vested stock options for the year ended December 31, 2006:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Non-vested at January 1, 2006	9,155,000	\$ 0.010
Granted	8,578,000	\$ 0.015
Canceled or expired	(116,000)	\$ 0.012
Vested	(5,159,000)	\$ 0.009
Non-vested at December 31, 2006	12,458,000	\$ 0.013

As of December 31, 2006, there was approximately \$106,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under existing stock option plans. This cost is expected to be recognized over the weighted average of 1.97 years.

The weighted average fair value of options granted during the years ended December 31, 2005 and 2006 was \$0.010 and \$0.012, respectively. The total intrinsic value of options exercised during the twelve months ended December 31, 2005 and 2006 was \$14,000 and \$36,000, respectively.

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

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Dividend yield	0	0
Volatility	91%	149%
Risk free interest rate	4.99%	3.81%
Expected life in years	5	5

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

During the year ended December 31, 2006, the exercise of certain stock options resulted in the issuance of 1,358,000 shares of common stock for proceeds of \$13,000.

On May 16, 2006, the Company's Board of Directors granted as a bonus to a key employee 2,000,000 shares of the Company's common stock with a fair value of \$30,000, which shares vested immediately. For the year ended December 31, 2006, the Company recorded \$30,000 in stock based compensation expense in connection with this stock grant, which is based on the fair value of the stock on the grant date. As of December 31, 2006, there was no unrecognized compensation cost related to the shares.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Recent Accounting Pronouncements

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

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

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

In September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects on Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements”. SAB No. 108 requires registrants to quantify errors using both the income statement method and the rollover method and requires adjustment if either method indicates a material error. If a correction to the current year relating to prior year errors is material to the current year, then the prior year financial information needs to be corrected. A correction to prior year results that are not material to those years would not require a “restatement process” where prior financials would be amended. The Company's adoption of SAB 108 did not have a material impact on its financial statements.

NOTE C – INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization consist of the following at December 31, 2006:

Trademark	\$ 3,000
Software development cost	<u>296,000</u>
	299,000
	299,000
Less accumulated amortization	<u>(298,000)</u>
	<u>\$ 1,000</u>

[1] Trademark:

The trademark fees of \$3,000 are associated with RPNavigator.

[2] Software development costs:

Software development costs are capitalized beginning when project technological feasibility is established and concluding when the product is ready for release.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2006:

Computer equipment	\$ 650,000
Furniture and fixtures	1,000
Office machines and telephone equipment	59,000
Leasehold improvements	<u>2,000</u>
	712,000
Less accumulated depreciation and amortization	<u>(480,000)</u>
	<u>\$ 232,000</u>

The above includes capital lease equipment with a net book value of approximately \$203,000 at December 31, 2006. Depreciation expense, including amortization of assets under capital leases, amounted to \$123,000 for the year ended December 31, 2006.

NOTE E – CAPITAL LEASES

Future payments as of December 31, 2006 on the equipment leases are as follows:

<u>Year Ending</u>	<u>Lease Obligation</u>
2007	59,000
2008	59,000
2009	59,000
2010	59,000
2011	38,000
	<u>\$ 274,000</u>
Less: amounts representing interest	<u>\$ 91,000</u>
Present value of minimum lease payments	<u>\$ 183,000</u>
Less: current portion of capital lease obligation	<u>\$ 40,000</u>
Long term portion of capital lease obligation	<u>\$ 143,000</u>

The Company's equipment that is held under a capital lease is included in fixed assets, net and the related amortization is included in depreciation and amortization expense.

NOTE F – STOCKHOLDERS' EQUITY**[1] Preferred stock:**

The preferred stock is issuable in such series and with such designations, preferences, conversion rights, cumulative, participating, optional or other rights, including voting rights, qualifications, limitations or restrictions thereof as determined by the Board of Directors of the Company. As such, the Board of Directors of the Company is entitled to authorize the creation and issuance of 10,000,000 shares of preferred stock in one or more series with such limitations and restrictions as may be determined in the Board's sole discretion, with no further authorization by stockholders required for the creation and issuance thereof.

[2] Stock option plans:

The Stock Option Plan (the "Plan") was administered by a Committee of the Board of Directors consisting of at least two members who are "outside directors" as defined in Section 162(m) of the Internal Revenue Code who are also "disinterested persons" as defined in regulations under the Securities and Exchange Act of 1934. Employees, officers, and other persons selected by the Committee were eligible to receive options under the Plan. On June 6, 2006, pursuant to its terms, the Plan terminated.

NOTE F – STOCKHOLDERS' EQUITY (CONTINUED)

Under the Plan, as amended, the Company reserved an aggregate of 22,648,000 shares of Common Stock for issuance pursuant to options granted under the Plan. Beginning on January 1, 2002, and on each subsequent January 1, the number of shares reserved for issuance under the Plan was increased by three percent (3%), provided, however, that no shares authorized pursuant to such annual increase were to be issued with respect to incentive stock options.

Pursuant to the terms of the Plan, the Committee selected the persons to be granted options and determined: (i) whether to grant a non-qualified stock option and/or an incentive stock option; (ii) the number of shares of the Company's Common Stock that could be purchased upon the exercise of such option; (iii) the time or times when the option becomes exercisable; (iv) the exercise price, which could not be less than 100% of the fair market value of the Common Stock on the date of grant for incentive stock options (110% of such fair market value for incentive options granted to a person who owns or who is considered to own stock possessing more than 10% of the total combined voting power of all classes of stock of the Company); and (v) the duration of the option, which could not exceed ten (10) years; and (vi) the terms and provisions of option agreements, which could differ among recipients, and which, unless the Committee otherwise determined, were to be substantially in the forms attached as exhibits to the Plan. Incentive stock options could only be granted to employees (including officers) of the Company and/or any of its subsidiaries. Non-qualified stock options could be granted to any employees (including employees who have been granted incentive stock options) and other persons who the Committee selected. The Committee could issue non-qualified stock options with an exercise price less than 100% of fair market value of the Common Stock.

All options granted under the Plan are exercisable during the option grantee's lifetime only by the option holder (or his or her legal representative) and generally only while such option grantee is in the Company's employ. Unless the Committee otherwise provided, in the event an option grantee's employment is terminated other than by death or disability, such person would have three months from the date of termination to exercise such option to the extent the option was exercisable at such date, but in no event subsequent to the option's expiration date. Unless the Committee otherwise provided, in the event of termination of employment due to death or disability of the option grantee, such person (or such person's legal representative) would have 12 months from such date to exercise such option to the extent the option was exercisable at the date of termination, but in no event subsequent to the option's expiration date. A grantee may exercise an option by payment of the exercise price via any lawful method authorized by the Committee.

If at any time after the date of grant of an Option, the Company shall, by stock dividend, split-up, combination, reclassification or exchange, or through merger or consolidation or otherwise, change its shares of Common Stock into a different number or kind or class of shares or other securities or property, then the number of shares covered by such Option and the price per share thereof shall be proportionately adjusted for any such change by the Committee or the Board whose determination thereon shall be conclusive.

Pursuant to the terms of the Director Stock Option Plan (the "Director Plan"), the Board of Directors could grant non-qualified stock options to non-employee directors and determine: (i) the number of shares of the Company's common stock that may be purchased upon the exercise of such option; (ii) the time or times when the option becomes exercisable; (iii) the exercise price; and (iv) the duration of the option, which cannot exceed ten (10) years. Under the Director Plan, an aggregate of 2% of the Company's authorized number of shares of common stock were reserved for issuance. On January 19, 2001, the Company increased its authorized shares of common stock from 103,600,000 to 200,000,000 shares. As a result, the number of shares reserved for issuance under the Director Plan is 4,000,000 shares, and on account of the grants made in 1999 and 2005, no shares remained available for issuance under the Directors Plan in 2006. The Director Plan terminated on June 6, 2006 in accordance with its terms.

All options granted under the Director Plan are exercisable during the option grantee's lifetime only by the option grantee (or his or her legal representative). In the event of termination of an option grantee's directorship, such person shall have three months from such date to exercise such option to the extent the option was exercisable as at the date of termination, but in no event subsequent to the option's expiration date. In the event of termination of an option grantee's directorship due to death, such person's legal representative shall have 12 months from such date to exercise such option to the extent the option was exercisable at the date of death, but in no event subsequent to the option's expiration date.

The Director Plan provides that if at any time after the date of grant of an option, the Company shall, by stock dividend, split up, combination, reclassification or exchange, or through merger or consolidation or otherwise, change its shares of Common Stock into a different number or kind or class of shares or other securities or property, then the number of shares covered by such option and the price per share thereof shall be proportionately adjusted for any such change by the Committee or the Board whose determination thereon shall be conclusive.

The amount of shares available for issuance upon exercise of outstanding options as of December 31, 2006 is 17,352,149 shares of Common Stock under the Plan and 2,500,000 shares of Common Stock under the Director's Plan.

In May 25, 2005, the Board approved a reduction in the exercise price, from various previously granted stock prices in excess of \$.01 to \$.01, of outstanding options to purchase 7,460,000 shares of common stock held by the shareholders. The Company recorded a charge to the statement of operations at the repricing date and at each reporting date, based upon subsequent changes in values of the price of the Company's stock and recorded an aggregate charge for these employee stock options of \$38,000 for the year ended December 31, 2005. These charges ceased upon adoption of FAS 123R in January 2006.

NOTE F – STOCKHOLDERS' EQUITY (CONTINUED)

The following table summarizes information about stock options at December 31, 2006:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life In Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$.008	6,378,000	7.63		4,857,000	
\$.010	4,996,000	7.59		2,537,000	
\$.015	8,478,000	9.38		–	
	<u>19,852,000</u>		\$ 0.012	<u>7,394,000</u>	\$ 0.010

NOTE G – INCOME TAX

Under the asset and liability method used by the Company as outlined in SFAS No. 109, "Accounting for Income Taxes", deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the consolidated financial statements' carrying amounts of existing assets and liabilities and their respective tax bases.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2006 are as follows:

Noncurrent portion of deferred tax assets/(liabilities):

Net operating loss carryforwards	7,399,000
Deferred rent	137,000
Tax/ book basis of fixed assets	391,000
Intangibles	405,000
Stock based compensation	52,000
Alternative minimum tax credit	<u>55,000</u>
Deferred tax assets	8,439,000
Valuation allowance	<u>(8,439,000)</u>
	<u>\$ 0</u>

The Company's deferred tax asset has been fully reserved, as its future realization cannot be determined. The Company has net federal operating loss carryforwards of approximately \$18,973,000 at December 31, 2006, expiring through 2026. Pursuant to Section 382 of the Internal Revenue Code, the carryforwards are subject to limitations on annual utilization based upon an ownership change that took place during 1996 and 2004. It is possible that the amount of the carryforward and its annual utilization may be reduced upon examination by the Internal Revenue Service. The valuation allowance on the Company's deferred tax asset increased approximately \$74,000 and \$635,000 for the years ended December 31, 2006 and 2005, respectively. The Company incurred state income tax of approximately \$3,000 and \$5,000 for the years ended December 31, 2006 and 2005, respectively.

The difference between the federal statutory rate and the Company's effective tax rate is as follows:

	Year Ended December 31,	
	2006	2005
Income tax benefit at federal statutory rate	\$ (50,000)	\$ (554,000)
Permanent differences	1,000	2,000
Change in valuation allowance	55,000	635,000
State taxes, net of federal benefit	(7,000)	(82,000)
Other	4,000	4,000
	<u>\$ 3,000</u>	<u>\$ 5,000</u>

NOTE H – COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

[1] Contingencies:

A legal action pending in Superior Court of New Jersey, was commenced in June 2004 by a former employee of the Company seeking compensation under various legal theories. In October 2005, the court dismissed the claim under all theories except express contract. The Company believes that the plaintiff's claim is without merit and is contesting the matter vigorously. Moreover, the Company filed a counterclaim for damages against the plaintiff claiming the former employee induced another employee to quit employment with the Company and in October 2005, pursuant to court order, amended its counterclaim to seek equitable relief and damages against the plaintiff and a limited liability company of which the plaintiff is a member, claiming the plaintiff misappropriated and used certain Company property. This matter is presently scheduled to be tried in May 2007.

[2] Professional liability:

In providing utilization review and case management services, the Company makes recommendations regarding benefit plan coverage based upon judgments and established protocols as to the appropriateness of the proposed medical treatment. Consequently, the Company could have potential liability for adverse medical results. The Company could become subject to claims based upon the denial of health care benefits and claims such as malpractice arising from the acts or omissions of health care professionals. Although the Company does not believe that it engages in the practice of medicine or that it delivers medical services directly, no assurance can be given that the Company will not be subject to litigation or liability which may adversely affect its financial condition and operations in a material manner. Although the Company maintains comprehensive general liability and professional liability insurance coverage, including coverage for liability in connection with the performance of medical utilization review services and typically obtains indemnification from its customers, no assurances can be given that such coverage will be adequate in the event the Company becomes subject to any of the above described claims. The Company's exposure in this regard is substantially reduced since it ceased providing utilization review and case management services as of December 31, 2002. Nonetheless, until the applicable statutes of limitations have expired, the Company retains exposure for past activities as well as on account of its continued internal physician review services offered as part of its Executive and Clinical Management Services.

[3] Operating leases:

The Company's lease for office space expires in March 2011. Minimum annual lease payments for office space for each of the next five years ending December 31 and thereafter are as follows:

<u>Year Ending</u>	<u>Lease Obligation</u>
2007	450,000
2008	550,000
2009	650,000
2010	750,000
2011	187,000
	<u>\$ 2,587,000</u>

Rent expense for the years ended December 31, 2006 and 2005 was \$526,000 and \$526,000, respectively.

On January 10, 2005, the Company entered into a Lease Amendment commencing January 1, 2005 to provide for the reduction in base rent and the waiver of escalations based on increases in real estate taxes and operating expenses, and to provide the landlord with the option to recapture up to 50% of the leased premises at any time. The expiration date of the Lease, March 31, 2011, remains unchanged by the Lease Amendment.

Under the Lease Amendment, the Company is required to meet the following conditions: (1) the Company cannot assign the lease except for an assignment of the lease or a sublet provided under the original lease; (2) the Company is not in default under any terms and conditions of the original lease. In the event the Company fails to meet these conditions, the reduction in base rent, real estate taxes and operating expenses will be nullified and entirely forfeited, and the Company will be immediately required to pay the landlord additional rent for the difference in the base rent, and additional rent for all escalations provided in the Lease Amendment and the original lease.

At December 31, 2006, this additional rent that would be due if the Company failed to meet the conditions of the amendment would be \$ 713,000. Additional minimum lease payments for each of the next five years ended December 31 and thereafter that would be due if the Company failed to meet the conditions of the amendment are as follows:

<u>Year Ending</u>	<u>Office Space</u>
------------------------	-------------------------

2007	274,000
2008	174,000
2009	95,000
2010	1,000
Thereafter	<u>0</u>
	<u>\$ 544,000</u>

[4] Employee benefit plans:

The Company administers a profit-sharing/savings plan pursuant to Section 401(k) of the Internal Revenue Code. The plan provides for a matching contribution by the Company up to a maximum level, which in no case exceeds 3% of the employees' compensation. Company contributions are fully vested immediately.

The Company's matching contribution was \$58,000 and \$52,000 for the years ended December 31, 2006 and 2005, respectively.

NOTE I – STAND BY LETTER OF CREDIT

During 2001, the Company obtained an irrevocable letter of credit in the amount of \$92,793 in favor of the landlord for the Company's obligation under its real estate lease. This letter expired as of March 31, 2005 and was not renewed.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	Deposit Agreement dated October 31, 1994 among Midlantic Bank, N.A., PMDX and the Registrant incorporated by reference to Exhibit 2.1 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
2.2	Certificate of Merger of Care Advantage Health Systems (f/k/a Advantage Health Systems, Inc.), a Georgia corporation into CareAdvantage Health Systems, Inc., a Delaware corporation incorporated by reference to Exhibit 2.2 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
3.1	Registrant's Certificate of Incorporation incorporated by reference to Exhibit 3.1 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
3.1(a)	Amended and Restated Certificate of Incorporation incorporated by reference to the Company's Information Statement dated September 1996.
3.2	Registrant's By-Laws incorporated by reference to Exhibit 3.2 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
3.2(a)	Amendment to Registrant's Bylaws*
10.1	Lease Agreement dated April 14, 1995 between the Registrant and Metropolitan Life Insurance Company incorporated by reference to Exhibit 10.13 filed with the Company's Registration Statement on Form S-1 (File No. 33-89176).
10.2	Registrant's 1996 Stock Option Plan incorporated by reference to the Company's Information Statement dated September 1996.
10.3	Registrant's 1996 Director Stock Option Plan incorporated by reference to the Company's Information Statement dated September 1996.
10.4	Confidentiality, Invention, and Non-Compete Agreement between the Company and David Noone, dated as of January 8, 1999, incorporated by reference to Exhibit 10.33 filed with the Company's Form 10KSB for the year ended September 30, 1998.
10.5	Employment Agreement, effective as of April 19, 1999, between Dennis M. Mouras, and the Company, incorporated by reference to Exhibit 10.40 filed with the Company's Form 10KSB for the year ended December 31, 1999.
10.6	Second Amendment to Lease Agreement between CareAdvantage Health Systems, Inc. and Corporate Plaza Associates, L.L.C., incorporated by reference to Exhibit 10.1 filed on the Company's Form 8-K filed on January 11, 2005.
10.7	Services and License Agreement between the Company and Kaiser Foundation Health Plan of the Northwest ("Kaiser"), effective as of January 1, 2005, incorporated by reference to Exhibit 10.49 filed with the Company's Form 10KSB for the year ended December 31, 2005. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
10.8	Amendment to Employment Agreement between the Company and Dennis J. Mouras, dated as of November 11, 2005, and Employment Agreement between the Company and Dennis J. Mouras, dated as of October 25, 2000, incorporated by reference to Exhibit 10.50 filed with the Company's Form 10-QSB for the quarter ended September 30, 2005.
10.9	First Amendment to Services and License Agreement between the Company and Kaiser Foundation Health Plan of the Northwest ("Kaiser"), effective as of January 1, 2006, incorporated by reference to Exhibit 10.51 filed with the Company's Form 10KSB for the year ended December 31, 2005. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

- 10.10 Second Amendment to Services and License Agreement between the Company and Kaiser, effective as of April 1, 2006, incorporated by reference to Exhibit 10.52 filed with the Company's Form 10KSB for the year ended December 31, 2005. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.11 Services and License Agreement between the Company and Blue Cross Blue Shield of Texas ("BCBSTX"), effective as of August 18, 2003, incorporated by reference to Exhibit 10.53 filed with the Company's Form 10-QSB for the quarter ended June 30, 2006. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.12 Amendment to Services and License Agreement between the Company and BCBSTX, effective as of June 1, 2006, incorporated by reference to Exhibit 10.54 filed with the Company's Form 10-QSB for the quarter ended June 30, 2006. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.
- 10.13 Letter from Kaiser Foundation Health Plan of the Northwest terminating Services and License Agreement, incorporated by reference to Exhibit 10.1 filed on the Company's Form 8-K filed on October 3, 2006.
- 16.1 Letter regarding change in accountants, incorporated by reference to Exhibit 16.1 filed on the Company's Form 8-K dated June 6, 1996.
- 16.2 Letter regarding change in accountants, incorporated by reference to Exhibit 16 filed on the Company's Form 8-K dated July 31, 2001.
- 16.3 Letter regarding change in accountants, incorporated by reference to Exhibit 16.1 filed on the Company's Form 8-K dated June 6, 2002.
- 21 Subsidiaries of the Registrant*
- 23.1 Consent of Independent Registered Public Accounting Firm*
- 31 Certifications pursuant to Rule 13a-14(a), promulgated under the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002*
- 32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **

*filed herewith

** furnished herewith

EXHIBIT 3.2(a)

AMENDMENT TO THE COMPANY'S BYLAWS

The Board of Directors adopted the following resolution at a meeting on February 27, 2007 to amend the Registrant's Bylaws:

RESOLVED, the subsection entitled "QUORUM AND ACTION" of SECTION 4, entitled "MEETINGS" of ARTICLE II of the Company's By-Laws, entitled "DIRECTORS" is amended by inserting in the first paragraph thereof a new, penultimate sentence as follows: In the case of any committee designated by the Board consisting of only two members, the presence of one member shall continue a quorum.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

<u>NAME</u>	<u>STATE OR OTHER JURISDICTION OF INCORPORATION</u>	<u>NAME UNDER WHICH BUSINESS IS CONDUCTED</u>
CareAdvantage Health Systems, Inc.	Delaware	CareAdvantage Health Systems, Inc.
Contemporary HealthCare Management, Inc.	New Jersey	Contemporary HealthCare Management, Inc

EXHIBIT 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We hereby consent to the incorporation by reference in the Registration Statements (Nos. 333-90319 and 333-90313) on Form S-8 for CareAdvantage, Inc. of our report dated March 29, 2007, on our audit of the consolidated financial statements of CareAdvantage, Inc. as of December 31, 2006 and for the years ended December 31, 2006 and 2005 included in the Annual Report on Form 10-KSB for the year ended December 31, 2006.

/s/ Eisner, LLP

New York, NY
March 29, 2007

EXHIBIT 31

CAREADVANTAGE, INC. AND SUBSIDIARIES

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-KSB of CareAdvantage, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this annual report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which could adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: April 2, 2007

/s/ Dennis J. Mouras

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

EXHIBIT 32

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

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, I, Dennis J. Mouras, Chief Executive Officer and acting principal financial officer of CareAdvantage, Inc. (the “Company”), hereby certify that (i) the Annual Report of the Company on Form 10–KSB for the year ended December 31, 2006 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 2, 2007

/s/ Dennis J. Mouras

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

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